浙江滬杭甬高速公路股份有限公司
ZHEJIANG EXPRESSWAY CO., LTD.

Enhancing Value through Extending Our Competitiveness.

2005 Annual Report

Enhancing Value through Extending Our Competitiveness.

"Shimmering water at its full, sunny day is best,
The view of mountains is blurred, the rain also is marvelous,
Compare West Lake to the beautiful woman Xi Zi,
She looks just as becoming, lightly made up or richly adorned."

– Su Shi, renowned Chinese poet –

In different seasons, at different times, Xi Hu (West Lake) has different charms.

The "Spring Dawn at Su Causeway" in Spring, the "Lotus in the Breeze at Crooked Courtyard" in Summer, the "Three Pools Mirroring the Moon" in Autumn, the "Melting Snow at Broken Bridge" in Winter . . . on a sunny day or a rainy day, Xi Hu has its varied appeals.

For different stakeholders, Zhejiang Expressway represents different kinds of value.

For shareholders, Zhejiang Expressway means a listed company committed to enhancing returns; for customers, it means an expressway operator committed to pursuing excellent services; for employees, it means a first-rate enterprise committed to both enhancing cost efficiency and developing employees' potential; and for the community, it means a commercial organization which has at heart its social responsibilities.

But no matter for which stakeholders, we at Zhejiang Expressway have always been committed to Enhancing Value through Extending Our Competitiveness. The Company adheres to its prudent but progressive development strategies, strengthening its core business whilst extending its competitiveness to other business areas which have synergies with the core business. Our ultimate goal is to elevate the Company to a new level, with a view to maximizing value for all of our stakeholders.

Contents

Definition of Terms

ADR(s)	American Depositary Receipt(s)
ADS(s)	American Depositary Share(s)
Advertising Co	Zhejiang Expressway Advertising Co., Ltd.(浙江高速廣告有限責任公司), a 70% owned subsidiary of Development Co
Audit Committee	the audit committee of the Company
Board	the board of directors of the Company
Company	Zhejiang Expressway Co., Ltd., a joint stock limited company incorporated in the PRC with limited liability on March 1, 1997
Communications Investment Group	Zhejiang Communications Investment Group Co., Ltd.(浙江省交通投資集團有限公司), a wholly State-owned enterprise established on December 29, 2001
Development Co	Zhejiang Expressway Investment Development Co., Ltd.(浙江高速投資發展有限公司), a 51% owned subsidiary of the Company
Directors	the directors of the Company
GDP	gross domestic product
Group	the Company and its subsidiaries
H Shares	the overseas listed foreign shares of Rmb1.00 each in the share capital of the Company which are primarily listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Huajian	Huajian Transportation Economic Development Center(華建交通經濟開發中心), a State-owned enterprise
Jiaxing Co	Zhejiang Jiaxing Expressway Co., Ltd.(浙江嘉興高速公路有限責任公司), a 99.9995% owned subsidiary of the Company
JoinHands Technology	JoinHands Technology Co., Ltd.(中恒世紀科技實業股份有限公司), a 27.582% owned associate of the Company
Jiashao Co	Zhejiang Jiashao Expressway Co., Ltd.(浙江嘉紹高速公路有限公司), a 35% owned associate of the Company
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Period	the period from January 1, 2005 to December 31, 2005

Petroleum Co	Zhejiang Expressway Petroleum Development Co., Ltd. (浙江高速石油發展有限公司), a 50% owned associate of the Company
PRC	the People's Republic of China
Rmb	Renminbi, the lawful currency of the PRC
Services Co	Zhejiang Expressway Vehicle Towing and Rescue Services Co., Ltd. (浙江高速公路清障施救服務有限公司), a 85% owned subsidiary of Development Co
Shangsan Co	Zhejiang Shangsan Expressway Co., Ltd. (浙江上三高速公路有限公司), a 73.625% owned subsidiary of the Company
Shareholders	the shareholders of the Company
Shida Co	Hangzhou Shida Highway Co., Ltd. (杭州石大公路有限公司), a 50% jointly-controlled entity of the Company
Supervisory Committee	the supervisory committee of the Company
Yuhang Co	Zhejiang Yuhang Expressway Co., Ltd. (浙江余杭高速公路有限責任公司), a 51% owned subsidiary of the Company

Company Profile

Zhejiang Expressway Co., Ltd. is an infrastructure company principally engaged in investing in, developing and operating high grade roads. The Company and its subsidiaries also carry out certain ancillary businesses such as automobile servicing, operation of gas stations and billboard advertising along expressways.

Major assets under management include the 248km Shanghai-Hangzhou-Ningbo Expressway and the 142km Shangsan Expressway, both of which are situated within Zhejiang Province in the PRC. As at December 31, 2005, total assets of the Company and its subsidiaries amounted to Rmb16,311.7 million.

The Company was incorporated on March 1, 1997 as the main vehicle of the Zhejiang Provincial Government for investing in, developing and operating expressways and Class 1 roads in Zhejiang Province.

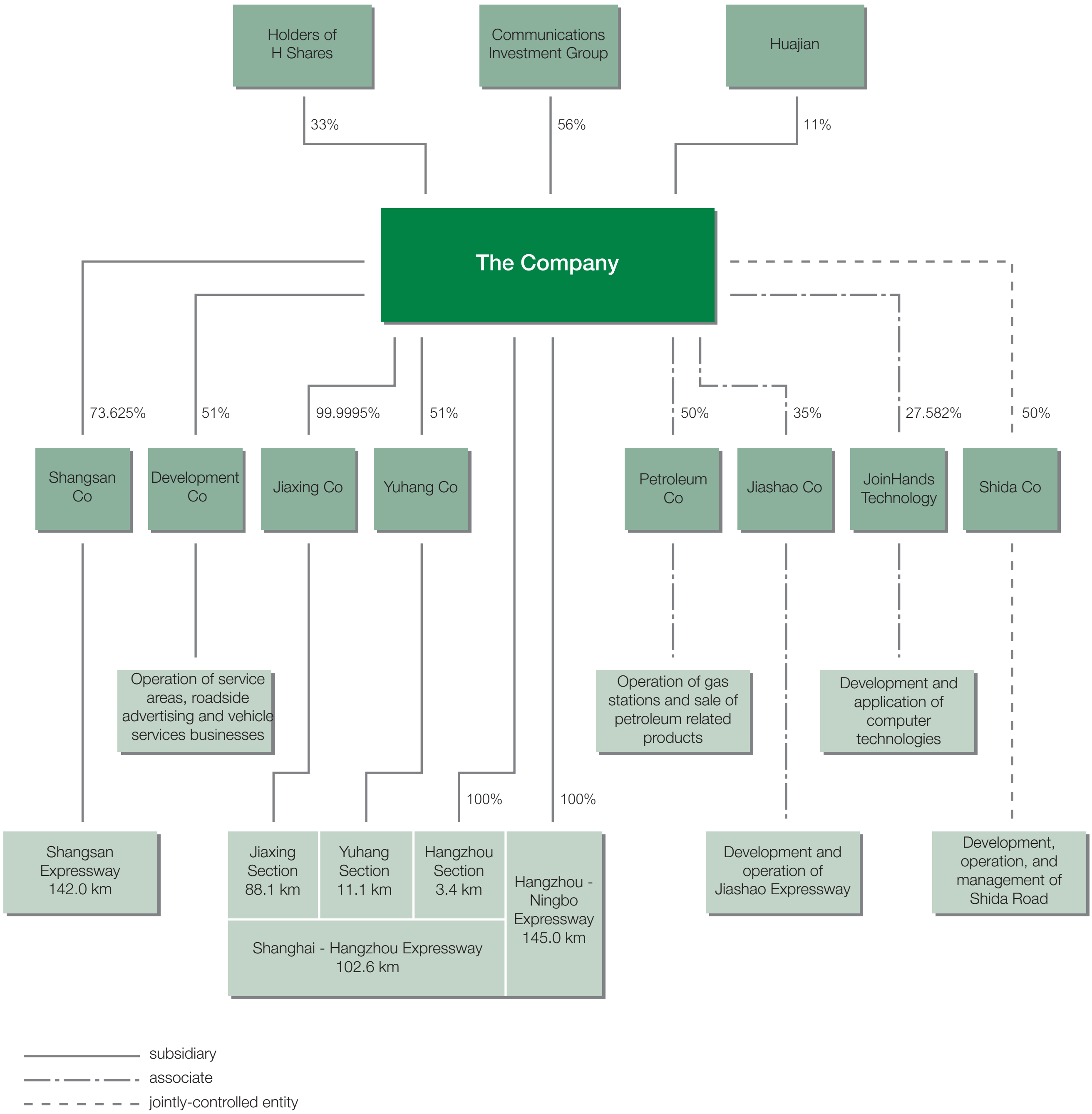
The H Shares of the Company, which represent approximately 33% of the issued share capital of the Company, were listed on the Hong Kong Stock Exchange on May 15, 1997, and subsequently obtained a secondary listing on the London Stock Exchange on May 5, 2000.

On February 14, 2002, a Level I American Depositary Receipt program sponsored by the Company in respect of its H Shares, with the Bank of New York as depositary, was established in the United States and became effective.

On August 12, 2005, a 10-year corporate bond of the Company, issued on January 24, 2003, was listed on the Shanghai Stock Exchange.

Building upon its expressway operations and expanded expressway-related business operations, the Company intends to broaden its business scope to incorporate other transport-related infrastructure projects over time to achieve its long-term vision of becoming a leading company investing in and operating infrastructure businesses with an emphasis on expressways in the PRC.

Set out below is the corporate and business structure of the Group:



Major Corporate Events

JANUARY 1, 2005

Following a decision of the Zhejiang Provincial Government, the toll rates for trucks above 10 tons on the Shanghai-Hangzhou-Ningbo Expressway and the Shangsan Expressway were lowered.

MARCH 30, 2005

The Company announced its 2004 annual results in Hong Kong, followed by a roadshow in Hong Kong, USA and Japan.

MAY 23, 2005

The Company held its 2004 annual general meeting and approved resolutions including the payment of a final dividend of Rmb15 cents per share.

AUGUST 12, 2005

A 10-year corporate bond of the Company, issued on January 24, 2003, was listed on the Shanghai Stock Exchange, with the symbol "03 滬杭甬" and code "120308".

AUGUST 16, 2005

The Company announced its 2005 interim results, followed by a roadshow in Hong Kong, Singapore, and UK.

OCTOBER 31, 2005

The Company held an extraordinary general meeting and approved the payment of an interim dividend of Rmb7 cents per share; the appointment of Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong as the Hong Kong auditors of the Company; and the re-appointment of Zhejiang Pan China Certified Public Accountants as the PRC auditors of the Company.

DECEMBER 18, 2005

Phase II of the eight-lane widening project, pertaining to the Dajing-Fengjing section along the Shanghai-Hangzhou-Ningbo Expressway, was completed and opened to traffic. Construction works along the section started in June 2003.

FEBRUARY 14, 2006

The Company held an extraordinary general meeting and elected members of the Board of Directors and the Supervisory Committee of the fourth session of the Company, and fixed their respective remunerations. The term of office of the directors and supervisors of the fourth session is for a period of three years, commencing on March 1, 2006 and expiring on February 28, 2009.

Particulars of Major Road Projects

Expressway	Percentage of Ownership	Length in Kilometers	Number of Lanes	Number of Toll Stations	Number of Service Areas	Start of Operation	Remaining Years of Operation
Shanghai-Hangzhou Expressway							
–Jiaxing Section	99.9995%	88.1	8	6	1	1998	23
–Yuhang Section	51%	11.1	8	2	0	1995-1998	23
–Hangzhou Section	100%	3.4	4	0	0	1995	23
Hangzhou-Ningbo Expressway							
–Hongken to Guzhu section	100%	44.0	8	4	1	1995	22
–Other sections	100%	101.0	4	8	1	1992-1996	22
Shangsan Expressway	73.625%	142.0	4	11	3	2000	25

TOLL RATES ON THE SHANGHAI-HANGZHOU-NINGBO EXPRESSWAY

Before adjustment on January 1, 2005:

Vehicle Class	Classification Standard	Entrance Fee Rmb	Mileage Fee Rmb/km
1	Passenger vehicle with up to 20 seats	5	0.45
	Truck with tonnage of 2 tons or below		
2	Passenger vehicle with seats above 20 and up to 40	10	0.80
	Truck with tonnage of above 2 tons and up to 5 tons		
3	Passenger vehicle with seats above 40	15	1.20
	Truck with tonnage of above 5 tons and up to 10 tons		
4	Truck with tonnage above 10 tons and up to 20 tons	20	1.60
5	Truck with tonnage above 20 tons	25	2.00

After adjustment on January 1, 2005:

Vehicle Class	Classification Standard	Entrance Fee Rmb	Mileage Fee Rmb/km
1	Passenger vehicle with up to 20 seats	5	0.45
	Truck with tonnage of 2 tons or below		
2	Passenger vehicle with seats above 20 and up to 40	10	0.80
	Truck with tonnage of above 2 tons and up to 5 tons		
3	Passenger vehicle with seats above 40	15	1.20
	Truck with tonnage of above 5 tons and up to 10 tons		
4	Truck with tonnage above 10 tons and up to 15 tons	15	1.40
5	Truck with tonnage above 15 tons	20	1.60

Toll rates on the Shangsan Expressway are the same as the above except for the mileage fee for Class 1 vehicles, which is Rmb0.40/km.

Financial and Operating Highlights

RESULTS

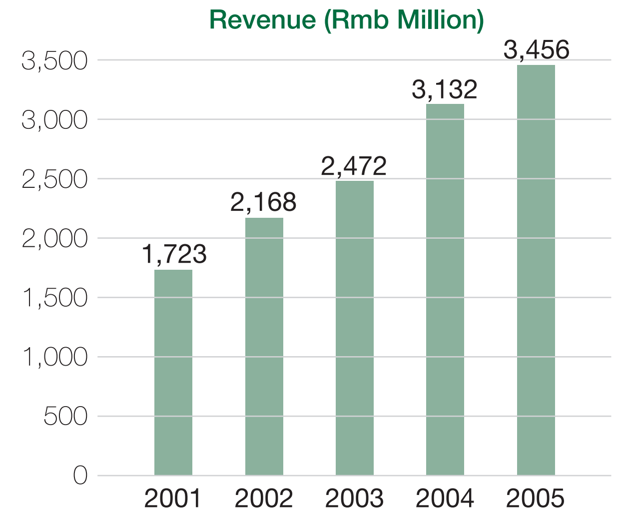
	Year ended December 31, 2001 Rmb'000	2002 Rmb'000	2003 Rmb'000	2004 Rmb'000	**2005 Rmb'000**
Revenue	1,722,517	2,168,078	2,471,805	3,131,993	**3,456,385**
Profit Before Tax	1,218,929	1,391,770	1,587,369	1,899,206	**2,264,662**
Income Tax Expense	(347,359)	(398,251)	(491,346)	(542,749)	**(692,366)**
Profit for the year	871,570	993,519	1,096,023	1,356,457	**1,572,296**
Attributable to:					
Equity holders of the Company	760,613	890,452	1,008,792	1,225,699	**1,431,192**
Minority interests	(110,957)	(103,067)	(87,231)	(130,758)	**(141,104)**
Earnings Per Share (EPS)	17.51 cents	20.50 cents	23.23 cents	28.22 cents	**32.95 cents**

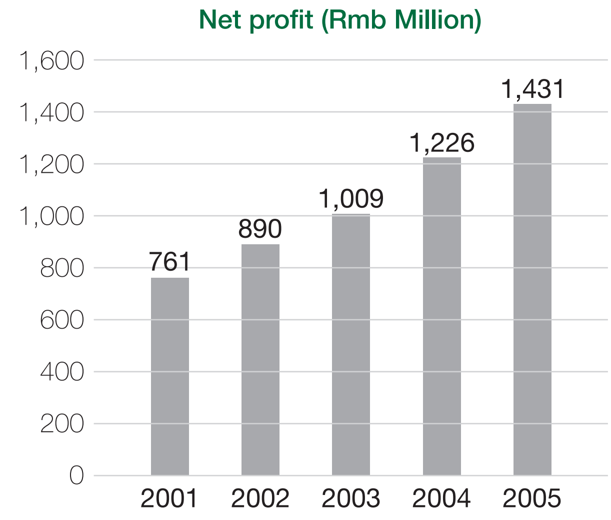
RETURN ON EQUITY (ROE)

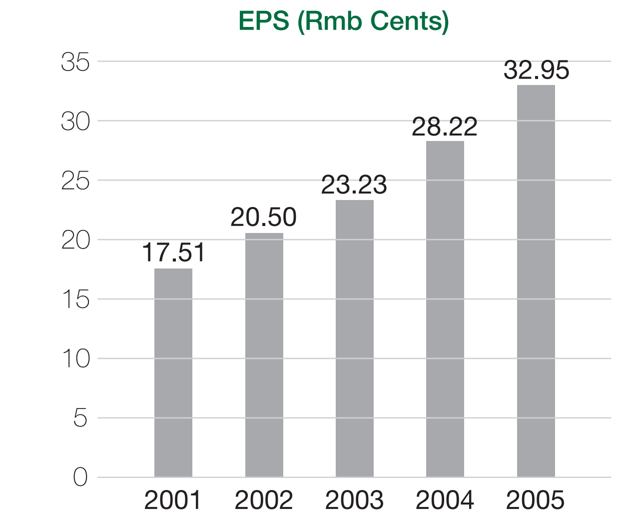
	2001	2002	2003	2004	2005
ROE	8.19%	9.18%	9.94%	11.43%	12.78%

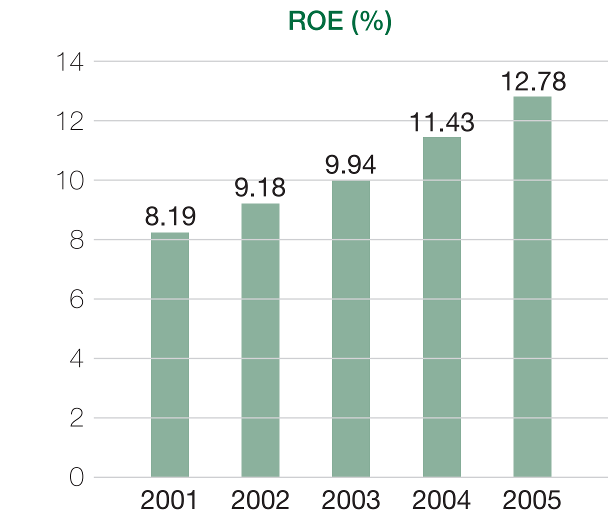
MONTHLY AVERAGE DAILY FULL TRIP TRAFFIC VOLUME

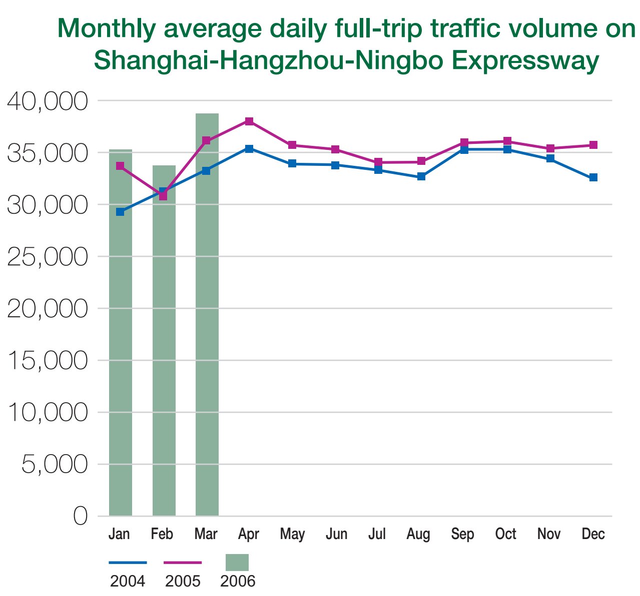
	Shanghai-Hangzhou-Ningbo Expressway			Shangsan Expressway		
	2004	**2005**	2006	2004	**2005**	2006
January	29,335	**33,727**	35,342	18,750	**19,812**	20,079
February	31,310	**30,931**	33,785	18,990	**20,851**	20,174
March	33,344	**36,093**	38,810	18,499	**20,301**	19,897
April	35,483	**38,102**		19,645	**21,162**	
May	33,936	**35,751**		19,207	**20,063**	
June	33,873	**35,368**		18,849	**19,201**	
July	33,365	**34,088**		19,874	**18,918**	
August	32,673	**34,121**		19,051	**19,218**	
September	35,356	**35,968**		20,659	**20,048**	
October	36,357	**36,117**		21,043	**19,842**	
November	34,432	**35,440**		19,656	**19,477**	
December	32,579	**35,738**		18,590	**19,109**	
Average	35,308	**35,143**		18,900	**19,824**	

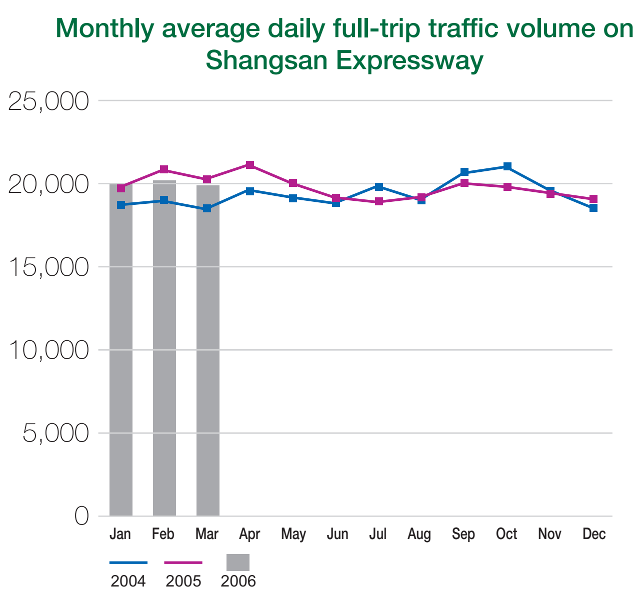

Revenue (Rmb Million)
3,500
3,000
2,500
2,000
1,500
1,000
500
0
1,723
2,168
2,472
3,132
3,456
2001
2002
2003
2004
2005


Net profit (Rmb Million)
1,600
1,400
1,200
1,000
800
600
400
200
0
761
890
1,009
1,226
1,431
2001
2002
2003
2004
2005


EPS (Rmb Cents)
35
30
25
20
15
10
5
0
17.51
20.50
23.23
28.22
32.95
2001
2002
2003
2004
2005


ROE (%)
14
12
10
8
6
4
2
0
8.19
9.18
9.94
11.43
12.78
2001
2002
2003
2004
2005


Monthly average daily full-trip traffic volume on Shanghai-Hangzhou-Ningbo Expressway
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2004
2005
2006


Monthly average daily full-trip traffic volume on Shangsan Expressway
25,000
20,000
15,000
10,000
5,000
0
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2004
2005
2006

Chairman's Statement

GENG Xiaoping

At Zhejiang Expressway, we believe in the importance of making continuous progress. As we are faced with a much challenging tomorrow, Zhejiang Expressway is also fully prepared to build itself into an even stronger expressway operator for tomorrow.

Dear Shareholders,

A solid year in 2005 … a challenging year for 2006.

I am pleased to report that the Group has achieved another year of solid growth in 2005. Our revenue recorded a growth of 10.4% amounting to Rmb3,456.4 million, while net profit grew 16.8% to Rmb1,431.2 million. Our shareholders should be also pleased to find that the Company's return on equity (ROE) was further improved to 12.78%.

Indeed, this is the ninth consecutive year that Zhejiang Expressway has been maintaining double-digit growth. As chairman of the Group, I am proud of such achievement. But at the same time, there is no reason to be complacent. As chairman of the Group, it is also my responsibility to be vigilant for any possible risks and would-be negative factors that may affect the long-term development of the Group. The way I see it, there are a couple of tasks that will be the management's focus in its effort to achieve further growth in 2006 and beyond.

One of the key tasks for the management is to fully prepare itself for tackling the changes in the operating environment. For expressway operators in China such as Zhejiang Expressway, the operating environment is an important determinant of their performance. In year 2005, we already witnessed the looming of certain challenges in this respect: Zhejiang Province's GDP growth rate slowed from 14.3% in 2004 to 12.4% in 2005, and there was a commensurate slowdown in new vehicle sales. As a result, the growth on our operating results for the year, albeit solid, showed a slowdown tendency compared to previous years.

In enabling our operation so that it would be less environment-sensitive, the Group has been developing its expressway-related operations (service area operations, billboard advertising, etc) during recent years in order to expand the Group's income base. This has been moving in a very encouraging direction and the Group will continue such endeavors, with a view to enlarging the revenue from expressway-related operations to a more significant share of total Group income.

The management's second key task will be to continue to enhance our "product quality" and to attract more road users to travel on our expressways. Now that we have the widened Shanghai-Hangzhou-Ningbo Expressway with greater capacity, we are much better equipped in further attracting and accommodating additional traffic. Considering that the traffic growth generated on our expressways is expected to undergo only a moderate growth for the next few years, there is an even greater need for the Group to strive to enhance traffic on its expressways.

With a service-minded corporate philosophy, we are incessantly enhancing our services as well as ourselves. Continuously upgrading our service standards to ensure superb traveling conditions along our expressways remains our day-to-day operating objective. Our Phase III widening project on the Shanghai-Hangzhou-Ningbo Expressway (the "Widening Project") is but one of our long-term programs to make us more competitive as a service provider. Other efforts are less visible to our investors, yet equally important: continuous human resources programs aimed to attract and retain quality staff and to motivate them to deliver their best performance; customer service training programs for our front-line staff; and so forth. Meanwhile, the Group will continue to explore opportunities for acquiring quality expressway assets so as to enlarge our market share.

Our State President Mr Hu Jin Tao quoted Ralph Waldo Emerson on his recent visit to the United States, "Progress is the activity of today and the assurance of tomorrow." At Zhejiang Expressway, we believe in the importance of making continuous progress. As we are faced with a much challenging tomorrow, Zhejiang Expressway is also fully prepared to build itself into an even stronger expressway operator for tomorrow.

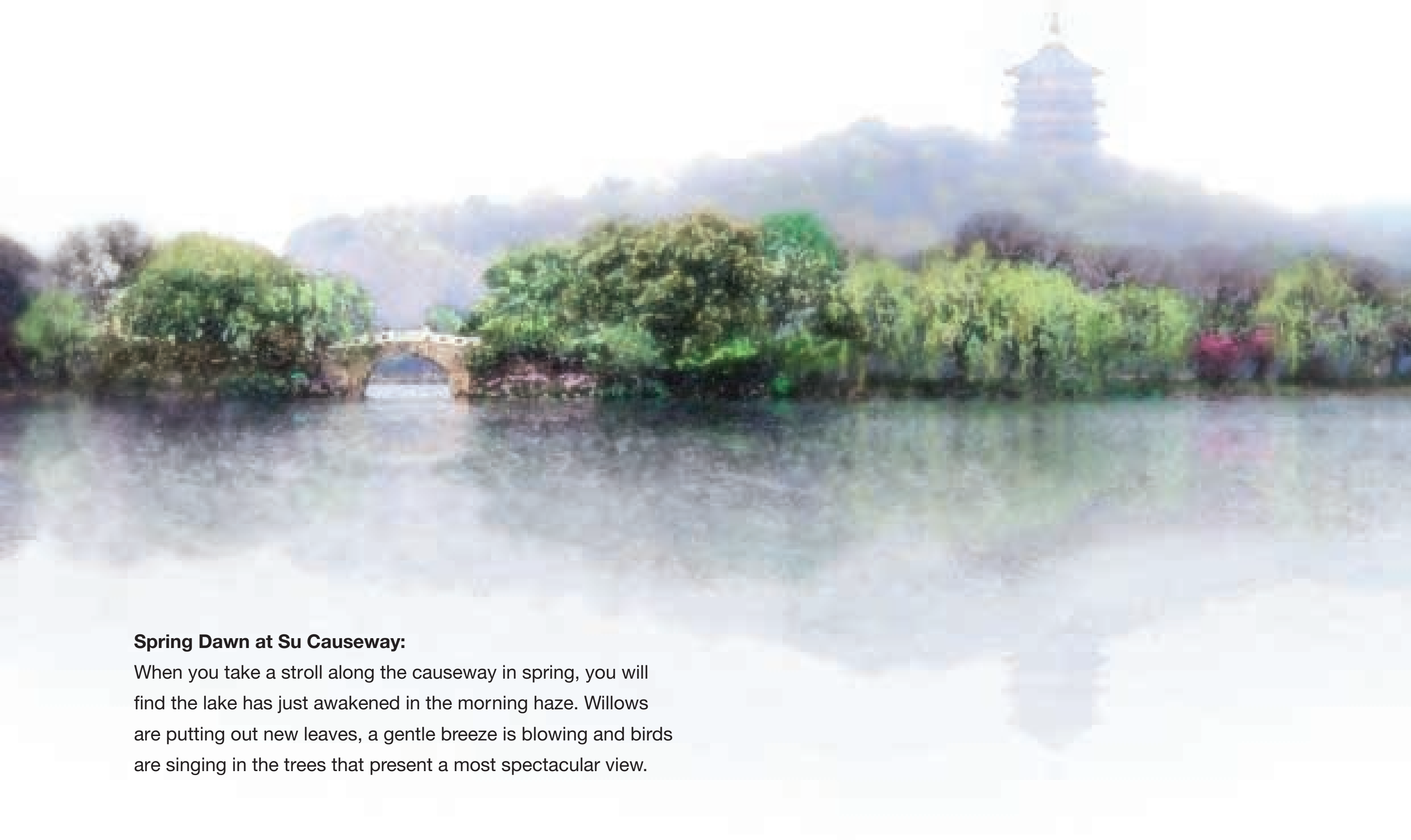
EPILOG

This annual report uses Xi Hu (West Lake) as the design theme, and in a way, this is much overdue for a Hangzhou-based company such as Zhejiang Expressway. Whereas Xi Hu is the life and spirit of Hangzhou as well as one of the best sceneries in China, we at Zhejiang Expressway also aspire to becoming an exemplary Hangzhou company and counting among the best-run enterprises in China. Like Xi Hu, we are poised to be a charm to all of our stakeholders: our investors, our customers, our employees and the community at large.

GENG Xiaoping
Chairman
April 25, 2006

Shareholders

For shareholders, Zheijang Expressway means a listed company committed to enhancing returns. Since its listing, the Company has been maintaining excellent profit growth for nine consecutive years, and its dividend payout has been consistently staying at a relatively high level. We treasure the communication between the management and shareholders and investors, and we believe that only through maintaining high transparency will we bring utmost benefits to them.



Spring Dawn at Su Causeway:
When you take a stroll along the causeway in spring, you will find the lake has just awakened in the morning haze. Willows are putting out new leaves, a gentle breeze is blowing and birds are singing in the trees that present a most spectacular view.

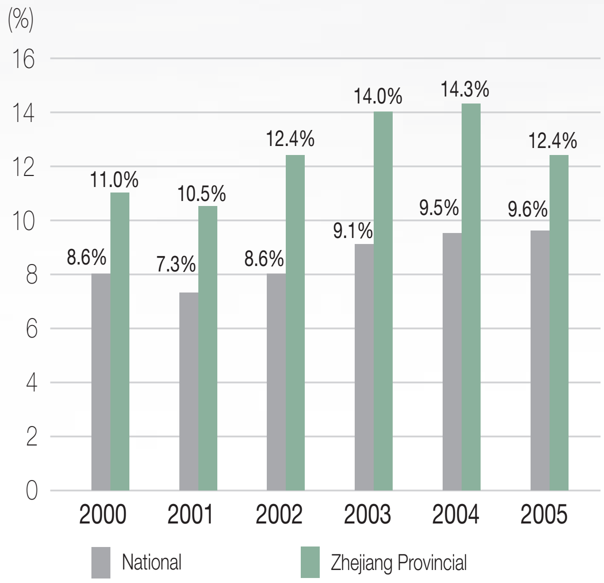
Management Discussion and Analysis

FANG Yunti

BUSINESS REVIEW

2005 has been a year in which macro-economic control measures, designed to place stronger emphasis on sustainability and equitability in the process of rapid economic development, were further strengthened and fine-tuned. Economic growth at the national level and the provincial level remained unabated, though Zhejiang Province's GDP growth rate, at 12.4%, was slightly lower than the growth rate of 14.3% achieved in 2004.

GDP Growth Rates



In contrast to the agricultural and industrial sectors in Zhejiang Province, the service sector underwent the highest rate of GDP growth in 2005, with modern logistics and tourism emerging as two of a handful new areas of growth in the provincial economy.

Traffic volume on the two expressways operated by the Group continued to grow in 2005, bringing growth on both toll income and income from other expressway-related business activities for the ninth consecutive year since the Company was established in 1997.

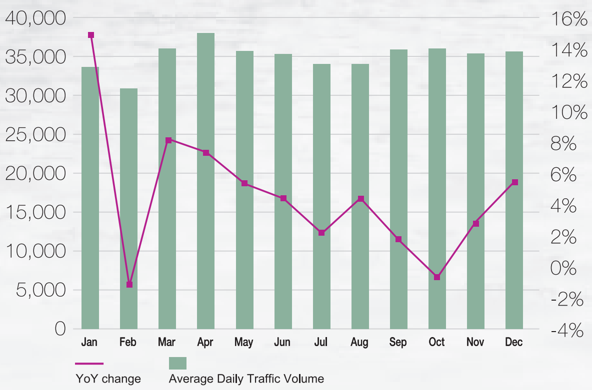
Revenue for the Group was Rmb3,456.4 million during the Period, representing an increase of 10.4% over 2004, with toll income continuing to partake as the dominate share of the overall income, constituting approximately 92.3% of the Group's total income. Income from other expressway-related business activities, however, grew at a higher rate than toll income. A detailed breakdown of the Group's revenue for the Period is set out below:

	2005 Rmb'000	2004 Rmb'000	% Change
Toll income			
Shanghai-Hangzhou-Ningbo Expressway	**2,519,676**	2,327,733	8.3%
Shangsan Expressway	**830,994**	739,221	12.4%
Other income			
Service areas business income	**230,183**	183,637	25.4%
Advertising business income	**48,045**	41,159	16.7%
Road maintenance income	**2,568**	7,244	-64.6%
Subtotal	**3,631,466**	3,298,994	10.1%
Less: Revenue taxes	**(175,081)**	(167,001)	4.8%
Revenue	**3,456,385**	3,131,993	10.4%

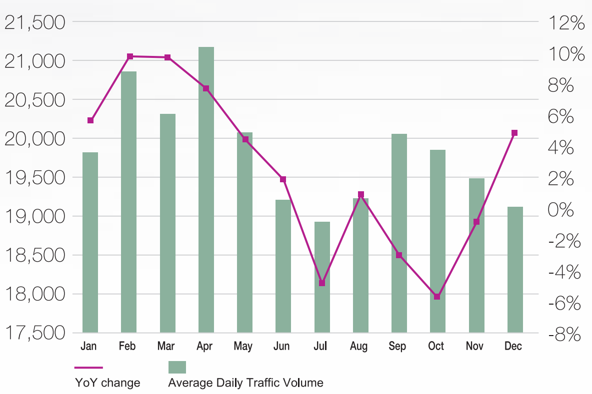
EXPRESSWAY OPERATIONS

Traffic volume on the two expressways operated by the Group continued to grow during the Period, with average daily traffic in full-trip equivalents at 35,143 for the Shanghai-Hangzhou-Ningbo Expressway and 19,824 for the Shangsan Expressway, respectively. However, traffic volume growth rates were significantly lower compared to previous years, at 5.5% year-on-year for the Shanghai-Hangzhou-Ningbo Expressway and 4.9% year-on-year for the Shangsan Expressway.

Monthly average daily traffic volume on Shanghai-Hangzhou-Ningbo Expressway in 2005



Monthly average daily traffic volume on Shangsan Expressway in 2005

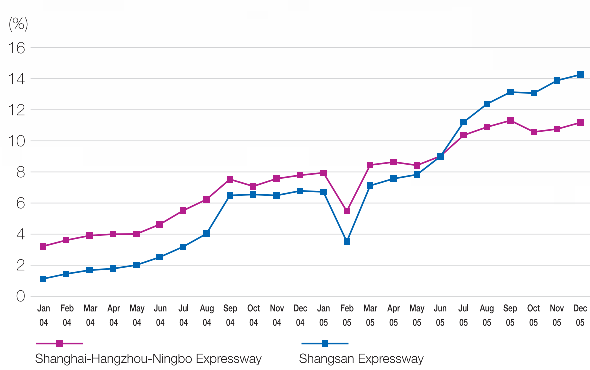


Apart from the growing maturity of these expressway assets, a number of other factors have affected the traffic volume performance of the two expressways in 2005. Slower economic growth in Zhejiang Province as well as in the Yangtze River Delta Region in 2005 compared to 2004, coupled with a corresponding slowdown in new vehicle sales, has contributed to a slower growth in demand for road transport. Ongoing expressway-widening projects along the Shanghai-Hangzhou-Ningbo Expressway and on neighboring expressways during the Period have also contributed to a certain degree of traffic diversions from the Shanghai-Hangzhou-Ningbo Expressway.

While the toll rates for expressways are generally higher than those for neighboring roads, the differences in toll rates for trucks were further narrowed at the start of 2005. As part of the integral policies of the government to tackle the practice of overloading trucks, the toll rates for trucks that are above 10 tons were lowered throughout Zhejiang Province at the beginning of 2005, with the toll rates for trucks on neighboring national and provincial roads reduced by an even greater amount than those for expressways, thereby further enhancing the relative competitiveness of national and provincial roads.

However, the toll rate reduction for trucks that are above 10 tons did have positive implications for expressway operators in addition to reducing overloading practices and resulting in a safer road traveling environment. The change has led to a continued increase in the proportion of trucks of over 10 tons amongst the traffic mix, resulting in a higher growth rate in toll income than in traffic volume. Toll income growth rates for the Shanghai-Hangzhou-Ningbo Expressway and the Shangsan Expressway during the Period were 8.3% and 12.4% year-on-year, respectively.

Trucks above 10 tons as a percentage to all vehicles



EXPRESSWAY-RELATED BUSINESS OPERATIONS

Apart from the expressway operations, the Group has also carried out other business operations such as gas stations, restaurants and shops in service areas as well as billboard advertising along the expressways operated by the Group.

Expanded shopping facilities and more flexible cooperative arrangements at the service areas helped the expressway-related business operations grew at a rate higher than the expressway operations in 2005 in terms of income. Revenue from the expressway-related business operations grew 21.0% during the Period to reach Rmb280.8 million, contributing to approximately 7.7% of the Group's total revenue.

LONG-TERM INVESTMENTS

Driven by continued traffic volume growth on the 9.45km Shida Road, Shida Co saw its revenue grew 9.3% to Rmb84.5 million in 2005. However, a higher maintenance cost during the Period has led to a reduction in profit after taxation by 17.0% to Rmb32.6 million.

Gas station operations carried out by Petroleum Co throughout Zhejiang Province were boosted by strong growth in demand for gasoline products in 2005. While revenue for the associate company grew 33.1% during the Period, rising global oil prices and a rigid price control regime imposed on domestic retail outlets nevertheless resulted in a reduction in the net profit by 12.8% to Rmb14.0 million.

Amid growing competition in its field of computer networking and digital printing businesses, JoinHands Technology realized a net profit of Rmb3.3 million during the Period, representing a decrease of 14.1% over 2004, while its revenue fell by 36.1%.

EXPRESSWAY WIDENING PROJECT

Phase II of the project to widen the Shanghai-Hangzhou-Ningbo Expressway from four lanes to eight lanes, spanning approximately 95km between Dajing and Fengjing, was completed and opened to traffic in accordance with plan in November 2005, thereby significantly improving the traveling condition as well as increasing the expressway's capacity which in turn allows for further traffic volume growth in the future.

Phase III of the Widening Project, totaling approximately 84km between Guzhu and Duantang, progressed as planned during the Period, and is targeted for completion by the end of 2007.

Extensive onsite management measures were put in place to maintain a normal traffic flow on the Shanghai-Hangzhou-Ningbo Expressway as the widening works were being carried out. However, temporary disturbances to the traffic were inevitable, and the resulted inconvenience to the travelers did have a measurable negative impact on the traffic volume growth of the affected section of the expressway.

FINANCIAL ANALYSIS

The Group adopts a prudent but proactive financial policy with an aim to provide shareholders with sound returns over the long-term.

During the Period, net profit attributable to equity holders of the Company amounted to Rmb1,431.2 million, representing an increase of 16.8% over 2004, while earnings per share was Rmb32.95 cents (2004: Rmb28.22 cents per share). Return on equity for the Period increased from 11.4% to 12.8%.

PROFITABILITY

Our consistently profitable business performance in the last five years resulted in a compound annual growth rate of 17.1% and 11.7% in earnings per share and return on equity, respectively. Details are as follows:

	Year ended December 31,				
	2001	2002	2003	2004	**2005**
EPS (Rmb cents)	17.51	20.50	23.23	28.22	**32.95**
YoY Growth rate	19.6%	17.1%	13.3%	21.5%	**16.8%**
ROE	8.2%	9.2%	9.9%	11.4%	**12.8%**
YoY Growth rate	15.5%	12.2%	7.6%	15.2%	**11.8%**

The dividend payout ratio reached 66.8% during the Period, representing a stable dividend payout policy that the management maintained in past years. Details of dividends in the last five years are as follows:

	Year ended December 31,				
	2001	2002	2003	2004	**2005 (Proposed)**
Dividends (Rmb'000)	434,311	564,604	651,467	825,191	**955,485**
Dividend payout ratio	57.1%	63.4%	64.6%	67.3%	**66.8%**

LIQUIDITY

The Group enjoyed strong cash inflow from its steady growth in toll income, with net cash inflow from operating activities amounting to Rmb1,983.3 million as at December 31, 2005, representing a year-on-year increase of 31.4%.

As at December 31, 2005, current assets of the Group amounted to Rmb1,919.8 million in aggregate (2004: Rmb1,912.3 million), of which account receivables, other receivables and inventories accounted for 24.0% (2004: 21.6%).

FINANCIAL RESOURCES

As at December 31, 2005, the Group held Rmb1,441.2 million in cash and cash equivalents, time deposits and short-term investments (2004: Rmb1,480.2 million), with cash and cash equivalents accounting for 50.2%, time deposits 7.3% and short-term investments 42.5% of the total amount, respectively.

	As at December 31,	
	2005 Rmb'000	2004 Rmb'000
Cash and cash equivalent		
Rmb	**723,452**	717,559
US$ in Rmb equivalent	**2**	4,434
HK$ in Rmb equivalent	**59**	6
Time deposits		
Rmb	**105,632**	81,740
Short term investments		
Rmb	**612,097**	676,447
Total	**1,441,242**	1,480,186
Rmb	**1,441,181**	1,475,746
US$ in Rmb equivalent	**2**	4,434
HK$ in Rmb equivalent	**59**	6

Among the Rmb612.1 million held in short-term investments as at December 31, 2005, 96.1% was held in government bonds, with the remaining 3.9% held in close-ended security investment funds.

The Directors do not expect the Company to experience any problem with financial resources in the foreseeable future.

BORROWINGS AND SOLVENCY

The Group adjusts its debt levels based on, among others, its cash flow, interest coverage ratio and the ratio of debt over capital.

As at December 31, 2005, interest-bearing borrowings for the Group totaled Rmb2,434.7 million (2004: Rmb2,443.5 million), amongst which Rmb886.5 million comprised short-term interest bearing borrowings (an increase of 12.5% year-on-year) and Rmb1,548.2 million comprised long-term borrowings (a decrease of 6.5% year-on-year). Details are as follows:

		Maturity Profiles		
	Gross amount Rmb'000	Within 1 year Rmb'000	2-5 years inclusive Rmb'000	Beyond 5 years Rmb'000
Floating rates				
World Bank loan	732,137	188,740	372,815	170,582
Fixed rates				
Commercial bank loans	630,000	630,000	—	—
Government loans	72,600	67,800	4,800	—
Corporate bonds	1,000,000	—	—	1,000,000
Total as at December 31, 2005	2,434,737	886,540	377,615	1,170,582
Total as at December 31, 2004	2,443,462	787,892	377,847	1,277,724

During the Period, the interest rates of the Group's semi-annual and annual domestic commercial bank borrowings, totaling Rmb630.0 million, were fixed between 4.698% and 5.580%; the interest rate for Rmb72.6 million government loans remained fixed at 3.000%; the annual coupon rate for the Rmb1 billion corporate bonds issued by the Company in 2003 for a term of 10 years was fixed at 4.290%, with interests payable annually. The floating rates of the Group's Rmb732.1 million World Bank loans, denominated in US dollars, varied from 4.110% to 4.590% during the Period.

Total interest expense for the Period amounted to Rmb107.2 million, while profit before interest and tax amounted to Rmb2,371.9 million, resulting in an interest cover ratio (profit before interest and tax over interest expenses) of 22.1 (2004: 19.4).

	2005 Rmb'000	2004 Rmb'000
Profit before tax and interest	**2,371,858**	2,002,663
Interest expenses	**107,196**	103,457
Interest cover ratio	**22.1**	19.4

Moreover, the asset-liability ratio, which represents the total liabilities over total assets, remained low at 24.2% (2004: 23.6%) as at December 31, 2005. The solvency of the Group remained strong during the Period.

CAPITAL STRUCTURE

As at December 31, 2005, the Group had Rmb12,363.9 million total equity (including minority interests), Rmb1,702.6 million fixed-rate liabilities, Rmb732.1 million floating-rate liabilities and Rmb1,513.1 million interest-free liabilities, representing 75.8%, 10.4%, 4.5% and 9.3% of the Group's capital, respectively.

	As at December 31, 2005		As at December 31, 2004	
	Rmb'000	**%**	Rmb'000	%
Total equity	**12,363,868**	**75.8%**	11,812,506	76.4%
Fixed rate liabilities	**1,702,600**	**10.4%**	1,642,600	10.62%
Floating rate liabilities	**732,137**	**4.5%**	800,862	5.18%
Interest-free liabilities	**1,513,051**	**9.3%**	1,205,471	7.8%
Total	**16,311,656**	**100.0%**	15,461,439	100.0%
Long-term interest-bearing liabilities	**1,548,199**	**9.5%**	1,655,517	10.7%
Gearing ratio 1 (Note)	**31.9%**		30.9%	
Gearing ratio 2 (Note)	**12.5%**		14.0%	
Asset-liability ratio	**24.2%**		23.6%	

Note: Gearing ratio 1 represents the sum of fixed rate liabilities, floating rate liabilities and interest-free liabilities to the total equity; gearing ratio 2 represents the total amount of the long-term interest-bearing liabilities to the total equity.

CAPITAL EXPENDITURE COMMITMENTS AND UTILIZATION

As at December 31, 2005, total capital expenditure commitments of the Group and the Company stood at Rmb4,086.8 million and Rmb3,130.3 million, respectively. Of the total capital expenditure commitments of the Group, approximately 57.8% will be applied toward the Widening Project, while 27.2% will be applied toward the construction of Jiashao Expressway.

Total capital expenditure incurred by the Group and by the Company during the Period amounted to Rmb1,449.3 million and Rmb764.4 million, respectively, with the Widening Project alone having utilized Rmb1,266.6 million.

The Group will rely upon its internal resources to fund its capital expenditure commitments, with a preference for debt financing to meet any shortfall.

	As at December 31, 2005					
		Group			Company	
	Commitments Rmb'000	Utilization Rmb'000	Balance Rmb'000	Commitments Rmb'000	Utilization Rmb'000	Balance Rmb'000
Expressway Widening Project						
From Dajing to Fengjing	2,508,190	1,607,290	900,900	—	—	—
From Guzhu to Duantang	2,300,000	841,067	1,458,933	2,300,000	841,067	1,458,933
Acquisition of additional 18.4% equity interest in Shangsan Co	485,000	—	485,000	485,000	—	485,000
Renovation of Service Area	1,371	1,371	—	—	—	—
Remaining construction works of the Shangsan Expressway	47,667	3,290	44,377	—	—	—
Purchase of machinery	87,250		87,250	76,000	—	76,000
Jiashao Expressway Project	1,145,375	35,000	1,110,375	1,145,375	35,000	1,110,375
Total	6,574,853	2,488,018	4,086,835	4,006,375	876,067	3,130,308

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

At December 31, 2005, the PRC Government Bonds (being the treasury bonds issued by the PRC Government) of an approximate aggregate amount of RMB587 million were held in the Company's investment account with Kinghing Securities Co., Ltd. ("Kinghing Securities"). Prior to the date of the Acquisition Agreements, Kinghing Securities had pledged the PRC Government Bonds as security for certain third party repo trading transactions entered into by it through the Shanghai branch of the PRC Securities Registration and Clearing Co., Ltd. Subsequent to the pledging of the PRC Government Bonds, Kinghing Trust Investment Co., Ltd., the largest equity owner of Kinghing Securities at the relevant time, had misappropriated funds of Kinghing Securities such that Kinghing Securities currently does not have sufficient funds to settle the relevant repo trading transactions, and as a result, the security over the PRC Government Bonds may be enforced. In light of the above circumstances, the Company has decided to participate in the restructuring of Kinghing Securities, through which additional RMB600 million capital contribution will be injected by Shangsan into Kinghing Securities, with a view to enabling Kinghing Securities to settle the repo trading transactions and obtaining the release of the security over the PRC Government Bonds beneficially owned by the Company. As of the date of this approval of the financial statements, such pledge on the PRC Government Bonds has been released. Other than aforementioned, the Group did not have any contingent liabilities nor any pledge of assets as at December 31, 2005 (2004: Nil).

FOREIGN EXCHANGE EXPOSURE

As at December 31, 2005, the Group held a US dollar-denominated World Bank loan of approximately Rmb732.1 million. Except for the repayment of the World Bank loan in US dollars as well as dividend payments to overseas shareholders in Hong Kong dollars, the principal operations of the Group were settled in Renminbi.

The appreciation of Renminbi against the US dollar during the Period resulted in an exchange gain of Rmb19.2 million for the Group.

Although the Directors do not foresee any material foreign exchange risks for the Group, there is no assurance that any further changes in the foreign exchange environment will not adversely affect the operating results of the Group in the future.

HUMAN RESOURCES

During the Period, the Group employed an addition 284 employees to support its expanded operations of maintenance facilities and service areas. As at December 31, 2005, there were a total of 3,028 employees within the Group, amongst whom 215 were administrative staff, 430 were engineering technicians, and 2,383 were staff working in the fields of toll collection, maintenance and service areas. Total remuneration for the Group's employees for the Period amounted to Rmb138.7 million, representing an increase of 17.5% over 2004.

In addition to basic salaries, overall remuneration of the Group's employees included bonuses that reflected business performance of the Company and its subsidiaries as well as individual performance. For members of the management team, bonuses were also devised to reflect the share price performance of the Company during the Period.

Aside from organizing regular training programs for the employees, the Company also sponsored external training programs taken up by employees' initiatives, with the aim of improving both the professional qualifications as well as the personal well-being of the employees.

OUTLOOK FOR 2006

The completion of Phase II of the Widening Project on the Shanghai-Hangzhou-Ningbo Expressway has already given a boost to traffic volume growth along the section between Dajing and Fengjing. However, the ongoing construction works under Phase III of the Widening Project may adversely affect the normal traffic volume growth along the section between Guzhu and Duantang before its completion by the end of 2007.

Expressway-related business operations are expected to continued to expand, though a slower rate compared to the past few years following the opening to traffic of new service areas along neighboring expressways. Nevertheless, the overall demand for such services is growing and the Company intends to tap into the growth potential by expanding its existing service areas while adding new service areas.

On the macro side, 2006 is the first year in the Eleventh Five-year National Economic Development Plan where steady economic growth has been set as one of the key objectives. For Zhejiang Province, the plan translates into a target of an average annual GDP growth rate of 9% for the next five years as the provincial economy heads toward a period of rapid industrialization and urbanization.

The forecasted strong economic growth in Zhejiang Province is expected to generate a steady growth in demand for road transport that will be met with a continuous addition of new roads to the existing network as well as renovated national and provincial roads. Although the new roads coming into operation will enhance the overall network of the existing expressways in the long run, it is expected that the overall supply of new road capacities will increase at a rate higher than that of demand growth, which means that traffic volume growth on these expressways, including the ones operated by the Group, will only be moderate in the short run.

To compensate for its additional investment for widening the Shanghai-Hangzhou-Ningbo Expressway from four lanes to eight lanes, the Company will be applying for an extension to its concession period for expressway operation and toll collection, though there is no assurance that the relevant government authorities will approve any or part of the request.

Three Pools Mirroring the Moon:
At a mid-autumn moonlit night, when the moon rises high up in the sky, the full moon, the pagodas and the clouds are all mirrored in the water, the calm water in a charming scene that defies any effort of description.

Customers

For customers, Zhejiang Expressway means an expressway operator committed to pursuing excellent services. We endeavor to establish a brand name that is identified with quality service, whilst relentlessly enhancing our expressway facilities and related complementary services, with an aim to provide safe, comfortable and efficient traveling conditions to road users. What's more, we never cease to innovate and improve ourselves, so that we will be able to meet the ever-rising expectations of our customers.

Report on Corporate Governance

During the Period, the Company has complied with all the applicable provisions in the "Code on Corporate Governance Practices" set out in Appendix 14 of the Listing Rules (hereinafter referred to as the "Code").

CORPORATE GOVERNANCE PRACTICES

A. DIRECTORS

The Board of the Company represents the interests of shareholders as a whole, leading the Company to the continued success in its commercial operations. The Board has adopted the Company's mission, which is "Cultivation of expertise, to create and enjoy values" as its own mission, and the Company's best long-term financial return as its measurement criteria. The Board has the responsibility to ensure that the management fully discharge their obligations under the various changes to the external factors, and conduct regular and effective supervision on the implementation of policies, decisions and strategies of the management. All the Directors are expected to perform prudently, faithfully and diligently for the overall interests of the Company both in terms of their obligations and responsibilities.

On March 29, 2005, the Board approved the Company's amended "Guidelines on Corporate Governance" (including its Appendix IV headed "Procedures for Directors to Seek Independent Professional Advice"), which allows Directors to seek independent professional advice based on reasonable requests and under appropriate circumstances, at the expense of the Company. During the Period, during the consideration of matters where a substantial shareholder or a Director has material conflict of interest, the Board has hold a Board meeting in respect of such matters, instead of holding by way of circulation of documents or by its committees, and the Board meeting was attended by all the Independent Non-executive Directors of the Company. The Company has made appropriate insurance arrangements for any legal action which may be faced by its Directors.

The role of the Chairman of the Board is undertaken by an Executive Director elected by over half of all the Directors, who has led the Board in formulating the Company's major plans and policies to enable the effective operation of the Company, and at the same time, ensuring the Board to discuss all the key and appropriate matters in a timely and constructive manner. The role of the General Manager of the Company is undertaken by another Executive Director appointed by the Board, whose responsibility is to implement these plans and policies. The terms of reference of the Chairman and the General Manager are clearly stated and set out in a written form. Please refer to the Articles of Association of the Company for details. The Chairman has also ensured timely provision of full information regarding the matters to be discussed by the Board to all the Directors. The Chairman authorizes the Secretary of the Board to be responsible for determining and approving the agenda for each Board meeting, during which process the Secretary of the Board will consider any matter proposed by other Directors to be added to the agenda. The Chairman leads the Company in setting a good corporate governance practice and procedure, and encourages all the Directors to be fully engaged in the business of the Board. He leads by example so that the actions of the Board will comply with the best interests of the Company. The Chairman has adopted appropriate measures to maintain effective communication with shareholders, with an aim to ensure that the opinions of shareholders are communicated to all members of the Board.

Members of the Board have extensive knowledge and experience in the Company's business in respect of development strategies, financial and legal aspects. On

February 14, 2006, the Company convened an extraordinary general meeting ("EGM") to elect members of the fourth session of the Board. Other than the election of Mr. Jiang Wenyao, the Company's Deputy General Manager who is familiar with the Company's business, to replace the retiring Mr. Xuan Daoguang as an Executive Director, other Directors remain unchanged as compared to the third session of the Board. Among the nine members of the Board, four are Executive Directors; and the remaining five are Non-executive Directors, of whom three are Independent Non-executive Directors, representing one-third of the number of Board members. Although the number of Non-executive Directors has exceeded half of the total members of the Board, they have extensive experience in business, finance and law, and their advice to the Board had material influence on the decision making of the Board. In all the Company's correspondence (including the Company's website) bearing the names of Directors, the full list of names of the latest Board members is provided, indicating their roles and duties and identifying the Independent Non-executive Directors.

The Company has formulated formal, deliberate and transparent procedures for the appointment of new Directors. On December 27, 2005, the Company's Nomination and Remuneration Committee nominated and made recommendations to the Board the candidates for Directors for the fourth session of the Board. After accepting the recommendations of the Nomination and Remuneration Committee, the Board issued the notice and circular regarding the EGM on December 30, 2005. On February 14, 2006, the Company convened the EGM, at which the members of the fourth session of the Board were approved. The Company has laid down the plan for an orderly succession by the new session of the Board. All the Directors of the Company are subject to re-election at general meetings every three years.

Each of the Directors has been able to understand his/her duties as the Company's Director, the way of operation, business activities and development of the Company through the Secretary of the Board and by attending Board meetings and committee meetings. Independent Non-executive Directors regularly attended meetings of the Board, the Audit Committee, and the Nomination and Remuneration Committee and actively participated in their activities, and have made positive contributions to the Company with their independent, constructive and informed opinions. When Mr. Jiang Wenyao first accepted his appointment as an Executive Director of the Company, the Secretary of the Board has provided him with specially prepared comprehensive and formal information and professional developments which he ought to know and is required to know for taking up the position, so as to ensure that he is fully aware of his duties under the common law, the Listing Rules, applicable requirements under the PRC laws and other regulatory requirements as well as the Company's business and governance policies.

During the Period, the Secretary of the Board has provided the Directors with the agenda of the meeting, together with adequate and appropriate related meeting documents three days before any regular Board meeting, to enable the Directors to make fully informed decisions and discharge his/her duties and obligations as a Director. The Company's senior management have made formal and informal communications with the Directors from time to time during the Board meetings and other occasions. All the Directors have been entitled to inspect the documents and minutes of Board meetings.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Disclosures on the remuneration of the Directors and Supervisors are made available in note 13 to the financial statements on page 75 of this annual report. The Company has a regulated procedure for formulating the relevant policies of the remunerations for the Executive Directors and determining the remunerations of the Directors. The level of remunerations has been sufficient to attract and retain the Directors required for the successful operation of the Company. However, the Company avoided to pay excessive remuneration for such purpose. None of the Directors have participated in voting at the Board meetings when their own remunerations were being determined.

C. ACCOUNTABILITY AND AUDITING

During the Period, the management has provided full explanations and adequate information to the Board to enable the Board to consider the financial and other information submitted for their approval. The Directors are responsible for preparing the accounts for each financial period, so that the accounts can truly and fairly reflect the position, results and cash-flow performance of the Company's business during the period. When preparing the accounts as at December 31, 2005, the Directors have adopted and implemented appropriate accounting policies, adopted the standards under "Hong Kong Financial Reporting Standards", made prudent and reasonable judgments and estimates, and prepared the accounts on a ongoing concern basis. In the appropriate shareholder correspondence, the Board believes that balanced, clear and easily understandable assessments on the Company's situation and prospects have been made.

The Board has made standardized arrangements on how to apply the principles of financial reporting and internal control, and how to maintain appropriate relation with the auditors. During the Period, the initial drafts and final drafts of the minutes of the meetings of the Audit Committee have been circulated to all members of the committee within a reasonable time after the meetings, and having obtained comments from the members on the initial drafts, the final drafts were kept for records. A complete record of the meetings was maintained by the Secretary of the Board. None of the five members of the Audit Committee were formal partners of the Company's existing external auditors. The Audit Committee have laid down their written terms of reference to comply with the Code, which have been posted on the Company's website in the section headed "Corporate Governance". The Audit Committee has been provided with sufficient resources to perform its duties.

D. DELEGATION BY THE BOARD

The Company has a formal pre-determined schedule specifying the matters which specifically require decisions to be made by the Board, in respect of which the management have to report to the Board for approval before making the decisions or entering into commitments on behalf of the Company.

In order to carry out sound corporate governance, the Company has formulated and implemented "Guidelines on corporate governance", "Terms of Reference for the Audit Committee", "Terms of Reference for the Nomination and Remuneration Committee", "Terms of Reference for the Connected Transactions Committee" and "Terms of Reference for the Strategy Committee" in compliance with the Listing Rules and other relevant laws and regulations, thereby providing each of the Audit Committee, the Nomination and Remuneration Committee, the Connected Transactions Committee and the Strategy Committee under the Board their specific written terms of reference, specifying the powers and duties of these committees.

E. COMMUNICATIONS WITH SHAREHOLDERS

During the Period, the Chairman has attended the AGM, and appointed the General Manager to attend the EGM, whereat a separate resolution in respect of each separate matter was passed. Results of the general meetings were published in Hong Kong newspapers on the first business day after the meetings, and were posted on the websites of the Stock Exchange and the Company.

In the notices of general meetings sent to shareholders, the Company has set out procedures for voting by poll, which complied with the requirements under the Listing Rules and the Articles of Association of the Company.

SECURITIES TRANSACTIONS BY DIRECTORS

Since the formulation of the "Rules on Security Dealings" by the Company on March 13, 2002, it has been strictly implemented by all the Company's Directors. Upon the amendments of the Listing Rules by the Stock Exchange on March 31, 2004, corresponding amendments have been made by the Company on its own "Rules on Security Dealings", with standards not less exacting than the "Model Code for Securities Transactions by Directors of Listed Issuers" under Appendix 10 of the Listing Rules (hereinafter referred to as "Model Code").

Upon specific enquiries to all the Directors, the Directors have confirmed their respective compliance with the relevant standards for securities transactions by directors as set out in the Model Code and the "Rules on Security Dealings" of the Company in the Period.

BOARD

During the Period, the third session of the Board of the Company comprised nine members, including four Executive Directors, namely Mr. Geng Xiaoping (Chairman), Mr. Fang Yunti, Mr. Zhang Jingzhong and Mr. Xuan Daoguang; two Non-executive Directors, namely Ms. Zhang Luyun and Ms. Zhang Yang; and three Independent Non-executive Directors, namely Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping.

The Board has held eight meetings during the Period, four of which were regular meetings. The following were attendance rates of Directors at Board meetings during the Period:

Member of the Board	Attendance/Total number of meetings	Attendance rate
Geng Xiaoping (Chairman)	8/8	100%
Fang Yunti	8/8	100%
Zhang Jingzhong	8/8	100%
Xuan Daoguang	8/8	100%
Zhang Luyun	8/8	100%
Zhang Yang	8/8	100%
Tung Chee Chen	7/8	87.5%
Zhang Junsheng	6/8	75%
Zhang Liping	7/8	87.5%

The Board has regularly held meetings during the Period, four of which were held once every quarter. Ad hoc meetings were held as necessary. The Company has issued letters of enquiry to all the Directors for their comments on the agenda seven days before the issue of notices of Board meetings, so as to ensure that they would have the opportunity to raise additional matters for inclusion in the agenda. The Secretary of the Board issued notice of meeting to all the Directors, Supervisors and participating members fourteen days prior to the convening of each regular Board meeting, so as to allow all the Directors and other participating members to make reasonable arrangements to attend the meeting. The Secretary of the Board has provided the agenda of the meeting and adequate related board papers to all the Directors, Supervisors and participating members three days before the convening of each regular meeting, so as to ensure the Directors could make an informed decision on the matters to be discussed. After the completion of the regular Board meeting, the Company has sent the initial draft and final draft of the minutes to all the Directors: the initial draft to seek comments from the Directors, and the final draft for records. The minutes of the Board and committee meetings contained sufficient detailed records on the matters considered by the Directors at the meetings and the decisions reached, including any concerns raised by the Board or dissenting views expressed by the Directors. The Secretary of the Board has maintained full records of the meetings of the Board and committees, which would be available for inspection by any Director during working hours. All the Directors have had access to the advice and services of the Secretary of the Board, who was available at all times for enquiries in respect on any matters (including the application and execution of the Code), so as to ensure the Board procedures and all the applicable rules and regulations were complied with. The Board and the management made decisions on the matters of the Company within their respective scope of duties in accordance with Articles 92 and 105 in the Articles of Association.

The Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules, and the Board has appointed three Independent Non-executive Directors, with at least one possessing the appropriate professional qualification or with accounting or related financial management expertise.

Upon specific enquiries to all the Independent Non-executive Directors, the Independent Non-executive Directors have confirmed their respective independence pursuant to Rule 3.13 of the Listing Rules during the Period. The Company still considers the Independent Non-executive Directors to be Independent.

There were no financial, business or family relationships between the members of the Board (including the Chairman and the General Manager).

THE CHAIRMAN AND THE GENERAL MANAGER

The Company's Chairman and General Manager, being Mr. Geng Xiaoping and Mr. Fang Yunti, have different roles respectively.

NON-EXECUTIVE DIRECTORS

Each of the Non-executive Directors of the third session of the Board had a term of service for three years, from March 1, 2003 to February 28, 2006. Each of the Non-executive Directors of the fourth session of the Board has a term of service for three years, from March 1, 2006 to February 28, 2009.

NOMINATION AND REMUNERATION OF DIRECTORS

The Board has a Nomination and Remuneration Committee, mainly responsible for reviewing and making recommendations for the selection standards and procedures for Directors, General Manager and other senior management of the Company; identifying qualified candidates and making reviews and recommendations thereon; and determining, supervising and monitoring the implementation of the remuneration policies for the Directors and senior management personnel.

The Nomination and Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Zhang Liping, Mr. Tung Chee Chen and Mr. Zhang Junsheng. Mr. Zhang Liping was the chairman.

During the Period, the Nomination and Remuneration Committee held two meetings. The following were attendance rates of the members at the meetings of the Nomination and Remuneration Committee during the Period:

Member of the Nomination and Remuneration Committee	Attendance/ Total number of meetings	Attendance rate
Zhang Liping (Chairman)	2/2	100%
Tung Chee Chen	1/2	50%
Zhang Junsheng	2/2	100%

On March 29, 2005, the Nomination and Remuneration Committee held the first meeting of the second session of the Committee, and considered the proposal to the Board to recommend bonuses to be awarded to the senior management, and approved the amended "Terms of Reference for the Nomination and Remuneration Committee".

Through circulation of documents, members of the Nomination and Remuneration Committee assessed the performance of Executive Directors during the Period in accordance with its Terms of Reference.

Given that the term of the third session of the Board would expire on February 28, 2006, and in order that the Company could continue its past successful management experience and continue to maintain its good image both domestically and overseas, with the consent from the controlling shareholder of the Company, and based on the Directors' extensive knowledge in strategic development, finance and laws and relevant working experience and on the principles of agreeing to allocate sufficient time to devote to the Company, the Nomination and Remuneration Committee nominated the candidates of the fourth session of the Board, and held the second meeting of the second session of the Committee on December 27, 2005. Having considered the objectives set out above, the Committee made recommendations to the Board on the candidates for the fourth session of the Board, candidates of the Supervisory Committee and their service terms, remuneration and benefit plans, and the proposal to award bonuses to members of management on the widening project and operation management.

REMUNERATION OF THE AUDITORS

During the Period, the Company has paid US$165,000 (equivalent to approximately RMB1,366,000) to Ernst & Young (Hong Kong auditors) in respect of audit services for 2004, and RMB800,000 to Zhejiang Pan China Certified Public Accountants (domestic auditors) in respect of audit services for 2004, which totaled approximately RMB2,166,000. The Company has no other material non-audit service expenses.

AUDIT COMMITTEE

The Board has an Audit Committee, responsible for the review and supervision of the Company's financial reporting procedures and internal control system. The Audit Committee comprised five Non-executive Directors, two of whom were Non-executive Directors, namely Ms. Zhang Luyun and Ms. Zhang Yang; and the remaining three were Independent Non-executive Directors, namely Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping. Mr. Tung Chee Chen was the chairman of the Audit Committee.

During the Period, the Audit Committee held two meetings. The following were the attendance rates of the Committee members at the meetings of the Audit Committee during the Period. The Audit Committee has also reviewed the effectiveness of the internal control system of the Group.

Member of the Audit Committee	Attendance/Total number of meetings	Attendance rate
Tung Chee Chen (Chairman)	2/2	100%
Zhang Junsheng	2/2	100%
Zhang Liping	2/2	100%
Zhang Luyun	2/2	100%
Zhang Yang	2/2	100%

On March 29, 2005, the Audit Committee held the fifth meeting of the second session of the Committee, and considered the Company's audited financial statements for 2004 and the re-appointment of the Auditors. The meeting also approved the audit reports for 2004, the audit plans for 2005, the amended "Terms of Reference for the Audit Committee" and the resignation of Mr. Fang Zhexing from his office as Head of the Internal Audit department. On August 15, 2005, the Audit Committee held the sixth meeting of the second session of the Committee, and considered the interim (unaudited) financial statements for 2005 and the internal audit report for 2005; considered and agreed to the proposals by the Board to the general meeting on the appointment of Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong as the Company's Hong Kong auditors, the re-appointment of Zhejiang Pan China Certified Public Accountants as the Company's domestic auditors, and the authorization upon the Board to determine their remuneration.

During the Period, the Company has complied with the requirements on audit committees as set out in Rule 3.21 of the Listing Rules.

All the Directors of the Company have confirmed their responsibility for preparing the accounts.

SENIOR MANAGEMENT'S INTERESTS IN SHARES

Pursuant to the related requirements under the PRC laws and regulations and the related policies, none of the Company's senior management has any shareholding interest in the Company.

RIGHTS OF SHAREHOLDERS

Pursuant to the Articles of Association, the way to convene an extraordinary general meeting of the shareholders is: two or more shareholders (in aggregate holding Shares in the Company with over 10% (inclusive) of the voting rights in the meeting to be held) to request in writing to the Board by signing one or more forms with similar contents,` for convening an extraordinary general meeting, and specifying the agenda of the meeting. Upon receipt of the request in writing, the Board shall convene the extraordinary general meeting as soon as possible.

RELATIONSHIP WITH INVESTORS

There was no change to the Articles of Association of the Company during the Period.

The Company's shares comprised Domestic Shares and H Shares. The Domestic Shares were held by Zhejiang Communications Investments Group Co., Ltd. as to 2,432,500,000 Shares and by Huajin Transportation Economic Development Center as to 476,760,000 Shares, representing 56% and 11% of the total shareholding respectively. The H Shares were held by overseas investors, with a total shareholding of 1,433,854,500 Shares, representing 33% of the total shareholding.

The latest general meeting of the Company was held on February 14, 2006 at 12th Floor, Block A, Dragon Century Plaza, 1 Hangda Road, Hangzhou, and after considerations, the shareholders attended by proxy voted as follows: (1) the meeting approved the election of the Directors and the remunerations for the fourth session of the Board, with 3,207,268,714 shares voted in the affirmative (representing 93.15% of the total votes in the meeting), and 235,733,211 shares voted against (representing 6.85% of the total votes in the meeting); (2) the meeting approved the election of external supervisors and remunerations for the fourth session of the Supervisory Committee, with 3,386,745,627 shares voted in the affirmative (representing 98.37% of the total votes in the meeting), and 730,000 shares voted against (representing 0.02% of the total votes in the meeting); (3) the meeting approved the resolution authorizing the Board to approve the service contracts of the Directors, service contracts of Supervisors and other related documents, and authorizing any of the Company's Executive Directors to sign on behalf of the Company the relevant contracts and other relevant documents after making necessary amendments, and to handle all other related matters required, with 3,436,539,627 shares voted in the affirmative (representing 99.81% of the total votes in the meeting), and no share voted against.

The Company will hold its 2005 AGM on June 14, 2006 to consider the resolutions in respect of the 2005 audited financial statements, 2005 profit distribution and dividend proposal plans, and 2005 Report of the Directors.

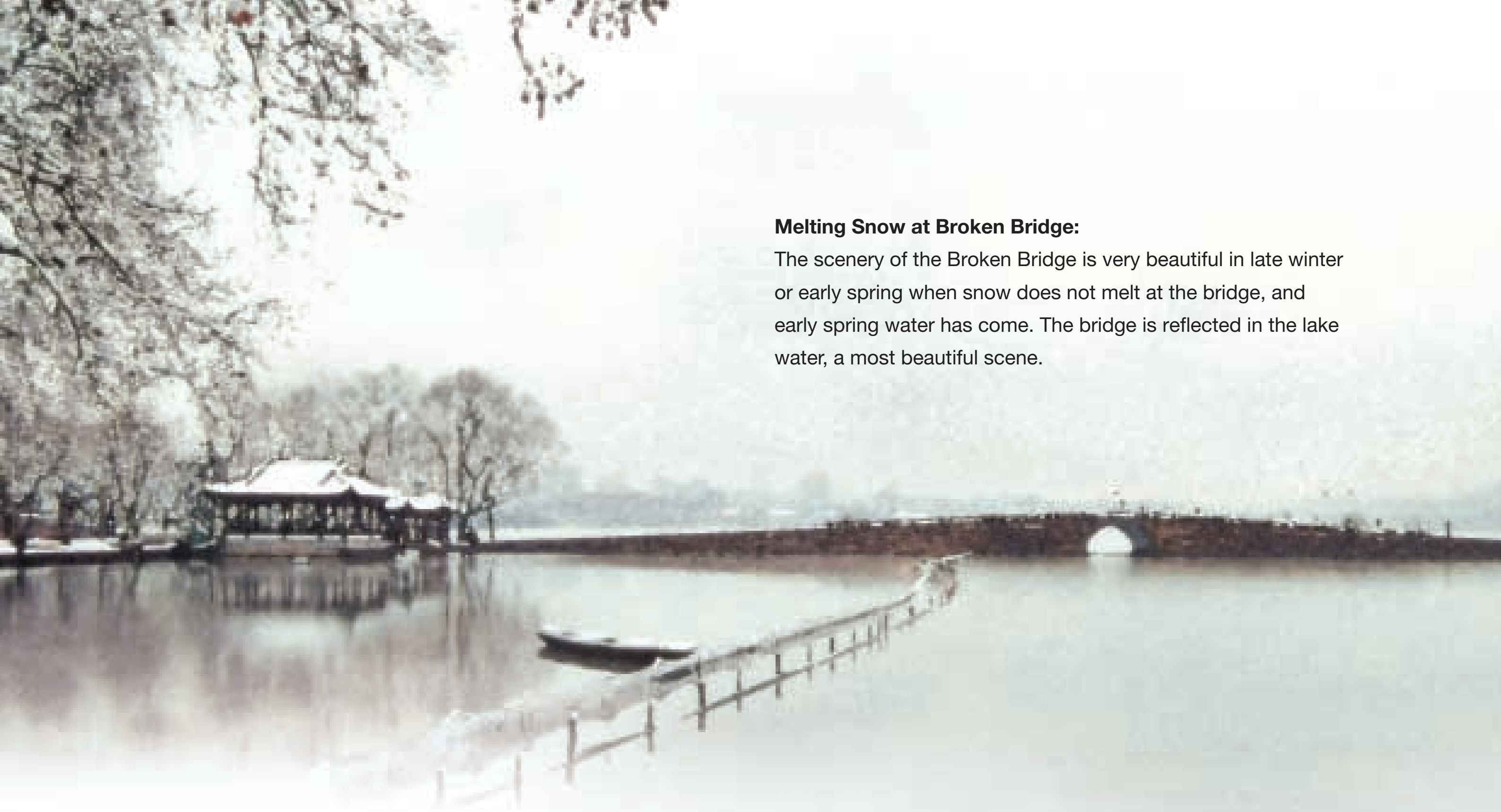
As at the end of the accounting year, the Company's market capitalization held by the public amounted to HK$6,882,501,600.

The Company has always viewed its relationship with investors as a relationship of great importance, especially with regard to the communications with minority shareholders. During the Period, the Company enabled investors to clearly understand the Company's operation situation and development prospects through timely and accurate announcements, active participations in various investors' forums, regular performance of global roadshows, and hosting company visits for analysts and fund managers. Through such communications, concerns and proposals of investors could also be effectively transmitted to the management, thereby enabling the management to create better values to shareholders.

The Company will be devoted to maintaining such relationship with investors, maintaining the smooth communication channel between the management and investors, and to continue satisfying demands of investors through incessant efforts.

MANAGEMENT FUNCTIONS

The management functions of the Board and the management are specifically stipulated in Articles 92 and 105 in the Articles of Association. Details of the Articles of Association can be obtained on the Company's website www.zjec.com.cn under the section headed "Corporate Governance".



Melting Snow at Broken Bridge:
The scenery of the Broken Bridge is very beautiful in late winter or early spring when snow does not melt at the bridge, and early spring water has come. The bridge is reflected in the lake water, a most beautiful scene.

Employees

For employees, Zhejiang Expressway means a first-rate enterprise committed to both enhancing cost efficiency and developing employees' potential. We strive to create a work environment where our employees can demonstrate and utilize their capabilities. We aim to provide a competitive remuneration and benefits scheme, a fair appraisal and reward system and scientific management. Our ultimate goal is to enable our employees to grow together with the Company.

Directors, Supervisors and Senior Management Profiles

DIRECTORS

EXECUTIVE DIRECTORS

Mr. GENG Xiaoping, born in 1948, is the Chairman of the Company. Mr. Geng graduated from the East China College of Political Science and Law in 1984. From 1979 to 1991, he held various positions at the People's Procuratorate of Zhejiang Province including Secretary, Division Chief and Deputy Procurator. In 1991, he was appointed as Deputy Director of the Zhejiang Provincial Expressway Executive Commission where he was responsible for the business operation and administration of the expressway system in Zhejiang Province. Mr. Geng was the General Manager and Chairman of the Company from March 1997 to March 2002. Since December 2001, he has been appointed as a Director and General Manager of the Communications Investment Group, the controlling shareholder of the Company. He resigned from the office of the General Manager of the Company in March 2002.

Mr. FANG Yunti, born in 1950, is a Senior Engineer, an Executive Director and the General Manager of the Company responsible for the overall management of the Company. Mr. Fang graduated from Tsinghua University in 1976 majoring in automotive engineering. From 1983 to 1988, he was the Deputy General Manager of Zhejiang Province Automobile Transport Company. From 1988 to 1990, he was the Chief Engineer at the Provincial Road Transport Company. During the period from 1991 to 1996, he was the Deputy Chief and Chief of the Operating Administrative and Technical Equipment Divisions of the Zhejiang Provincial Expressway Executive Commission, where his responsibilities included operation management and equipment management in relation to the Shanghai-Hangzhou-Ningbo Expressway. Mr. Fang was an Executive Director and the Deputy General Manager of the Company from March 1997 to March 2002. Since March 2002, he has been an Executive Director and the General Manager of the Company. Mr. Fang also holds Chairmanships at Jiaxing Co., Shangsan Co., and Development Co., each a subsidiary of the Company.

Mr. ZHANG Jingzhong, born in 1963, is a Senior Lawyer, an Executive Director and Company Secretary of the Company. Mr. Zhang graduated from Zhejiang University (previously known as Hangzhou University) in July 1984 with a bachelor's degree in law. In 1984, he joined the Zhejiang Provincial Political Science and Law Policy Research Unit. From 1988 to 1994, he was the Associate Director of Hangzhou Municipal Foreign Economic Law Firm. In 1992, he obtained the qualifications required by the regulatory authorities in China to practice securities law. In January 1994, Mr. Zhang became a Senior Partner at T&C Law Firm in Hangzhou. Mr. Zhang has been an Executive Director of the Company since April 1997, and was appointed Deputy General Manager in March 2002. Since March 2003, he has been the Company Secretary.

Mr. JIANG Wenyao, born in 1966, is the Deputy General Manager of the Company. Mr. Jiang graduated from Zhejiang University, majoring in industrial automation and manufacturing mechanics, and obtained a master's degree in engineering. From March 1991 to February 1997, he worked in the Engineering Division and the Planning and Finance Division of the Zhejiang Provincial Expressway Executive Commission. He joined the Company since March 1997, and has served as Deputy Manager of the General Department, Manager of the Equipment Department, Manager of the Operation Department, Assistant General Manager and Company Secretary. Mr. Jiang also serves as the General Manager at Development Co., a subsidiary of the Company.

NON-EXECUTIVE DIRECTORS

Ms. ZHANG Luyun, born in 1961, is a Director and Deputy General Manager of the Communications Investment Group. Ms. Zhang graduated from Zhejiang University, majoring in administration and management. From 1983 to 1997, she served as the Secretary, Deputy Chief and Chief of the Office of Hangzhou City Government. In 1997, she was the Deputy President of Hangzhou Broadcasting and TV College and received the title of the Assistant Researcher in college-teaching. She joined the Communications Investment Group in December 2001 and has been a Director and Deputy General Manager of the Communications Investment Group since then.

Ms. ZHANG Yang, born in 1964, is the Assistant General Manager and the Manager of the Securities Department of Huajian, a substantial shareholder of the Company. In 1987, she graduated from Lanzhou University with a bachelor's degree in economics. In 2001, she completed the postgraduate studies in economics management at the Central Party School. From 1987 to 1994, she worked for the Ministry of Aviation. Ms. Zhang is currently a Non-executive Director of Shenzhen Expressway Company Limited, Sichuan Expressway Company Limited and Xiamen Port Development Company Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TUNG Chee Chen, born in 1942, is the Chairman of Orient Overseas (International) Limited, an Independent Non-executive Director, a member of the Nomination and Remuneration Committee and the Chairman of the Audit Committee of the Company. Mr. Tung was educated at the University of Liverpool, England, where he received his bachelor's degree in science. He later obtained a master's degree in mechanical engineering at the Massachusetts Institute of Technology in the United States. Mr. Tung has been an Independent Non-executive Director of the Company since March 1997. In addition, Mr. Tung also holds directorships in the following listed public companies: Chairman (Executive Director) of Orient Overseas (International) Limited, and as an Independent Non-executive Director of BOC Hong Kong (Holdings) Limited, Cathay Pacific Airways Limited, PetroChina Company Limited, Sing Tao News Corporate Limited and U-Ming Marine Transport Corp.

Mr. ZHANG Junsheng, born in 1936, is a Professor, an Independent Non-executive Director and a member of the Audit Committee and the Nomination and Remuneration Committee of the Company. Mr. Zhang graduated from Zhejiang University in 1958, and was a Lecturer, an Associate Professor, and an Advising Professor at Zhejiang University. He was also a Professor concurrently at, amongst other universities, Zhongshan University. In 1980, he became the Deputy General Secretary of Zhejiang University. In 1983, Mr. Zhang served as the Deputy General Secretary in the Hangzhou City Government. In 1985, he began to work for the Xinhua News Agency, Hong Kong Branch, and became its Deputy Director in 1987. Since September 1998, Mr. Zhang has taken up the position of General Secretary of Zhejiang University. In addition, Mr. Zhang is currently a Special Advisor to the Zhejiang Provincial Government, a Director to the Zhejiang Province Economic Development Consultation Committee, a Chairman of Zhejiang University Development Committee and an Honorary Doctor of Science of the City University of Hong Kong. Mr. Zhang has been an Independent Non-executive Director of the Company since March 2000.

Mr. ZHANG Liping, born in 1958, is a Managing Director of Credit Suisse and Country Head of China. He is an Independent Non-executive Director, a member of the Audit Committee and the Chairman of the Nomination and Remuneration Committee of the Company. Mr. Zhang graduated from University of International Business & Economics of Beijing and received a master's degree in international affairs and international laws from St. John's University in New York. He also attended New York University's MBA program. Mr. Zhang held a number of senior positions at other organizations, including CEO of Imagi International Holdings Limited, Managing Director of Pacific Concord Holdings Limited, Managing

Director and Geographic Head - Greater China Region, Dresdner Banking Group, and Director of the Investment Banking Division and China Chief Representative of Merrill Lynch Co. & Inc. Mr. Zhang has been an Independent Non-executive Director of the Company since March 2003. In addition, Mr. Zhang had served as an Independent Non-executive Director in Anhui Expressway Co., Ltd. from 2002 to 2005.

SUPERVISORS

SUPERVISOR REPRESENTING SHAREHOLDERS

Mr. MA Kehua, born in 1952, is a Senior Economist and the Chairman of the Supervisory Committee. Mr. Ma graduated from Shanghai Railway Institute in 1977, after which he worked as an Engineer at Shanghai Railway Bureau No.1 Construction Company and the Plumbing and Electricity Section of Shanghai Railway Bureau, Hangzhou Branch. Mr. Ma was in charge of the Planning and Finance Division at the Zhejiang Local Railway Company, and in 1993 became the Deputy Division Chief and Division Chief of Zhejiang Jinwen Railway Executive Commission responsible for materials supply. Mr. Ma took up the post of Deputy General Manager of Zhejiang Provincial High Class Highway Investment Company Limited in June 1999, and is currently the Assistant General Manager of the Communications Investment Group.

SUPERVISOR REPRESENTING EMPLOYEES

Mr. FANG Zhexing, born in 1965, is a Senior Engineer, the Manager of the Human Resources Department of the Company. He is also the Chairman of Hangzhou Shida Expressway Co., Ltd., a jointly controlled entity of the Company. Mr. Fang graduated from Zhejiang University where he received a master's degree in engineering. From 1986 to 1988 he was the Assistant Engineer in the Project Management Office of the Electric Power and Water Conservancy Bureau in Taizhou. From 1991 until 1997, he was the Engineer in the Project Management Office of Zhejiang Provincial Expressway Executive Commission, where he participated in the project management of Shanghai-Hangzhou-Ningbo Expressway. Since March 1997, he has served as the Deputy Manager and the Manager of the Planning and Development Department, the Manager of the Project Development Department, the Director of Quality Management Office and the Director of Internal Audit Department of the Company.

INDEPENDENT SUPERVISORS

Mr. ZHENG Qihua, born in 1963, is a Senior Accountant and an independent non-executive member of the Supervisory Committee of the Company. Mr. Zheng was among the first batch of Chinese registered accountants who obtained qualifications required for practicing accountancy involving securities in 1992. He has working and training experience in Hong Kong and Singapore, and he worked with the Listing Division of the China Securities Regulatory Commission during 1997 and 1998. He was a member of the Sixth Session of the Listing Review Board of the China Securities and Regulatory Commission in 2004. He is currently the Deputy General Manager of Zhejiang Pan-China Certified Public Accountants and a guest professor at Zhejiang Gongshang University and Zhejiang Finance & Economics Institute.

Mr. JIANG Shaozhong, born in 1946, is a Professor. Mr. Jiang graduated from the Management Department of Zhejiang University with a master's degree. From 1982, he worked in the Management Department of Zhejiang University as Lecturer, Assistant Professor, Professor, Dean of Research Office and Deputy Dean of the Department. From 1984 to 1985, he was a visiting scholar at Stanford University. From 1991 to 1998 he was the Deputy General Economist, the Chief of the Financial Division, the Chief of the Teaching Division and the Deputy Manager of the Management Department of Zhejiang University. He is currently the Deputy General Accountant of Zhejiang University.

Mr. WU Yongmin, born in 1963, is an Assistant Professor. Mr. Wu graduated from China University of Political Science and Law with a master's degree. He was the Deputy Dean of the Department of Law at Hangzhou University, Deputy Dean of the Department of Law at Zhejiang University's Law School, and Director of Zheda Law Firm. Mr. Wu studied at the Christian-Albrechts-Universität zu Kiel in 1996 as a visiting scholar. He is currently the Acting Dean of the Department of Law at the Law School of Zhejiang University, a Supervisor for master's degree candidates in Business Law, a member of China Business Law Research Council, Deputy Director of Zhejiang Tax Law Research Council, an Arbitrator of Hangzhou Arbitration Committee, and a Lawyer at Zhejiang Zeda Law Firm.

OTHER SENIOR MANAGEMENT MEMBERS

Ms. HUANG Qiuxia, born in 1956, an economist, and is the Deputy General Manager of the Company. Ms. Huang graduated from Hangzhou Non-professional Technology University in 1988 majoring in Human Resource Management. From 1976 to 1991, she was the Deputy Chief of Labor Division of Hangzhou Clock and Watch Factory. She joined the Zhejiang Provincial Expressway Executive Commission in August 1991, and was involved in matters related to labor wages, personnel, external affairs etc. During the period from March 1997 to February 2003, she was the Deputy Manager and Manager of General Department of the Company.

Mr. PAN Jiaxiang, born in 1951, an engineer, and is the Deputy General Manager of the Company. Mr. Pan graduated from Hangzhou University, majoring in economic management. From 1987 to 1992, he was the Deputy Director of the Office of Shangyu City People's Government, and at the same time served as the Director of the Executive Commission of the Shanghai-Hangzhou-Ningbo Expressway (Shangyu Section). From January 1993 to April 1996, he was the Director and the Secretary of Party Committee of Shangyu City Communications Bureau. He has worked in the Company since April 1997, and served as Deputy Manager of Maintenance Department, Assistant of the General Manager and Director and Chief Supervisory Engineer of Widening Project Office, and General Manager of Shangsan Co.

Mr. WU Junyi, born in 1969, a holder of master degree in accounting, and is the Chief Financial Officer of the Company. Mr. Wu graduated from Xi'an Communications University in 1996. From 1996 to 1997, he was with the China Investment Bank, Hangzhou Branch. He joined the Company in May 1997, and has served as Manager of Securities Investment Department and Manager of Planning and Finance Department.

Community

For the community, Zhejiang Expressway means a commercial organization which has at heart its social responsibilities. In building and operating expressways, we aim to meet the social need of sustainable development and to facilitate the economic growth of the areas along the expressways. We take protecting the environment as our duty, so much so that in our business planning, project construction and daily operation, the environment and the well-being of the community are always important considerations for the Company's decision making.

Lotus in the Breeze at Crooked Courtyard:
Dark green lotus leaves rise skyward, unbroken and without limit. The fresh and tender reddish lotus looks charming under the light of rising sun, fascinating its alluring beauty.

Report of the Directors

The Directors of the Company present their report and the audited financial statements of the Company and the Group for the year ended December 31, 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Group comprise the design, construction, operation, maintenance and management of high grade roads, as well as the development and provision of certain ancillary services, such as technical consultation, advertising, automobile servicing and fuel facilities. There were no changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

During the year, the entire turnover and contribution to profit from operating activities of the Group were derived from the Zhejiang Province in the People's Republic of China (the "PRC"). Accordingly, a further analysis of the turnover and contribution to profit from operating activities by geographical area is not presented. However, an analysis of the Group's revenue and contribution to profit from operating activities by principal activity for the year ended December 31, 2005 is set out in note 8 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended December 31, 2005 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 45 to 95.

An interim dividend of Rmb0.07 per share (approximately HK$0.067) was paid on November 25, 2005. The Directors recommend the payment of a final dividend of Rmb0.15 per share (approximately HK$0.14) in respect of the year, to shareholders on the register of members on May 20, 2006. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within the capital and reserves section in the balance sheet. Further details of the dividends are set out in note 15 to the financial statements.

FIVE YEAR SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results, and of the assets, liabilities and minority interests of the Group prepared on the basis set out in the notes below.

	Year ended December 31,				
Results	**2005 Rmb'000**	2004 Rmb'000 (restated)	2003 Rmb'000 (restated)	2002 Rmb'000 (restated)	2001 Rmb'000 (restated)
REVENUE	**3,456,385**	3,131,993	2,471,805	2,168,078	1,722,517
Operating costs	**(1,195,428)**	(881,355)	(731,451)	(561,918)	(392,535)
Gross profit	**2,260,957**	2,250,638	1,740,354	1,606,160	1,329,982
Other income	**185,947**	41,646	127,285	66,457	216,690
Administrative expenses	**(62,766)**	(74,506)	(114,629)	(95,209)	(88,487)
Other expenses	**(41,635)**	(243,823)	(54,243)	(33,109)	(18,236)
Profit from operating activities	**2,342,503**	1,973,955	1,698,767	1,544,299	1,439,949
Finance costs	**(101,343)**	(103,457)	(132,801)	(163,224)	(215,346)
Share of profits of associates	**7,217**	9,086	12,509	10,009	(3,181)
Share of profit (loss) of a jointly-controlled entity	**16,285**	19,622	8,894	686	(2,493)
PROFIT BEFORE TAX	**2,264,662**	1,899,206	1,587,369	1,391,770	1,218,929
INCOME TAX EXPENSE	**(692,366)**	(542,749)	(491,346)	(398,251)	(347,359)
PROFIT FOR THE YEAR	**1,572,296**	1,356,457	1,096,023	993,519	871,570
Attributable to:					
Equity holders of the Company	**1,431,192**	1,225,699	1,008,792	890,452	760,613
Minority interests	**(141,104)**	(130,758)	(87,231)	(103,067)	(110,957)
EARNINGS PER SHARE	**32.95 cents**	28.22 cents	23.23 cents	20.50 cents	17.51 cents

	As at December 31,				
Assets and liabilities	**2005 Rmb'000**	2004 Rmb'000 (restated)	2003 Rmb'000 (restated)	2002 Rmb'000 (restated)	2001 Rmb'000 (restated)
Total assets	**16,311,656**	15,465,649	15,068,687	14,505,834	14,477,538
Total liabilities	**(3,947,788)**	(3,653,143)	(3,910,291)	(3,826,254)	(3,685,828)
Net assets	**12,363,868**	11,812,506	11,158,396	10,679,580	10,791,710

Notes:

1. The consolidated results of the Group for the four years ended December 31, 2004 have been based on and restated from the Company's 2004 annual report dated March 29, 2005, while those of the year ended December 31, 2005 were prepared based on the consolidated income statement as set out on page 45 of the financial statements.

2. The 2005 earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended December 31, 2005 of Rmb1,431,190,000 (2004: Rmb1,225,699,000) and the 4,343,114,500 ordinary shares (2004: 4,343,114,500 ordinary shares) in issue during the year.

3. Differences in Financial Statements Prepared under PRC GAAP and HKFRss

	Net profit before minority interests		Net assets as at December 31,	
	2005 Rmb'000	2004 Rmb'000	**2005 Rmb'000**	2004 Rmb'000
As reported in the statutory financial statements of the Group prepared in accordance with PRC GAAP	**1,544,952**	1,329,577	**11,432,913**	10,977,094
HK GAAP adjustments:				
(a) Goodwill	**45,970**	33,726	**(65,871)**	(111,841)
(b) Depreciation provided, net of deferred tax	**4,992**	(28,527)	**(196,214)**	(199,888)
(c) Deferred tax assets on disposal of fixed assets	**(38,319)**	38,319	**–**	38,319
(d) Difference in the share premium account during establishment	**–**	–	**11,923**	11,923
(e) Profits tax refundable	**–**	–	**(3,686)**	(3,686)
(f) Restatement of short term investments in securities at market value, net of deferred tax	**14,568**	(14,971)	**18,678**	4,110
(g) General provision on accounts receivable and other debts	**162**	(145)	**1,732**	1,607
(h) Minority interests	**–**	–	**1,167,950**	1,092,295
(i) Others	**(29)**	(1,522)	**(3,557)**	2,573
As restated in the financial statements	**1,572,296**	1,356,457	**12,363,868**	11,812,506

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the five largest customers and suppliers of the Group accounted for less than 30% of the total turnover and purchases, respectively.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

CONNECTED TRANSACTIONS

As announced by the Company on November 18, 2005, the Company has entered into a continuing connected transaction during the year with a subsidiary of its controlling shareholder, Communications Investment Group, further details of which are set out in note 43(b) to the financial statements. The directors of the Company (including the independent non-executive directors) believe that the terms of the transaction are on normal commercial terms, and in the best interests of the Group and the Company's shareholders as a whole. In the year, there was no other connected transaction which was required to be disclosed under the requirements in chapter 14A of the Listing Rules.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in note 17 to the financial statements.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company and the Group as at December 31, 2005 are set out in note 40 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity on page 48 to the financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2005, before the proposed final dividend, the Company's reserves available for distribution by way of cash or in kind, as determined based on the lower of the amount determined under PRC accounting standards and the amount determined under generally accepted accounting principles in Hong Kong, amounted to Rmb662,745,000. In addition, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,645,726,000 standing to the credit of the Company's share premium account as prepared in accordance with the PRC accounting standards was available for distribution by way of capitalisation issues.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at December 31, 2005, the following shareholders held 5% or more of the issued share capital of the Company according to the register of interests in shares required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (the "SFO"):

Name	Number of shares	Percentage of share capital (domestic shares)
Zhejiang Communications Investment Group Co., Ltd.	2,432,500,000	83.61%
Huajian Transportation Economic Development Center	476,760,000	16.39%

Name	Number of shares	Percentage of share capital (H shares)
Aberdeen Asset Management Asia	174,876,000	12.20%
Mondrian Investment Partners Ltd	156,154,000	10.89%
Sumitomo Mitsui Asset Management Company, Ltd	86,024,000	5.99%
J.P Morgan Chase & Co.	71,753,381	5.00%

Save as disclosed above, as at December 31, 2005, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PUBLIC FLOAT

As at the date of this report, and to the best of the Directors' knowledge, 100% of the H shares of the Company, which accounts for approximately 33% of all issued capital of the Company, are held by the public.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

TRUST DEPOSITS

As at December 31, 2005, other than the deposits of Rmb2,315,866 placed in non-bank financial institutions in the PRC, the Group did not have any trust deposits, nor any time deposits with any non-bank financial institution in the PRC. Nearly all of the Group's deposits have been placed with commercial banks in the PRC and the Group has not encountered any difficulty in the withdrawal of funds.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

EXECUTIVE DIRECTORS

Mr. Geng Xiaoping
Mr. Fang Yunti
Mr. Zhang Jingzhong
Mr. Xuan Daoguang (term expired on February 28, 2006)
Mr. Jiang Wenyao (appointed on March 1, 2006)

NON-EXECUTIVE DIRECTORS

Ms. Zhang Yang
Ms. Zhang Luyun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tung Chee Chen
Mr. Zhang Junsheng
Mr. Zhang Liping

The Company has received annual confirmations of independence from Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping, and as at the date of this report still considers them to be independent.

CHANGE IN DIRECTORS AND SENIOR MANAGEMENT

The extraordinary general meeting held on February 14, 2006 resolved to re-elect Mr. Geng Xiaoping, Mr. Fang Yunti, Mr. Zhang Jingzhong, Ms. Zhang Luyun, Ms. Zhang Yang, Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping, and to newly elect Mr. Jiang Wenyao, as members of the fourth session Board of Directors. The extraordinary general meeting also resolved to re-elect Mr. Ma Kehua, Mr. Zheng Qihua and Mr. Jiang Shaozhong, and to newly elect Mr. Wu Yongmin, as members of the fourth session Supervisory Committee.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out in the Company's annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and supervisors ("Supervisors") of the Company has entered into a service agreement with the Company, with effect from March 1, 2006, for a term of three years.

Save as disclosed above, none of the Directors and Supervisors has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at December 31, 2005 or during the year, none of the directors or supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at December 31, 2005, the interests of the Directors, Supervisors and Chief Executives in the share capital of the Company's associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Long positions in shares of Development Co

Name	Position	Interest	Contribution of registered capital (Rmb)	Nature of interest	Percentage of the associated corporation's registered capital
Mr. Geng Xiaoping	Chairman	Equity interest	2,400,000	Directly beneficially owned	3.00
Mr. Fang Yunti	Director/General manager	Same as above	1,920,000	Same as above	2.40
Mr. Zhang Jingzhong	Director	Same as above	1,100,000	Same as above	1.38
Mr. Xuan Daoguang	Director (term expired on February 28, 2006)	Same as above	1,100,000	Same as above	1.38
Mr. Fang Zhexing	Supervisor	Same as above	700,000	Same as above	0.88

Save as disclosed above, as at December 31, 2005, none of the Directors, Supervisors and chief executives had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), or as be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S RIGHTS TO SUBSCRIBE FOR SHARES OR DEBENTURES

At no time during the year were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director, Supervisor and chief executive or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable any such persons to acquire such rights in any other body corporate.

PENSION SCHEME

As required by the State regulations of the PRC, the Group participates in a defined contribution pension scheme organised by local social security authorities. Under the scheme, all employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. The Group is required to make contributions to local social security authorities at rates ranging from 20% to 22.5% of the average basic salaries of the employees of the previous year within the geographical area where the employees are under employment with the Group. The Group has no obligation for the payment of pension benefits beyond such annual contributions to the registered insurance companies. When an employee leaves the scheme, the Group is not entitled to a refund of any contributions that it has previously made. Hence, no forfeited contribution was used by the Group to reduce the level of its contributions during the year. During the year, contributions to registered insurance companies made by the Group plans the defined contribution retirement scheme amounted to Rmb10,419,482 (2004: Rmb11,228,000).

MEDICAL INSURANCE SCHEME

Medical expenses for employees of the Group are accounted for as part of the benefits provided by the Group in accordance with relevant accounting rules and internal policies. Following the promulgation of employees' basic medical schemes by local governments in the Zhejiang Province, subject to the local regulations of various areas of the province, starting from the second half of 2002, the Group is required to make contributions to local social security authorities, which are in proportion to the salaries and wages of the employees at rates ranging from 4% to 11%. Up to December 31, 2005, certain entities of the Group had enrolled in these compulsory schemes. Judging from the arrangements of the schemes, the Directors do not anticipate any significant impact of its participation in the scheme on the Group's financial standing, specifically its consolidated income statement and consolidated balance sheet.

ACCOMMODATION BENEFITS FOR EMPLOYEES

According to relevant rules and regulations in the PRC, the Group and its employees are all required to make contributions to an accommodation fund to local social security authorities, which are in proportion to the salaries and wages of the employees at an average rate of 10%. There are no further obligations beyond the contributions to the accommodation fund organised by the local social security authorities.

SHARE CAPITAL

There were no movements in the Company's issued share capital during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights in the Company's articles of association or the laws of the PRC which would require the Company to offer new shares on a pro rata basis to existing shareholders.

UNITED KINGDOM TAXATION

The following paragraphs are intended as a general guide only and are based on current legislation and HM Revenue & Customs practice. If you are in any doubt as to your tax position, you should consult an appropriate professional adviser without delay.

Individual holders of H Shares who are resident and domiciled in the United Kingdom (the "UK") will, in general, be liable to UK income tax on dividends received from the Company. Where such an individual receives dividends from the Company without withholding of taxes in the PRC, the amount included as income for the purpose of computing his or her UK tax liability is the gross amount of the dividend and this is taxed at the appropriate marginal rate (currently 10% up to the basic rate unit and 32.5% above the basic rate unit). Where tax is withheld from the dividend, the individual will be entitled to claim credit against UK income tax for any tax withheld from the dividend up to the amount of the UK income tax liability. The Company would assume responsibility for withholding tax at source within the PRC if such a withholding is required. The current UK-Chinese Double Taxation Agreement provides that the maximum withholding tax on dividends from Chinese resident companies paid to UK residents is 10% of the gross dividend.

Individual holders of H Shares who are resident but not domiciled in the UK will only be liable to income tax on a dividend from the Company to the extent that the dividend is remitted to the UK.

A UK tax resident corporate shareholder will, in general, be liable to UK corporation tax on dividends received from the Company, with double tax relief available for withholding tax suffered. In certain cases (not to be discussed here), a holder of H Shares which is a UK tax resident company may be entitled to relief for "underlying" tax paid by the Company or its subsidiaries.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has throughout the year ended December 31, 2005 complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors and the two non-executive directors of the Company.

AUDITORS

During the year, the Company organized an open bidding process amongst a number of international qualifying auditing firms, including Ernst & Young and Deloitte Touche Tohmatsu, and reached a decision to recommend Deloitte Touche Tohmatsu as the new auditors of the Company. The recommendation was formally approved by shareholders of the Company in an extraordinary general meeting of the Company held on October 31, 2005.

Deloitte Touche Tohmatsu will retire and a resolution for their reappointment of international auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

GENG Xiaoping
Chairman

Hangzhou, Zhejiang Province, the PRC
April 25, 2006

Report of the Supervisory Committee

Dear shareholders:

During the financial year 2005 (the "Period"), the Supervisory Committee duly performed its supervisory duties, and safeguarded the legitimate interests of the shareholders and the Company in accordance with the Company Law of the PRC (the "Company Law"), the Company's Articles of Association and Rules of the Supervisory Committee. Main tasks undertaken by the Supervisory Committee during the Period were to assess and supervise the legality and appropriateness of the activities of the Directors, General Manager and other senior management of the Company in their business decision-making and daily management processes, through a combination of activities including holding meetings of the Supervisory Committee and attending meetings of the Board. The Supervisory Committee has carefully examined the operating results and the financial standing of the Company, and discussed and reviewed the financial statements to be submitted by the Board to the general meeting.

The Supervisory Committee concluded that during the Period, the Directors, General Manager and other senior management of the Company have continued to adopt a steady operating strategy. Through a variety of management measures, Phase II of the eight-lane widening project along the Shanghai-Hangzhou Expressway was completed ahead of schedule. The improved quality of the expressway and services provided a safer, more comfortable and expedient traveling environment for travelers, resulting in significant business and social benefits while providing attractive returns to shareholders. Efforts made by the Board of Directors and the management in corporate governance continue to win recognition and affirmation from investors, and have consolidated the Company's reputation in the overseas markets.

The Supervisory Committee has reviewed the financial statements of the Company for 2005 prepared by the Board for submission to the general meeting of shareholders, and concluded that the financial statements accurately reflected the financial position of the Company in 2005, and complied with the relevant laws, regulations and the Company's Articles of Association. In 2005, the Company maintained a high dividend yield, providing satisfactory return in cash to the shareholders.

During the course of the Company's business operations, the members of the Board, General Manager and other senior management of the Company have complied with their fiduciary duties and worked in good faith while exercising their powers when discharging their duties. There were no incident of abuse of power or infringement of the interests of shareholders and employees.

The Supervisory Committee is satisfied with the various results obtained by the Board and the management of the Company.

Having fully completed its objectives in the three-year term, the third session of the Supervisory Committee came to expire on February 28, 2006. Pursuant to relevant rules in the Company Law and the Company's Articles of Association, the Company held an extraordinary general meeting of shareholders, meetings of representatives of employees and the first meeting of the fourth session of the Supervisory Committee to elect the members and the chairman of the fourth session of the Supervisory Committee. Mr. Wu Yongmin was newly elected as a member of the Supervisory Committee to replace Mr. Sun Xiaoxia, who declined to be a candidate for re-election due to his other commitments; other members of the fourth session of the Supervisory Committee were all members of the third session of the Supervisory Committee. The Supervisory Committee would like to thank Mr. Sun Xiaoxia for his fine service to the Company during his service as a supervisor of the Company.

By the order of the Supervisory Committee

MA Kehua
Chairman of the Supervisory Committee

Hangzhou, Zhejiang Province, the PRC
April 25, 2006

Report of the Auditors

TO THE SHAREHOLDERS OF ZHEJIANG EXPRESSWAY CO., LTD.

(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Zhejiang Expressway Company Limited and its subsidiaries (the "Group") from pages 45 to 95 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at December 31, 2005 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
April 25, 2006

Consolidated Income Statement

For the Year ended December 31, 2005

	Notes	2005 RMB'000	2004 RMB'000 (restated)
REVENUE	9	**3,456,385**	3,131,993
Operating costs		**(1,195,428)**	(881,355)
Gross profit		**2,260,957**	2,250,638
Other income	9	**185,947**	41,646
Administrative expenses		**(62,766)**	(74,506)
Other expenses		**(41,635)**	(243,823)
PROFIT FROM OPERATING ACTIVITIES		**2,342,503**	1,973,955
Finance costs	10	**(101,343)**	(103,457)
Share of profits of associates		**7,217**	9,086
Share of profit of a jointly-controlled entity		**16,285**	19,622
PROFIT BEFORE TAX	11	**2,264,662**	1,899,206
INCOME TAX EXPENSE	12	**(692,366)**	(542,749)
PROFIT FOR THE YEAR		**1,572,296**	1,356,457
Attributable to:			
Equity holders of the Company		**1,431,192**	1,225,699
Minority interests		**141,104**	130,758
		1,572,296	1,356,457
DIVIDENDS	15		
Ordinary Shares			
Interim, paid - Rmb7 cents (2004: Rmb4 cents) per share		**304,018**	173,724
Final, proposed - Rmb15 cents (2004: Rmb11 cents) per share		**651,467**	651,467
EARNINGS PER SHARE	16	**32.95 cents**	28.22 cents

Consolidated Balance Sheet

At December 31, 2005

	Notes	2005 RMB'000	2004 RMB'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	17	**13,422,605**	12,564,935
Prepaid lease payments	18	**387,448**	405,586
Goodwill	19	**85,472**	85,472
Interests in associates	20	**226,871**	176,744
Interest in a jointly-controlled entity	21	**79,907**	79,812
Available for sale investments	22	**1,000**	1,000
Expressway operating rights	24	**188,545**	197,245
Deferred tax assets	25	**—**	42,529
		14,391,848	13,553,323
CURRENT ASSETS			
Inventories		**6,446**	6,416
Loan to an associate	26	**116,000**	—
Trade receivables	27	**21,744**	26,569
Other receivables	28	**316,238**	381,017
Prepaids lease payments	18	**18,138**	18,138
Investments held for trading	29	**612,097**	676,447
Cash and bank balances	30	**829,145**	803,739
		1,919,808	1,912,326
CURRENT LIABILITIES			
Trade payables	31	**402,221**	297,213
Tax liabilities		**334,048**	185,482
Other taxes payable		**31,779**	24,343
Other payables and accruals	32	**327,471**	294,786
Dividend payable		**33,379**	19,070
Interest-bearing bank and other loans	33	**886,539**	787,892
		2,015,437	1,608,786
NET CURRENT (LIABILITIES) ASSETS		**(95,629)**	303,540
TOTAL ASSETS LESS CURRENT LIABILITIES		**14,296,219**	13,856,863

	Notes	2005 RMB'000	2004 RMB'000 (restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	33	**548,198**	655,570
Long term bonds	34	**1,000,000**	1,000,000
Deferred tax liabilities	25	**384,153**	388,787
		1,932,351	2,044,357
		12,363,868	11,812,506
CAPITAL AND RESERVES			
Issued capital	37	**4,343,115**	4,343,115
Reserves		**6,201,336**	5,725,629
Proposed final dividend		**651,467**	651,467
Equity attributable to equity holders of the Company		**11,195,918**	10,720,211
MINORITY INTERESTS		**1,167,950**	1,092,295
TOTAL EQUITY		**12,363,868**	11,812,506

The financial statements on pages 45 to 95 were approved and authorised for issue by the Board of Directors on April 25, 2006.

Geng Xiaoping
DIRECTOR

Fang Yunti
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year ended December 31, 2005

	Issued capital Rmb'000	Share premium account Rmb'000	Goodwill reserve Rmb'000	Statutory surplus reserve Rmb'000	Statutory public welfare fund Rmb'000	Dividend reserve Rmb'000	Retained profits Rmb'000	Attributable to equity holders of the Company Rmb'000	Minority interests Rmb'000	Total Rmb'000
At January 1, 2004 as originally stated	4,343,115	3,645,726	(352,860)	710,497	340,221	477,743	981,537	10,145,979	—	10,145,979
Effect of change in accounting policy	—	—	—	—	—	—	—	—	1,012,417	1,012,417
At January 1, 2004 as restated	4,343,115	3,645,726	(352,860)	710,497	340,221	477,743	981,537	10,145,979	1,012,417	11,158,396
Profit for the year and total recognised income	—	—	—	—	—	—	1,225,699	1,225,699	130,758	1,356,457
Interim dividend (note 15)	—	—	—	—	—	—	(173,724)	(173,724)	—	(173,724)
Dividends paid to minority interests	—	—	—	—	—	—	—	—	(52,350)	(52,350)
Dividends paid to shareholders of the Company	—	—	—	—	—	(477,743)	—	(477,743)	—	(477,743)
Capital contribution by minority shareholders	—	—	—	—	—	—	—	—	1,470	1,470
Transfer to reserves	—	—	—	182,454	91,227	—	(273,681)	—	—	—
Proposed final dividend (note 15)	—	—	—	—	—	651,467	(651,467)	—	—	—
At December 31, 2004 and as restated beginning of year	4,343,115	3,645,726	(352,860)	892,951	431,448	651,467	1,108,364	10,720,211	1,092,295	11,812,506
Effect of change in accounting policy	—	—	352,860	—	—	—	(352,860)	—	—	—
	4,343,115	3,645,726	—	892,951	431,448	651,467	755,504	10,720,211	1,092,295	11,812,506
Interim dividend (note 15)	—	—	—	—	—	—	(304,018)	(304,018)	—	(304,018)
Profit for the year and total recognised income	—	—	—	—	—	—	1,431,192	1,431,192	141,104	1,572,296
Dividends paid to minority interests	—	—	—	—	—	—	—	—	(65,449)	(65,449)
Dividends paid to shareholders of the Company	—	—	—	—	—	(651,467)	—	(651,467)	—	(651,467)
Transfer to reserve	—	—	—	175,103	—	—	(175,103)	—	—	—
Proposed final dividend (note 15)	—	—	—	—	—	651,467	(651,467)	—	—	—
At December 31, 2005	4,343,115	3,645,726	—	1,068,054	431,448	651,467	1,056,108	11,195,918	1,167,950	12,363,868

STATUTORY SURPLUS RESERVE

In accordance with the Company Law of the PRC and the companies' articles of association, the Company, its subsidiaries, associates and jointly-controlled entity (collectively the "Entities") are required to allocate 10% of the profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Entities, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Entities. Subject to certain restrictions set out in the Company Law of the PRC and the respective articles of association of the Entities, part of the statutory surplus reserve may be converted to increase the Entities' share capital.

STATUTORY PUBLIC WELFARE FUND

In prior years, in accordance with the Company Law of the PRC, the Entities are required to transfer 5% to 10% of the profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Entities, to the statutory public welfare fund, which is a non-distributable reserve other than in the event of the liquidation of the Entities. The statutory public welfare fund must be used for capital expenditure on staff welfare facilities and these facilities remain as the properties of the Entities.

Under the amended Company Law of the PRC, the Group does not require to make appropriation to statutory public welfare fund in 2005.

According to the relevant regulations in the PRC, the amount of profit available for distribution is the lower of the amount determined under the PRC accounting standards and financial regulations and the amount determined under HKFRSs.

As at December 31, 2005, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,645,726,000 (2004: Rmb3,645,726,000) standing to the credit of the Company's share premium account was available by way of capitalisation issues.

Consolidated Cash Flow Statement

For the Year ended December 31, 2005

	Notes	2005 RMB'000	2004 RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	38	**1,983,251**	1,509,333
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**40,151**	12,514
Additions to property, plant and equipment		**(945,093)**	(970,413)
Acquisition of associates		**(53,500)**	(12,000)
Dividends from an associate		**13,365**	6,919
Loan to an associate		**(116,000)**	–
Dividends from a jointly-controlled entity		**15,008**	–
Proceeds from disposal of property, plant and equipment		**576**	2,541
(Increase)/decrease in time deposits		**(23,892)**	169,860
Decrease in investments		**84,537**	415,061
Net cash used in investing activities		**(984,848)**	(375,518)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on ordinary shares		**(941,176)**	(651,467)
Dividends paid to minority interests		**(65,449)**	(52,350)
New bank and other loans		**1,140,000**	970,000
Repayment of bank and other loans		**(1,130,264)**	(1,246,664)
Capital contribution by minority shareholders		**–**	1,470
Net cash used in financing activities		**(996,889)**	(979,011)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,514**	154,804
Cash and cash equivalents at beginning of year		**721,999**	567,195
CASH AND CASH EQUIVALENTS AT END OF YEAR		**723,513**	721,999
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	30	**569,431**	538,079
Time deposits with original maturity of less than three months when acquired	30	**154,082**	183,920
		723,513	721,999

Notes to the Financial Statements

For the Year ended December 31, 2005

1. CORPORATE INFORMATION

Zhejiang Expressway Co., Ltd. (the "Company") was established on March 1, 1997. The H shares of the Company ("H Shares") were subsequently listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on May 15, 1997.

All of the H Shares of the Company were admitted to the Official List of the United Kingdom Listing Authority (the "Official List"). Dealings in the H Shares on the London Stock Exchange commenced on May 5, 2000.

On July 18, 2000, with the approval of the Ministry of Foreign Trade and Economic Co-operation of the People's Republic of China (the "PRC"), the Company changed its business registration into a Sino-foreign joint stock limited company.

On February 27, 2001, the trading of the H Shares of the Company on the Berlin Stock Exchange commenced following a secondary listing on the Unofficial Regulated Market of the exchange.

On February 14, 2002, the United States Securities and Exchange Commission, following the approval by the Board of Directors and the China Securities Regulatory Commission, declared the registration statement in respect of the ADSs evidenced by the ADRs representing the deposited H Shares of the Company effective.

The functional currency is Renminbi ("Rmb"), the currency in which the majority of the transactions is denominated. The consolidated financial statements are presented in Rmb.

The addresses of the registered office and principal place of business of the Company are disclosed in the annual report.

During the year, the Group was involved in the following principal activities:

(a) the design, construction, operation, maintenance and management of high grade roads; and

(b) the development and provision of certain ancillary services such as technical consultation, advertising, automobile servicing and fuel facilities.

In the opinion of the Directors, the ultimate holding company of the Company is Zhejiang Communications Investment Group Co., Ltd. (the "Communications Investment Group"), a State-owned enterprise established in the PRC.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, all of the new and revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") and interpretations (thereafter collectively referred to as the "New HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for accounting periods on or after January 1, 2005. The application of the new HKFRS has resulted in a charge in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRS has resulted in the following changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and the amounts reported for the prior years are prepared and presented.

HKFRS 3 BUSINESS COMBINATIONS

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after January 1, 2005. The principal effects of the application of HKFRS to the Group are summarised below.

Goodwill

In previous years, goodwill arising on acquisitions prior to January 1, 2001 was held in reserves, and goodwill arising on acquisitions on or after 1 January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of Rmb352,860,000, net of negative goodwill of Rmb12,655,000, has been transferred to the Group's retained profits on January 1, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has applied the relevant transitional provisions in HKFRS 3 and eliminated the carrying amount of the related accumulated amortisation of Rmb41,121,000 on January 1, 2005 with a corresponding decrease in the cost of goodwill (see Note 19). The Group has discontinued amortising such goodwill from January 1, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after January 1, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, amortisation of goodwill has been charged in the current year. Comparative figures for 2005 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to January 1, 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on January 1, 2005 of Rmb12,655,000 previously recorded in goodwill reserves. The amount has been transferred to retained profits as disclosed above.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

FINANCIAL INSTRUMENTS

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after January 1, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

By December 31, 2004, the Group classified and measured its investments in debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as “trading securities” or “non-trading securities” as appropriate. Both “trading securities” and “non-trading securities” are measured at fair value. Unrealised gains or losses of “trading securities” are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of “non-trading securities” are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for that period. From January 1, 2005 onwards, the Group has classified and measured its investments in debt and equity securities in accordance with HKAS 39 either as financial assets are classified as “financial assets at fair value through profit or loss” or “available-for-sale financial assets”, as appropriate. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market are carried at cost less impairment when their fair value cannot be reliably measured. As a result of this change in accounting policy, the long term investments and short term investments amounted to Rmb1,000,000 and 676,447,000 have been reclassified to available-for-sale investments and investment held for trading respectively. Comparative figures have not been reclassified to confrom with the current year’s presentation.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

OWNER-OCCUPIED LEASEHOLD INTEREST IN LAND

In previous years, land use rights were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 RMB'000	2004 RMB'000
Non-amortisation of goodwill of subsidiaries and increase in profit for the year	**12,245**	—

The cumulative effects of the application of the new HKFRSs on December 31, 2005 and January 1, 2005 are summarised below:

	As at December 31, 2004 (originally stated) RMB'000	Adjustments RMB'000	As at December 31, 2004 (restated) RMB'000	Adjustments RMB'000	As at January 1, 2005 (restated) RMB'000
Balance sheet items					
Impact of HKAS 17:					
Property, plant and equipment	12,988,659	(423,724)	12,564,935	—	12,564,935
Prepaid lease payments	—	423,724	423,724	—	423,724
Total effects on assets	12,988,659	—	12,988,659	—	12,988,659

The financial effects of the application of the new HKFRS to the Group's equity at January 1, 2005 are summarised as below:

	As opening stated Rmb'000	**Adjustment** Rmb'000	**As restated** Rmb'000
Retained profits	1,108,364	(352,860)	755,504
Goodwill reserve	(352,860)	352,860	—
	755,504	—	755,504

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The HKICPA has issued the following new Standards, amendments and interpretations ("INT") that are not effective for the year ended and as at December 31, 2005. The Group has already commenced an assessment of the impact of these new HKFRSs to ascertain the effect of the results of operations and financial statements.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	New investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of ForecastIntragroupTransactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK (IFRIC) – Int 4	Determining Whether an Arrangement Contains a Lease[2]
HK (IFRIC) – Int 5	Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK (IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment[3]
HK (IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on of after January 1, 2007
2 Effective for annual periods beginning on of after January 1, 2006
3 Effective for annual periods beginning on of after December 1, 2005
4 Effective for annual periods beginning on of after March 1, 2006

4. CHANGES OF ACCOUNTING ESTIMATE

Change of depreciation rate in the year

In the previous years, depreciation on expressway and bridges was calculated to write off the cost over their estimated useful lives using a method whereby the aggregate annual depreciation amounts, compounded at average rates ranging from 6.11% to 8.77% per annum up to the expiry of the underlying 30-year expressway concession period, will be equal to the total construction costs of the expressways and bridges. The aforementioned average rates are based on the tracffic volumes over the 30-year expressway concession period. This method is more commonly referred to as the "Unit-of-usage" method.

With effect from January 1, 2005, expressways and bridges are depreciated by straight-line method in the residual years, which is a change in accounting estimate, and considered by the directors to be suitable in the future. Due to this change of accounting estimate, the carrying value of property, plant and equipment and the profit before tax have been decreased, while the depreciation expense at an amount of Rmb269,319,000 has been increased for the year ended December 31, 2005. Accordingly, profit attributable to equity holders of the Company has been decreased by Rmb164,407,000 for the year ended December 31, 2005.

5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

GOODWILL

Goodwill arising on acquisitions prior to January 1, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions on or after January 1, 2001, the Group has discontinued amortisation from January 1, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOODWILL (Continued)

Goodwill arising on acquisitions on or after January 1,2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after January 1, 2005 represents the excess of the net fair value of the Group's interest in an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is, after reassessment, recognised immediately in profit or loss.

As explained in note 3 above, all negative goodwill as at January 1, 2005 has been derecognised with a corresponding adjustment to the Group's retained profits.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS IN ASSOCIATES

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly-controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly-controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly-controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly-controlled entity equals or exceeds its interest in that jointly-controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly-controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly-controlled entity.

When a group entity transacts with a jointly-controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly-controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Toll fee income from the operation of toll roads is recognised when the tolls are received and receivable.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

EXPRESSWAY OPERATING RIGHTS

Expressway operating rights represent the rights to operate the expressways and are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is provided on a straight-line basis over the periods of the expressway operating rights granted to the Group.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (other than construction in progress), are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

In the current year, depreciation of expressway and bridges is calculated to write off the cost thereof over their estimated useful lives using the straight line method in the remaining concession period using the straigh-line method. Details of the change of depreciation rate in this year is set out in note 4.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT (Continued)

	Estimated useful life	Annual depreciation rate
Toll stations and ancillary facilities	30 years	3.2%
Communications and signalling equipment	5 years	19.4%
Motor vehicles	8 years	12.1%
Machinery and equipment	5-8 years	12.1-19.4%

Construction in progress represents costs incurred in the construction of expressways and bridges, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds, during the period of construction, installation and testing. Construction in progress is reclassified to other items of property, plant and equipment and commence depreciation when completed and ready for intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is dereognised.

PREPAID LEASE PAYMENTS

Payments for obtaining land use rights are considered as prepaid lease payment under operating lease and charged to the consolidated income statement over the period of the right using the straight line method.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

RETIREMENT BENEFIT COSTS

Payments to state-managed retirement benefit schemes are charged as an expense as they fall due.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of the assets to determine whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

INVENTORIES

Inventories, representing goods held for resale, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables, financial assets at fair value through profit or loss and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets and bank balances with fixed or determinable payments that are not quoted in an active market. Loans and receivable, include loan to amounts due from associates and other receivables. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Investments

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in profit or loss in subsequent periods.

Investment held for trading is measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are included in profit or loss for the period.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and is subject to an insignificant risk of changes in value.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Accounting policies adopted in respect of financial liabilities and equity investments are set out below:

Financial liabilities

Financial liabilities include trade payables, other payables, amounts due to a jointly-controlled entity, dividend payable, interest bearing bank and other loans, and long term bonds are initially measured at fair value and are subsequently measured at amortised cost using effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceed received, not of direct issue costs.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in Note 5, management had made the following judgments that have the most significant effect on the amounts recognised in the financial statements.

Loans and receivables

Note 5 describes that loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

In making the judgement, management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. Specific allowance is only made for trade receivables that are unlikely to be collected. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for doubtful debts has been made in the Financial Statements in light of the historical records of the Group and the circumstances of the toll road operation in the PRC.

Depreciation

The management exercises their judgement in estimating the useful lives of the property, plant and equipment as set out in Note 5.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using straight line method.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, investments held for trading, borrowings, loan and other receivables, trade and other payables, and cash and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Fair value interest rate risk

Interest bearing financial assets included bank deposits and entrusted loans which are short term in nature and is therefore not exposed to fair value interest rate risk.

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings and long term bonds (see note 32 and 33 for details of these borrowings).

The Group currently does not have an interest rate hedging policy as the management considered the Group did not exposed to significant fair value interest rate risk. The management will continue to monitor interest rate exposure and will consider hedging significant foreign currency exposure should the need arises.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

Foreign currency risk refers to the movement in foreign currency exchange rate which will affect the Group's financial result and its cash flow. Although the Group had long term borrowing denominated in United States Dollar, the directors are closely monitor the position and will take immediate response to hedge the risk whenever necessary. Further, the Group carries out majority of its transactions in RMB and accordingly, the Group's operation is not exposed to any significant foreign currency risk.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at December 31, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The credit risk on bank balances is minimal because the counterparties are banks with high credit ratings.

The Group's concentration of credit risk by geographical locations is mainly in PRC.

Liquidity risk

Most of the bank balances and cash at December 31, 2005 were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

The Group closely monitors its cash position from its operation and the directors consider that the Group has sufficient liquid assets generated from its operations and sufficient available undrawn long term and short term borrowing facilities to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future. Although the Group had net current liabilities at the balance sheet date, the Group has well managed the liquidity risk.

8. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined to use business segments as its primary segment reporting format. During the year, the entire turnover and contribution to profit from operating activities of the Group were derived from the Zhejiang Province in the PRC. Accordingly, no further geographical segment information is presented.

BUSINESS SEGMENTS

The Group's operating businesses are structured and managed separately, according to the nature of services provided, with each segment representing a strategic business unit that serves different markets:

– Toll operation represents the design, construction, operation and management of high grade roads and the collection of the expressway tolls.

– Service area businesses mainly represent the sale of food, restaurant servicing, automobile servicing, as well as the operation of oil stations.

– Advertising business represents the design and rental of advertising billboards along the expressways.

– Road maintenance represents the maintenance of expressways and roads, including the cleaning of the road surface, minor repairs to the lanes, the cleaning of the gutters and sewers, grass mowing, afforestation and the maintenance of buildings, equipment and facilities provided to third parties.

8. SEGMENT INFORMATION (Continued)

	Toll operation		Service area businesses		Advertising business		Road maintenance		Others		Consolidated	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Segment revenue:												
Revenue, net of revenue taxes	3,182,807	2,906,473	225,702	179,563	45,374	38,864	2,502	7,093	—	—	3,456,385	3,131,993
Other income	100,122	30,549	82,996	9,522	2,829	1,575	—	—	—	—	185,947	41,646
Total revenue	3,282,929	2,937,022	308,698	189,085	48,203	40,439	2,502	7,093	—	—	3,642,332	3,173,639
Segment results	2,255,306	1,925,656	71,225	38,000	15,130	15,465	842	(5,166)	—	—	2,342,503	1,973,955
Finance costs	—	—	—				—				(101,343)	(103,457)
Share of (losses) profits of associates	(2,786)	—	11,407	7,947	—	—	—	—	(1,404)	1,139	7,217	9,086
Share of profit of a jointly-controlled entity	16,285	19,622	—	—	—	—	—	—	—	—	16,285	19,622
Profit before tax											2,264,662	1,899,206
Income tax expense											(692,366)	(542,749)
Profit for the year											1,572,296	1,356,457
Segment assets	15,811,577	14,858,820	128,521	175,910	64,780	60,005	—	71,829	—	—	16,004,878	15,166,564
Interests in associates	35,000	—	146,677	144,120	—	—	—	—	45,194	32,624	226,871	176,744
Interest in a jointly-controlled entity	79,907	79,812	—	—	—	—	—	—	—	—	79,907	79,812
Deferred tax assets												42,529
Total assets											16,311,656	15,465,649
Segment liabilities	1,061,037	656,693	5,504	83,472	28,978	28,081	—	33,578	—	—	1,095,519	801,824
Bank and other loans											1,434,737	1,443,462
Long term bonds											1,000,000	1,000,000
Dividend payable											33,379	19,070
Deferred tax liabilities											384,153	388,787
Total liabilities											3,947,788	3,653,143
Other segment information:												
Capital expenditure	1,370,356	891,009	14,449	63,007	8,974	14,215	—	1,325	—	—	1,393,779	969,556
Depreciation and amortisation	532,166	313,414	6,781	5,060	4,768	4,069	—	4,284	—	—	543,715	326,827
Loss on derecognition of property, plant and equipment	158	205,095	7	49	353	117	—	—	—	—	518	205,261
Operating lease rentals in respect of land use rights	18,138	17,779	—	—	—	—	—	—	—	—	18,138	17,779

9. REVENUE AND OTHER INCOME

Revenue mainly represents toll income from the operation of expressways, the operation of service area business, the provision of advertising services, and the provision of road maintenance services, net of relevant revenue taxes.

An analysis of revenue and other operating income is as follows:

	2005 Rmb'000	2004 Rmb'000
Toll operation income	**3,350,670**	3,066,954
Service area businesses income	**230,183**	183,637
Advertising business income	**48,045**	41,159
Road maintenance income	**2,568**	7,244
	3,631,466	3,298,994
Loss: Revenue taxes	**(175,081)**	(167,001)
Revenue	**3,456,385**	3,131,993
Gain (loss) on disposal of investments held for trading/investments/unrealised loss on investments	**13,795**	(23,400)
Gain on fair value changes on investments held for trading	**20,187**	(12,758)
Interest income	**40,151**	12,514
Rental income	**45,341**	22,941
Trailer income	**20,318**	18,352
Exchange gains, net	**18,461**	220
Others	**27,694**	23,777
Other income	**185,947**	41,646
	3,642,332	3,173,639

The Company and its subsidiaries are subject to the business tax, levied at 3% and 5% on toll income and 3% to 5% on other services income. In addition, the subsidiaries are subject to the following types of revenue taxes and surcharge:

– city development tax, levied at 1% to 7% of business tax;

– education supplementary tax, levied at 3.5% to 4% of business tax; and

– culture and education fees, levied at 3% on advertising income.

10. FINANCE COSTS

	2005 Rmb'000	2004 Rmb'000
Interest on bank loans wholly repayable within five years	29,768	50,253
Interest on other loans	34,528	11,804
Interest on bonds	42,900	41,400
Total interest	107,196	103,457
Less: Interest capitalised	(5,853)	–
	101,343	103,457

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5% (2004: 5%) to expenditure on qualifying assets.

11. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2005 Rmb'000	2004 Rmb'000
Depreciation	535,015	305,882
Operating lease rentals in respect of:		
-land use rights (including in operating costs)	18,138	17,779
Auditors' remuneration	2,165	2,167
Staff costs (including directors and supervisors):		
-Wages and salaries	138,678	117,979
-Pension scheme contributions	10,419	11,228
	149,097	129,207
Amortisation of expressway operating rights*	8,700	8,700
Amortisation of goodwill**	—	12,245
Loss on derecognition of property, plant and equipment	518	205,261
Share of tax of associates (included in share of profits of associates)	6,717	5,930
Share of tax of a jointly-controlled entity (included in share of profit of a jointly-controlled entity)	8,181	5,845

* The amortisation of expressway operating rights for the year is included in "Operating costs" in the consolidated income statement.

** The amortisation of goodwill for the year is included in "Other expenses" in the consolidated income statement.

12. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group had no taxable profits in Hong Kong during the year.

The Group was subject to enterprise income tax ("EIT") levied at a rate of 33% of taxable income based on income for financial reporting purposes prepared in accordance with the laws and regulations in the PRC.

	2005 Rmb'000	2004 Rmb'000
Group		
Tax charged	654,471	556,566
Tax refunded	—	(34,372)
	654,471	522,194
Deferred (note 25)	37,895	20,555
Tax charge for the year	692,366	542,749

The tax charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2005		2004	
	Rmb'000	%	Rmb'000	%
Profit before tax	2,264,662		1,899,206	
Tax at the statutory tax rate	747,338	33.0	626,738	33.0
Tax effect of share of profits of associates	(2,382)	(0.1)	(2,998)	(0.2)
Tax effect of share of profit of a jointly-controlled entity	(5,374)	(0.2)	(6,475)	(0.3)
Tax refunded	—	—	(34,372)	(1.8)
Tax exemption of a subsidiary	(51,408)	(2.3)	(36,914)	(1.9)
Tax effect of income not subject to tax	(12,337)	(0.5)	(13,451)	(0.7)
Tax effect of expenses not deductible for tax	16,529	0.7	10,221	0.5
Tax charge and effective tax rate	692,366	30.6	542,749	28.6

12. INCOME TAX EXPENSE (Continued)

In 2005, according to the approvals from the Zhejiang Provincial Local Tax Bureau, Zhejiang Shangsan Expressway Co., Ltd. ("Shangsan Co"), one of the Company's subsidiaries, was entitled to a 30% EIT exemption for the year ended December 31, 2005 under the category of "Enterprise providing employment opportunities to redundant workers with a minimum of three-years employment term" as defined in the relevant national tax rules. As a result, the tax exemption for the year ended December 31, 2005 amounted to Rmb51,408,000 has been applied directly to reduce the EIT for the year in 2004. The tax refund received by Shangsan Co in 2004 for the year ended December 31, 2003 amounted to Rmb27,004,000 and a tax exemption for the year ended December 31, 2004 amounted to Rmb36,914,000, respectively.

In 2004, according to the approvals from the Zhejiang Provincial National Tax Bureau, Zhejiang Expressway Investment Development Co., Ltd. ("Development Co") and Zhejiang Expressway Vehicle Towing and Rescue Service Co., Ltd ("Service Co"), two of the Company's subsidiaries, were entitled to a 100% EIT exemption for the year ended December 31, 2003 and accordingly received tax refund amounting to Rmb6,554,000 and Rmb814,000, respectively, under the category of "New enterprises providing employment opportunities to redundant urban workers" as defined in the relevant national tax rules.

13. DIRECTORS AND SUPERVISORS' REMUNERATION

The emoluments paid or payable to each of the 9 (2004: 9) directors were as follow:

	Geng Xiaoping Rmb'000	Fang Yunti Rmb'000	Xuan Daoguang Rmb'000	Zhang Jingzhong Rmb'000	Zhang Luyun Rmb'000	Zhang Yang Rmb'000	Tung* Cheechen Rmb'000	Zhang* Junsheng Rmb'000	Zhang* Liping Rmb'000	Ma Kehua Rmb'000	Fang Zhexing Rmb'000	Zhen Qihua Rmb'000	Jiang Shaozhong Rmb'000	Sun Xiaoxia Rmb'000	Total Rmb'000
2005															
Salaries, allowances and benefits in kind	606	461	403	252	4	3	152	33	151	3	4	3	3	—	2,078
Bonuses paid and payble	265	203	173	111	—	—	—	—	—	—	—	—	—	—	752
Pension scheme contributions	11	11	8	—	—	—	—	—	—	—	—	—	—	—	30
Total emoluments	882	675	584	363	4	3	152	33	151	3	4	3	3	—	2,860
2004															
Salaries, allowances and benefits in kind	533	402	360	207	4	3	152	33	152	3	3	1	3	—	1,856
Bonuses paid and payable	233	177	154	96	—	—	—	—	—	—	—	—	—	—	660
Pension scheme contributions	11	10	7	—	—	—	—	—	—	—	—	—	—	—	28
Total emoluments	777	589	521	303	4	3	152	33	152	3	3	1	3	—	2,544

* Independent non-executive directors

The emoluments of each of the directors for both years were below HK$1,000,000 (equivalent to Rmb1,040,000). Bonuses to directors are determined by the Remuneration Committee of the Company, comprises three independent non-executive directors.

There was no arrangement under which a Director or a Supervisor waived or agreed to waive any remuneration during the year.

14. FIVE HIGHEST PAID EMPLOYEES

	2005 Rmb'000	2004 Rmb'000
Salaries, allowances and benefits in kind	**2,056**	1,747
Bonuses paid and payable	**899**	765
Pension scheme contributions	**41**	39
	2,996	2,551

The five highest paid employees during the year included four (2004: four) directors, details of whose remuneration are set out in note 13 above, as well as a non-director employee, whose remuneration for the year was less than HK$1,000,000.

15. DIVIDENDS

The final dividend of Rmb15 cents per share has been proposed by the directors and is subject to approval by the shareholders in annual general meeting.

16. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to equity holders of the Company for the year of Rmb1,431,192,000 (2004: Rmb1,225,699,000) and the 4,343,114,500 ordinary shares (2004: 4,343,114,500 ordinary shares) in issue during the year.

There were no potentially dilutive ordinary shares in the years ended December 31, 2005 and 2004.

As a result of the adoption of new and revised HKFRS (note 3), the earnings per share for the year ended December 31, 2005 would increase by Rmb28.22 cents to Rmb32.95 cents.

There was no impact to the earnings per share for the year ended December 31, 2004.

17. PROPERTY, PLANT AND EQUIPMENT

	Land Rmb'000	Expressways and bridges Rmb'000	Toll stations and ancillary facilities Rmb'000	Communications and signalling equipment Rmb'000	Motor vehicles Rmb'000	Machinery and equipment Rmb'000	Construction in progress Rmb'000	Total Rmb'000
Cost:								
At January 1 2004								
As originally stated	531,810	11,686,549	357,428	213,511	107,833	189,860	543,267	13,630,258
Effect of change in accounting policy	(531,810)		(3,151)					(534,961)
At January 1 2004 as restated	—	11,686,549	354,277	213,511	107,833	189,860	543,267	13,095,297
Additions	—	5,123	5,808	17,532	17,685	18,405	905,003	969,556
Transfers	—	40,041	15,608	57,515	—	399	(113,563)	—
Reclassifications	—	—	—	42,132	—	(42,132)	—	—
Disposals	—	(212,607)	(4,029)	(7,938)	(1,945)	(2,387)	(49)	(228,955)
At beginning of 2005:	—	11,519,106	371,664	322,752	123,573	164,145	1,334,658	13,835,898
Additions	—	6,939	6,149	13,431	13,589	39,597	1,314,074	1,393,779
Transfers	—	1,682,484	11,817	166	—	3,940	(1,698,407)	—
Reclassifications	—	—	37	4,274	450	(4,761)	—	—
Disposals	—	—	—	(946)	(2,860)	—	—	(3,806)
At December 31, 2005	—	13,208,529	389,667	339,677	134,752	202,921	950,325	15,225,871
Accumulated depreciation:								
At January 1 2004								
As originally stated	105,464	719,723	53,795	87,142	58,678	67,840	—	1,092,642
Effect of change in accounting policy	(105,464)	—	(611)	—	—	—	—	(106,075)
At January 1 2004 as restated	—	719,723	53,184	87,142	58,678	67,840	—	986,567
Depreciation provided during the year	—	174,256	12,103	93,702	11,244	14,577	—	305,882
Reclassifications	—	—	—	10,319	—	(10,319)	—	—
Disposals	—	(15,833)	(351)	(2,320)	(1,576)	(1,406)	—	(21,486)
At beginning of 2005	—	878,146	64,936	188,843	68,346	70,692	—	1,270,963
Depreciation provided during the year	—	455,862	12,393	40,401	11,128	15,231	—	535,015
Reclassifications	—	—	(275)	124	4	147	—	—
Disposals	—	—	—	(493)	(2,219)	—	—	(2,712)
At December 31, 2005	—	1,334,008	77,054	228,875	77,259	86,070	—	1,803,266
Carrying values:								
At December 31, 2005	—	11,874,521	312,613	110,802	57,493	116,851	950,325	13,422,605
At December 31, 2004	—	10,640,960	306,728	133,909	55,227	93,453	1,334,658	12,564,935

The property, plant and equipment are mainly located in the PRC.

18. PREPAID LEASE PAYMENTS

	2005 Rmb'000	2004 Rmb'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong:		
Medium-term lease	**405,586**	423,724
Analysis for reporting purposes as:		
Current asset	**18,138**	18,138
Non-current asset	**387,448**	405,586
	405,586	423,724

The amount represents the prepayment of rentals under operating lease for "land use rights" situated in the PRC for a period of 30 years.

19. GOODWILL

The amounts of the goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Rmb'000
Cost:	
At January 1, 2004, and January 1, 2005	126,593
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 2)	(41,121)
At January 1, 2005 as restated and at December 31, 2005	85,472
Accumulated amortisation:	
At January 1, 2004	28,876
Provided during the year	12,245
At January 1, 2005	41,121
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 2)	(41,121)
At December 31, 2005	—
CARRYING VALUES:	
At December 31, 2005	85,472
At December 31, 2004	85,472

19. GOODWILL (Continued)

Until 31 December, 2004, goodwill was amortised over its estimated useful life of thirty years.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

During the year ended December 31 2005, management of the Group determines that there are no impairment of goodwill on investments in subsidiaries.

The recoverable amount of the subsidiaries, namely Zhejiang Jiaxing Expressway Co., Ltd. and Zhejiang Shangsan Expressway Co., Ltd., which are engaged in toll operation. Determined from value in use calculations of the respective subsidiaries. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to toll revenue and direct costs during the period. To calculate this, cash flow projections are based on financial budgets approved by management covering a five-year period and a discount rate of 15%. No growth rate has been assumed beyond the five-year period.

20. INTERESTS IN ASSOCIATES

	2005 Rmb'000	2004 Rmb'000
Unlisted investments, at cost	**189,471**	135,971
Share of post-acquisition profits, net of dividend received	**36,535**	42,683
	226,006	178,654
Amount due from(to) an associate	**865**	(1,910)
	226,871	176,744

The amount due from (to) an associate is unsecured, interest-free and repayable within one year.

20. INTERESTS IN ASSOCIATES (Continued)

Particulars of the associates as at December 31, 2005 are as follows:

Name	Form of business structure	Place of registration and operations	Percentage of equity interest attributable to the Group		Principal activities
			2005	2004	
			%	%	
Zhejiang Expressway Petroleum Development Co., Ltd.	Corporate	The PRC	50	50	Construction and operation of gas stations and the sale of petroleum products
JoinHands Technology Co., Ltd.	Corporate	The PRC	27.58	27.58	Providing logistic management and anti-counterfeiting systems in the PRC
Zhejiang Concord Property Investment Co., Ltd.	Corporate	The PRC	22.95	22.95	Investment and construction on real estates
Hangzhou Yuhang Communication Time Plaza Co., Ltd.	Corporate	The PRC	15.3	15.3	Investment and construction on real estates
Zhejiang Jiashao Expressway Co., Ltd.	Corporate	The PRC	35	—	Construction and Management of the Jiashao Expressway

The directors consider the carrying amount of amount due from (to) an associate approximates its fair value.

21. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	2005 Rmb'000	2004 Rmb'000
Unlisted investments, at cost	**65,000**	65,000
Share of post-acquisition profits, net of dividend received	**20,202**	18,925
	85,202	83,925
Amount due to a jointly-controlled entity	**(5,295)**	(4,113)
	79,907	79,812

The amount due to a jointly-controlled entity is unsecured, interest-free and repayable on demand.

The directors consider the carrying amount of amount due to a jointly-controlled entity approximates its fair value.

Particulars of the jointly-controlled entity as at December 31, 2005, which is directly held by the Group, are as follows:

Name	Form of Business structure	Place of registration and operations	Percentage of interest held by the Group interest	Profit sharing	Principal activities
Hangzhou Shida Expressway Co., Ltd.	Corporate	The PRC	50%	50%	Construction and operation of Shiqiao-Dajing Road

22. AVAILABLE-FOR-SALE INVESTMENTS

	2005 Rmb'000	2004 Rmb'000
Unlisted equity investments, at cost	**1,000**	1,000

The above unlisted investments represent investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimated is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

23. LONG/SHORT TERM INVESTMENTS

At December 31, 2004, long term investments of Rmb1,000,000 which were stated at cost and short term investments of Rmb76,447,000 which were stated at market value were reclassified as available-for-sale investments and investments held for trading respectively at January 1, 2005.

24. EXPRESSWAY OPERATING RIGHTS

	Rmb'000
Cost:	
At January 1, 2004, December 31, 2004 and December 31, 2005	261,000
Accumulated amortisation:	
At January 1, 2004	55,055
Provided during the year	8,700
At December 31, 2004	63,755
Provided during the year	8,700
At December 31, 2005	72,455
Net book value:	
At December 31, 2005	188,545
At December 31, 2004	197,245

The above expressway operating rights were granted by the Zhejiang Provincial Government to the Group for a period of 30 years. During the 30-year expressway concession period, the Group has the rights of construction and management of Shanghai-Hangzhou-Ningbo Expressway and Shangsan Expressway and the toll-collection rights thereof. The Group is required to construct, maintain and operate the expressways in accordance with the regulations promulgated by the Ministry of Communication and relevant government authorities.

25. DEFERRED TAXATION

The movement in deferred taxation during the year is as follows:

	Non-deductible loss on derecognition of property, plant and equipment Rmb'000	Restatement of investments held for trading Rmb'000	Straight-line method tax depreciation Rmb'000	Total Rmb'000
Group				
At January 1, 2004	—	8,399	317,304	325,703
Deferred tax charged (credited) to the income statement during the year (note 12)	(38,319)	(12,609)	71,483	20,555
At December 31, 2004	(38,319)	(4,210)	388,787	346,258
Deferred tax charged (credited) to the income statement during the year (note 12)	38,319	7,176	(7,600)	37,895
At December 31, 2005	—	2,966	381,187	384,153

The following is the analysis of the deferred tax balance (after offset) for financial report purpose:

	2005 Rmb'000	2004 Rmb'000
Deferred tax assets	—	42,529
Deferred tax liabilities	384,153	388,787

The Group has no significant potential deferred tax liabilities for which provision has not been made.

26. LOAN TO AN ASSOCIATE

Loan to an associate was unsecured, carried fixed interest at 10% per annum and fully repaid on February 1, 2006.

The directors consider the carrying value of loan to an associate approximates its fair value.

27. TRADE RECEIVABLES

An aged analysis of the trade receivable as at the balance sheet date, based on invoice date, is as follows:

	2005 Rmb'000	2004 Rmb'000
Within 1 year	20,470	25,636
1 to 2 years	1,274	933
	21,744	26,569

The Group allows an average credit period of approximately 180 days to its trade customers.

The directors consider the carrying value of trade receivables approximates its fair value.

28. OTHER RECEIVABLES

	2005 Rmb'000	2004 Rmb'000
Prepayments	21,793	26,989
Entrusted loan to a related party (note)	260,000	260,000
Entrusted loan to a third party (note)	–	10,000
Deposits and other debtors	34,445	84,028
	316,238	381,017

Notes:

The amounts represented indirect loans to entities through an authorised lending institution. Interest income from such loans is accrued at the interest rate specified in the loan agreement. The entrusted loans carry fixed interest rate of 6.55% per annum are receivable within one year therefore it is presented under current assets.

The directors consider the carrying value of other receivables approximates its fair value.

29. INVESTMENTS HELD FOR TRADING

	2005 Rmb'000	2004 Rmb'000
Listed in the PRC, at market value:		
Government bonds	**588,137**	617,381
Close-end equity funds	**23,960**	59,066
	612,097	676,447

The fair values of the above held for trading investments are determined based on the quoted market bid price at year end date.

At December 31, 2005, the Government bonds (being the treasury bonds issued by the PRC Government) of an approximate aggregate amount of RMB587 million were held in the Company's investment account with Kinghing Securities Co., Ltd. ("Kinghing Securities"). Prior to the date of the Agreements (details set out in note 44), Kinghing Securities had pledged the Government bonds as security for certain third party repo trading transactions entered into by it through the Shanghai branch of the PRC Securities Registration and Clearing Co., Ltd. without prior notification to nor consent from the Company. Subsequent to the pledging of the Government bonds, Kinghing Trust Investment Co., Ltd. ("Kinghing Investment"), the largest equity owner of Kinghing Securities at the relevant time, had misappropriated funds of Kinghing Securities such that Kinghing Securities currently does not have sufficient funds to settle the relevant repo trading transactions, and as a result, the security over the Government bonds may be enforced. In light of the above circumstances, the Company has decided to participate in the restructuring of Kinghing Securities, through which additional RMB600 million capital contribution will be injected by Shangsan Co (a subsidiary of the Company) into Kinghing Securities, to enable Kinghing Securities to settle the repo trading transactions and to obtain the release of the security over the Government bonds beneficially owned by the Company. The Rmb 600 million capital injection to Kinghing Securities by Shangsan Co will be financed by internal funds of Shangsan Co. As of the date of this report such pledge on the Government bonds has been released.

30. CASH AND BANK BALANCES

	2005 Rmb'000	2004 Rmb'000
Cash and bank balances	**569,431**	538,079
Time deposits with original maturity of less than three months when acquired	**154,082**	183,920
Time deposits with original maturity over three months when acquired	**105,632**	81,740
	829,145	803,739

Time deposits carry fixed interest rates of 1.5-2.5%. The fair value of bank deposits at December 31, 2005 approximates to the corresponding carrying amount.

31. TRADE PAYABLES

An aged analysis of the trade payable as at the balance sheet date, based on invoice date, is as follows:

	2005 Rmb'000	2004 Rmb'000
Within 1 year	**368,672**	262,085
1 to 2 years	**26,786**	10,037
2 to 3 years	**3,211**	20,930
Over 3 years	**3,552**	4,161
	402,221	297,213

The directors consider the carrying value of trade payables approximates its fair value.

32. OTHER PAYABLES AND ACCRUALS

	2005 Rmb'000	2004 Rmb'000
Accruals	**80,277**	82,022
Other liabilities	**232,444**	198,014
Amounts due to related parties (note 35)	**12,151**	12,151
Amount due to ultimate holding company (note 36)	**2,599**	2,599
	327,471	294,786

The directors consider the carrying value of other payables and accruals approximates its carrying value.

33. INTEREST-BEARING BANK AND OTHER LOANS

	2005 Rmb'000	2004 Rmb'000
Bank loans, unsecured	**630,000**	570,000
Other loans, unsecured	**804,737**	873,462
	1,434,737	1,443,462
Bank loans repayable:		
Within one year	**630,000**	570,000
Other loans repayable:		
Within one year	**256,540**	217,892
In the second year	**87,871**	89,943
In the third to fifth years, inclusive	**289,744**	287,904
Beyond five years	**170,582**	277,723
	804,737	873,462
	1,434,737	1,443,462
Portion classified as current liabilities	**(886,539)**	(787,892)
Long term portion	**548,198**	655,570

The bank loans are unsecured and carry fixed interest at rates ranging from 4.7% to 5.58% per annum.

The other loans are unsecured and carry fixed interest at rates ranging from 3.00% to 4.59% per annum and repayable by semi-annual instalment, with the last instalment to be fall due in October 2015.

The directors consider that the carry amount of the bank loans approximates the fair value.

The bank and other loans of the Group that are denominated in currency other than RMB are USD90,721,000 (2004: USD96,621,000).

34. LONG TERM BONDS

	2005 Rmb'000	2004 Rmb'000
Long term bonds - listed in the PRC	**1,000,000**	1,000,000

The bonds are unsecured, bear interest at a fixed rate of 4.29% per annum and are repayable in 2013 upon maturity.

The fair value of the long term bonds estimated by discounting their future cash flows at the prevailing market borrowing rates at the balance sheet date for similar borrowings of 5% were approximate to its carrying amount.

35. AMOUNTS DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, interest-free and repayable on demand.

The directors consider the carrying value of amounts due to related parties approximates its fair value.

36. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount due to ultimate holding company (i.e. the Communications Investment Group) is unsecured, interest-free and repayable on demand.

The directors consider the carrying value of amount due to ultimate holding company approximates its fair value.

37. ISSUED CAPITAL

	2005 Number of shares	2004 Number of shares	**2005 Rmb'000**	2004 Rmb'000
Registered, issued and fully paid:				
Domestic shares of Rmb1.00 each	**2,909,260,000**	2,909,260,000	**2,909,260**	2,909,260
H Shares of Rmb1.00 each	**1,433,854,500**	1,433,854,500	**1,433,855**	1,433,855
	4,343,114,500	4,343,114,500	**4,343,115**	4,343,115

There were no movements in issued capital during both years.

The domestic shares are not currently listed on any stock exchange.

The H Shares have been listed on the Stock Exchange since May 15, 1997, and were admitted to the Official List on May 5, 2000. Dealings in the H Shares on the London Stock Exchange commenced on the same day.

On February 27, 2001, the trading of the H Shares of the Company commenced on the Berlin Stock Exchange following a secondary listing on the Unofficial Regulated Market of the exchange.

On February 14, 2002, the United States Securities and Exchange Commission, following the approval by the Board of Directors and the China Securities Regulatory Commission, declared the registration statement in respect of the ADSs evidenced by ADRs representing the deposited H Shares of the Company effective.

All the domestic shares and H Shares rank pari passu with each other as to dividends and voting rights.

38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before tax to net cash inflow from operating activities:

	2005 Rmb'000	2004 Rmb'000 (restated)
Profit before tax	2,264,662	1,899,206
Adjustments for:		
Share of profits of associates	(7,217)	(9,086)
Share of profit of a jointly-controlled entity	(16,285)	(19,622)
Depreciation	535,015	305,882
Operating lease rentals in respect of land use rights	18,138	17,779
Amortisation of expressway operating rights	8,700	8,700
Amortisation of goodwill	—	12,245
Interest income	(40,151)	(12,514)
Finance costs	101,343	103,457
(Gain) loss on investment		
Held for trading/investments	(20,187)	12,758
Exchange gains, net	(18,461)	(220)
Loss on derecognition of property, plant and equipment	518	205,261
Operating cash flows before movements in working capital	2,826,075	2,523,846
Increase in inventories	(30)	(3,360)
Decrease (increase) in trade receivables	4,825	(4,798)
Increase in other receivables	(258,672)	(329,548)
(Increase) decrease in amount due from an associate	(2,775)	1,921
Increase (decrease) in trade payables	49,917	(82,401)
Increase (decrease) in other taxes payable	7,436	(3,603)
(Decrease) increase in other payables and accruals	(31,606)	43,712
Increase in amount due to a jointly-controlled entity	1,182	2,364
Cash generated from operations	2,596,352	2,148,133
Interest paid	(107,196)	(112,240)
Income tax paid	(505,905)	(526,560)
Net cash from operating activities	1,983,251	1,509,333

39. RETIREMENT BENEFIT SCHEMES

The employees of the Group are members of the state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No forfeited contributions are available to reduce the contribution payable in the future years.

40. COMMITMENTS

CAPITAL COMMITMENTS

	2005 Rmb'000	2004 Rmb'000
Contracted, but not provided for:		
– Construction of expressways	**1,458,933**	2,078,001
– Purchase of machinery	**–**	–
– Proposed investments in Shangsan Co.	**485,000**	485,000
– Proposed investments in Jiashao Co	**1,110,375**	–
– Decoration of office	**–**	2,693
– Renovation of a service area	**–**	1,371
	3,054,308	2,567,065
Authorised, but not contracted for:		
– Purchase of machinery	**87,250**	72,459
– Construction of expressways	**945,277**	1,592,196
	4,086,835	4,231,720

41. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at the balance sheet date.

42. OPERATING LEASE ARRANGEMENTS

The Group as lessor

The Group lease their oil stations and cables under operating lease arrangements, with leases negotiated for terms ranging from five to twenty five years. Rental receivables comprise a base amount plus an incremental contingent rental. Contingent rentals are based on sales volume of the lessee. Contingent rental income for the year ended December 31, 2005 amounted to Rmb 11,723,000 (2004: Nil).

As at December 31, 2005, the Group had total future minimum lease rental receivables under non-cancelable operating leases falling due as follows:

	2005 **Rmb'000**	2004 Rmb'000
Within one year	**19,395**	8,912
In the second to fifth years, inclusive	**43,728**	13,764
Beyond five years	**28,659**	30,162
	91,782	52,838

43. RELATED PARTY TRANSACTIONS

The following are the related party transactions in the daily operating activities of the Group.

(a) On June 20, 2005, the Group signed a loan contract with the limitation of Rmb50,000,000 with Huaxia Bank Hangzhou Gaoxin Branch to provide guarantee for the liabilities of the Zhejiang Expressway Investment Development Co.Ltd from March 31, 2005 to March 31, 2006. By December 31, 2005, the loan balance was Rmb 50,000,000; On November 18, 2005, the group signed a loan contract with the limitation of Rmb150,000,000 to provide guarantee for the liabilities of the Zhejiang Expressway Investment Co.Ltd from November 18, 2005 to November 18, 2005. By December 31, 2005, the loan balance was Rmb80,000,000.

(b) On November 17, 2005, the Group signed an entrusted loan contract with Zhejiang Jinji Property Co. Ltd ("Jinji Co"), a subsidiary of the Zhejiang Communication Investment Group Co.,Ltd. According to the contract, the bank agreed to provide a half-year loan of Rmb260,000,000 to Jingji Co. on behalf of the group. The rate of the loan was 6.55% for the half year. The loan was secured by the Zhejiang Communication Investment Group Co.,Ltd.

(c) According to decisions of the temporary shareholder's conference of Zhejiang Expressway Investment Development Co. Ltd on December 30, 2004, the company entrusted China Guangda Bank Hangzhou Zhaohui branch to provide a loan of Rmb46,000,000 to the Zhejiang Concord Property Investment Co. Ltd, from January 6, 2005 to January 6, 2006 with a rate of 10% per annum. The loan was paid back on January 6, 2006; According to the temporary shareholder's conference of Zhejiang expressway investment Development Co. Ltd on January 27, 2005, the company entrusted China Guangda Bank Hangzhou Zhaohui branch to provide a loan of Rmb70,000,000 to the Zhejiang Concord Property Investment Co. Ltd, from February 1, 2005 to February 1, 2006 with a rate of 10% per annum. The loan was paid back on January 24, 2006. According to the temporary shareholder's conference of Zhejiang Expressway Investment Development Co. Ltd on May 30, 2005, the company entrusted China Guangda Bank Hangzhou Zhaohui branch to provide a loan of Rmb100,000,000 to Zhejiang Concord Property Investment Co. Ltd from July 1, 2005 to December 30, 2005. The loan was paid back on December 30, 2005.

43. RELATED PARTY TRANSACTIONS (Continued)

(d) On December 1, 2005, the Zhejiang Expressway Investment Development Co. Ltd signed the "Huhangyong, Shangsan service area consignment operating contract" with the Zhejiang Expressway Petroleum Development Co. Ltd. The contract is as follows: the operating right of service areas for Huhangyong and Shangsan are consigned to the Zhejiang Expressway Petroleum Development Co. Ltd. The contract was effective for the service area of Jiaxin, Shaoxin, Yuyao, Xinchang, Tiantai from January 1, 2004 and from January 1, 2006 for the service area of Shengzhou. The contract will be applicable for the service area of Changan from December 30, 2008 after its completion which is now still under construction. Moreover, the operating right for the service area of Xinchang is now consigned to SINOPEC Zhejiang Shaoxin petroleum branch for the time being.

(e) The Group had loan advanced to an associate during the year ended December 31, 2005. Details of the advance are set out in not 26.

According to the above contracts, the receivable due of the entrusted operation income from service area of Shaoxin, Yuyao, Jiaxin, Xinchang, Tiantai was Rmb29,782,000 by the year end 2005.

Transactions and balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under the Communication, Investment Group which is controlled by the PRC government. Apart from the transactions with the Communications Investment Group and other related parties, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In addition the Group has entered into various transactions, including deposits placements borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

In view of the Group's toll road business, the directors are of the opinion that it is impracticable to ascertain the identity of counterparties and accordingly whether the transactions are with other state-controlled entities in the PRC.

44. POST BALANCE SHEET EVENT

On April 20, 2006, Shangsan Co, a subsidiary of the Company, entered into the several agreements (the "Agreements") to acquire in aggregate a 70.46% equity interest (the "Acquisitions") in Kinghing Securities.

As consideration for each of the Acquisitions, Shangsan Co will participate in the restructuring of Kinghing Securities, which will involve, among other things, Shangsan Co injecting in aggregate Rmb600 million new capital into Kinghing Securities for itself and on behalf of certain holders of equity interests in Kinghing Securities in proportion to their respective interests in Kinghing Securities, in several installments by April 30, 2006. Certain of the equity holders in Kinghing Securities have provided undertakings in writing to Shangsan Co to repay Shangsan Co the amounts of capital contributed by Shangsan Co on their behalf respectively, in an aggregate amount of Rmb108 million, by assigning to Shangsan Co their rights to receive future dividends from Kinghing Securities, until their repayment obligations are discharged in full.

Completion of each of the Acquisitions is conditional upon the Agreements being approved by (i) the equity owners of Kinghing Securities as required under its articles of association and (ii) the China Securities Regulatory Commission ("CSRC"). As at the date of this report, the approval from the equity owners of Kinghing Securities has been obtained. The approval from the CSRC is expected to be obtained in May 2006 and completion of the Acquisitions is expected to take place following the obtaining of the CSRC's approval.

In addition, the 11.41% equity interest in Kinghing Securities being acquired by Shangsan Co from Kinghing Investment is subject to the completion of enforcement of the PRC Court Judgment dated April 19, 2006 ordering the transfer of such equity interest from a third party to Kinghing Investment. The enforcement of the PRC Court Judgment is currently expected to be completed on or before May 31, 2006.

Kinghing Securities is a limited liability company established under PRC laws and is licensed to carry out certain securities related businesses.

The Acquisitions contemplated under the Agreements, in aggregate, constitute a discloseable transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange Rules.

45. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries, all of which are directly held, are as follows:

Names of subsidiaries	Date and place of registration	Registered capital Rmb	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Zhejiang Yuhang Expressway Co., Ltd. ("Yuhang Co")	Note 1	75,223,000	51	–	Construction and management of the Yuhang Section of the Shanghai-Hangzhou Expressway
Zhejiang Jiaxing Expressway Co., Ltd. ("Jiaxing Co")	Note 2	1,859,200,000	99.999454	–	Construction and management of the Jiaxing Section of the Shanghai-Hangzhou Expressway
Zhejiang Shangsan Expressway Co., Ltd. ("Shangsan Co")	Note 3	2,400,000,000	73.625	–	Construction and management of the Shangsan Expressway
Zhejiang Expressway Investment Development Co., Ltd. ("Development Co")	Note 4	80,000,000	51	–	Operation of service areas as well as roadside advertising along the expressways operated by the Group
Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co")	Note 5	1,000,000	–	*35.7	Provision of advertising services
Zhejiang Expressway Vehicle Towing and Rescue Service Co., Ltd. ("Service Co")	Note 6	8,000,000	–	*43.35	Provision of vehicle towing, repair and emergency rescue service
Hangzhou Roadtone Advertising Co., Ltd. ("Roadtone Co")	Note 7	3,000,000	–	*26.01	Provision of advertising services

* These three companies are subsidiaries of Development Co, a non wholly-owned subsidiary of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

45. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Note 1: Yuhang Co was established on June 7, 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on November 28, 1996.

Note 2: Jiaxing Co was established on June 30, 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on November 29, 1996.

Note 3: Shangsan Co was established on January 1, 1998 in the PRC as a limited liability company.

Note 4: Development Co was established on May 28, 2003 in the PRC as a limited liability company.

Note 5: Advertising Co was established on June 1, 1998 in the PRC as a limited liability company.

Note 6: Service Co was established on July 31, 2003 in the PRC as a limited liability company.

Note 7: Roadtone Co was established on July 27, 2004 in the PRC as a limited liability company.

All of the Company's subsidiaries are operating in the PRC.

Corporate Information

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Geng Xiaoping (Chairman)
Fang Yunti (General Manager)
Zhang Jingzhong
Jiang Wenyao

NON-EXECUTIVE DIRECTORS

Zhang Luyun
Zhang Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tung Chee Chen
Zhang Junsheng
Zhang Liping

SUPERVISORS

Ma Kehua
Fang Zhexing
Zheng Qihua
Jiang Shaozhong
Wu Yongmin

COMPANY SECRETARY

Zhang Jingzhong

AUTHORISED REPRESENTATIVES

Geng Xiaoping
Zhang Jingzhong

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PRINCIPAL BANKERS

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China Construction Bank, Zhejiang Branch
Shanghai Pudong Development Bank,
Hangzhou Branch

H SHARE REGISTRAR AND TRANSFER OFFICE

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46th Floor, Hopewell Centre
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Hong Kong

H SHARES LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Code: 0576

London Stock Exchange plc
Code: ZHEH

ADRS INFORMATION

US Exchange: OTC
Symbol: ZHEXY
CUSIP: 98951A100
ADR: H Shares 1:30

CORPORATE BOND LISTING INFORMATION

The Shanghai Stock Exchange
Symbol: 03 滬杭甬
Code: 120308

Location Map of Expressways Operated by the Group