



Chairman's Statement

Practicing Good Corporate Governance Pursuing Growth in Shareholder Value

2001 was a satisfactory year. By relying on profit contributions from new expressway projects and strong growth in traffic volume from existing expressways, the Company achieved a double-digit profit growth for the fifth consecutive year. In *Asiamoney's* 2001 Best Managed Companies poll, the Company was nominated as one of the top ten China companies in the categories of "Best Overall Managed Company", "Best Overall Investor Relations" and "Treatment of Minority Shareholders". It was in fact the fourth time the Company was nominated into the lists by investors. Recently, *The ASSET* magazine published the results of a survey regarding corporate governance among Asian companies, and the Company was nominated as one of the best companies in the PRC. This achievement is partly attributable to a favorable operating environment, but more importantly, attributable to a quality focused management team with clear vision and a strategy of steady growth concentrating on core businesses. While the above nominations are recognitions of our achievement, we believe that there is room for us to grow and to strive to attain even better results.

We believe that the primary duty of the Directors and management of the Company is to maintain sustained growth in shareholder value. Good corporate governance will enhance the Company's trustworthiness, sense of responsibility and transparency, thereby bringing direct benefits to both investors and the Company. As a result, over the past few years, we have actively implemented the principles of good corporate governance and view such efforts as a long-term responsibility for the Company's management.

The Company has enhanced the independence of the Board of Directors by appointing additional independent non-executive directors. The Company appointed two independent non-executive directors upon the establishment of the Company, and since March 2000, the number of independent non-executive directors of the Company has increased to three, representing one third of the members of the Board. The introduction of independent directors enables the Board to make more fair and prudent decisions. In addition, an Audit Committee, a Strategy Committee and a Nomination and Remuneration Committee have also been set up under the Board, thereby making the operation of the Board more effective.

Huajian, a subsidiary of the China Merchants Group, officially became the second largest substantial shareholder of the Company, thereby reducing the shareholding of Provincial Investment Co in the Company from 67% to 56%. We believe that an appropriate dilution of State-owned shares is conducive to the improvement of corporate governance.

Under the request of Zhejiang provincial government on the reorganisation of State-owned assets, Provincial Investment Co will be replaced by the newly established Communications Investment Group. As a result, all of the shares in the Company previously held by Provincial Investment Co will be transferred to the Communications Investment Group. Communications Investment Group is one of the State-owned asset management companies established by Zhejiang provincial government, responsible for the management of the State-owned assets of Zhejiang provincial government in the communications industry. I myself have been appointed as Managing Director of Communications Investment Group. I am confident that Communications Investment Group will provide strong support to the future development of the Company.

I have been Chairman and General Manager of the Company for the past five years. Such an arrangement was beneficial for the management and development of the Company when it was at an infant stage. Now that the Company is operating smoothly, I believe that separating the roles of Chairman and General Manager will be beneficial to the Company's long-term development. When I was re-elected as General Manager of the Company at the Board Meeting on February 28, 2000, I indicated that these positions should be separated when the time was right.

Chairman's Statement (Cont'd)

The time has now arrived. On the one hand, a solid operating mechanism and a sound corporate culture are now in place to ensure that the Company will continue to operate on the right track and will be adaptable to changes. On the other hand, the emerging corporate governance practice, both domestically and overseas, requires the separation of the roles of Chairman and General Manager. I believe that the separation of the two roles will enhance the demarcation of the different duties of these two positions, thereby serving to clearly distinguish the duties between the board of directors and management.

I have resigned as General Manager of the Company, but will continue to serve as Chairman. I believe that in this way I will be able to devote more time to focus on the planning of the long-term development of the Company. I shall continue to provide direction at the Board of the Company and to give my best efforts to enhance shareholder value.

I am very pleased to inform you that the position of General Manager of the Company will be taken up by Mr. Fang Yunti. Mr. Fang has many years of experience in the management of expressway and transportation operations, and participated in the establishment of the Company. He has been a Director and Deputy General Manager of the Company for the past five years, and is fully acquainted with the overall business operations of the Company. I believe that under the leadership of the Board, the new management will be able to deliver further growth and realize even better returns to shareholders, customers and staff.

Finally, I would like to express my sincerest gratitude to all of our staff and stakeholders for their support and assistance during my office as General Manager.

Geng Xiaoping

Chairman

March 13, 2002

