



Management Discussion and Analysis

Business Review

The Operating Environment

In the face of a global economic slowdown in 2001, the economies in the PRC in general and Zhejiang Province in particular were able to sustain high growth rates, albeit at a slower pace than in the previous year. In 2001, national and provincial GDP grew by 7.3% and 10.5% respectively, compared to 8.0% and 11.0% in 2000.

GDP Growth Rate: The PRC Vs Zhejiang Province

	The PRC GDP		Zhejiang Province GDP	
	(RMB bil.)	% growth	(RMB bil.)	% growth
2001	9,593	7.3	670	10.5
2000	8,940	8.0	603	11.0
1999	8,191	7.1	537	10.0
1998	7,835	7.8	499	10.1
1997	7,446	8.8	464	11.1

Source: China Statistical Year Book and Periodical Announcements

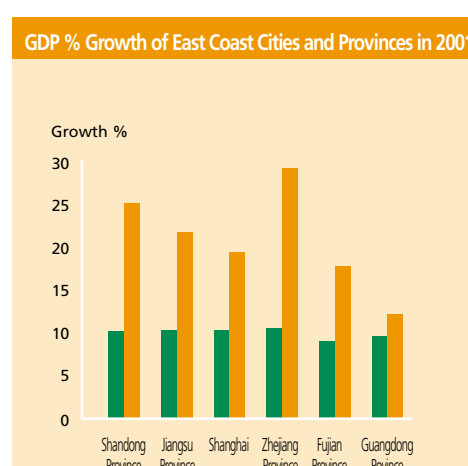
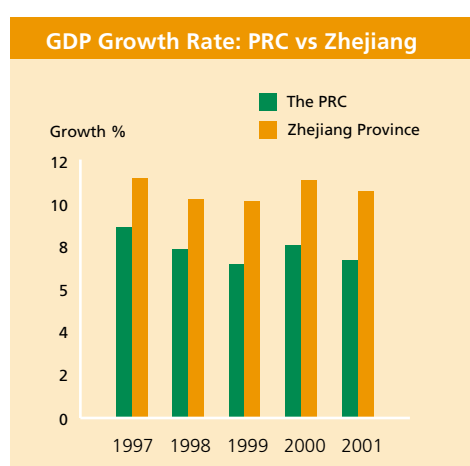
The unrivaled growth was most evident in the cities and provinces situated along the east coast of the PRC. Once again, leading the cities and provinces in economic performance was Zhejiang Province where all of the Company's business operations are carried out.

Economic Performance of East Coast Cities and Provinces in 2001

	GDP Total (RMB mil.)	% growth	Total Export (USD mil.)	% growth
Shandong Province	943,830	10.1	18,478	14.8
Jiangsu Province	951,460	10.2	29,388	11.4
Shanghai	495,084	10.2	26,865	9.0
Zhejiang Province	670,000	10.5	24,261	18.5
Fujian Province	425,800	9.0	14,790	8.6
Guangdong Province	1,055,600	9.5	95,829	2.6

Source: China Statistical Year Book and Media Reportings

A major contributing factor to economic growth was the growth in imported and exported goods. During the Period, total imported and exported goods attributable to Zhejiang Province was valued at US\$32.8 billion, a growth of 17.8% over 2000, compared with the national growth of 7.5%. The province's export growth rate of 18.5% was the highest among the east coast cities and provinces for the third consecutive year.



Management Discussion and Analysis (Cont'd)

Reflecting the robust economic environment was the sale of motor vehicles in the PRC, which had another record year of growth in 2001, especially with regard to sales to private consumers. It was reported that, in 2001, the total number of vehicles manufactured by the 103 major car manufacturers in China was 2.33 million, and the number of vehicles sold was 2.36 million, representing increases of approximately 12.8% and 13.3% over the previous year respectively. Half of these vehicles were sold to private consumers. The number of sedans manufactured and sold was 703,500 and 721,500, respectively, representing year-on-year growth of 16.4% and 18.3% respectively.

To properly serve an increasing number of motor vehicles is a constant challenge for the country's road system. In 2001, the total mileage of operational expressways in the PRC increased by 3,017km to approximately 19,000km, with another 2,500km earmarked to be operational by the end of 2002.

Having a more direct impact on the Company's business environment was the increasing enhancement of the expressway network within Zhejiang Province, which saw its total mileage of operational expressways extend from 627km to 770km during the year.

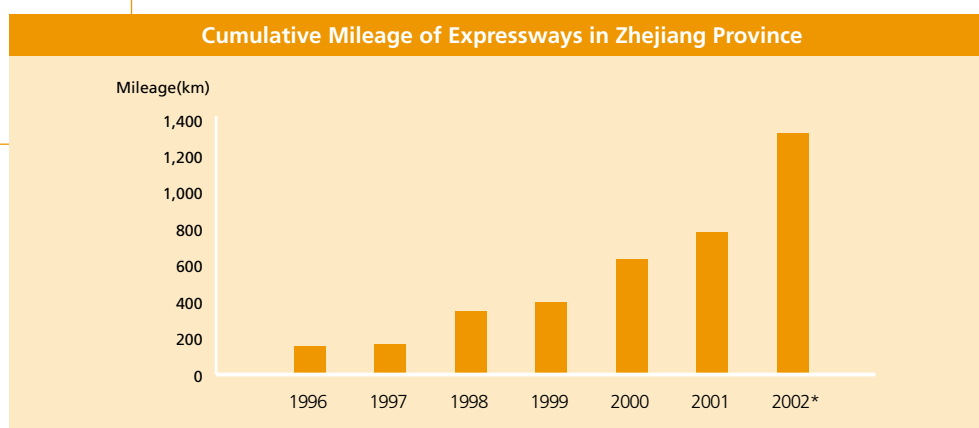
More mileage of expressways is expected to be completed in the province by the end of 2002 as a result of increased investments in infrastructure.

Cumulative Mileage of Expressways in Zhejiang Province

	1996	1997	1998	1999	2000	2001	2002
Mileage (km)	158	168	344	392	627	770	1,310*

* Forecast figure

The combination of growth in the national and provincial economies, together with growth in the number of motor vehicles and the length of operational expressways, provided an all-round favorable business environment for the Group's business operations.



* forecast

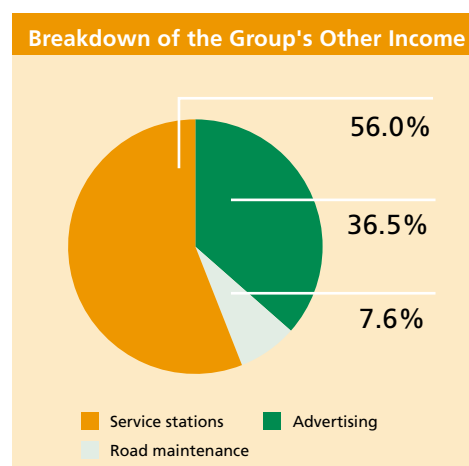
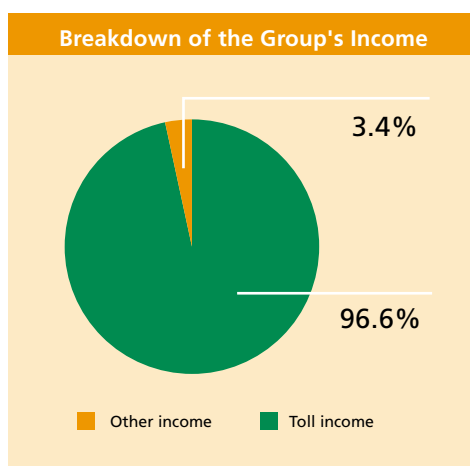
Analysis of Business Operations

During the Period, the Group recorded a turnover of RMB1,722.5 million, representing an increase of 44.9% over 2000. Net profit attributable to shareholders was RMB760.6 million, representing an increase of 19.6% over 2000.

The core business operation of toll roads continued to dominate the Group's turnover. Of the total turnover of RMB1,722.5 million for the Period, RMB1,663.4 million or 96.6% was from toll road operations, with the remainder mainly from advertising along expressways, road maintenance works provided to third parties and services provided at service stations along the expressways.

	2001 RMB'000	2000 RMB'000	% Change
Toll income	1,756,265	1,219,672	44.0
Other incomes			
Advertising	22,462	15,878	41.5
Road maintenance	4,649	5,130	-9.4
Service stations, etc	34,465	15,582	121.2
	1,817,841	1,256,262	
Revenue taxes	(95,324)	(67,658)	40.9
Turnover	1,722,517	1,188,604	44.9

For further analysis on the business segments, please refer to Note 5 to the financial statements.



Toll Road Operations

Following Shangsang Expressway's completion and opening to traffic on December 26, 2000, toll income for the Group during the Period grew strongly by 44.0% over the same period last year to reach RMB1,756.3 million.

Toll Income Contribution by Expressway/Section

	Toll Income RMB'000	% of Total Toll Income	% of Growth Over 2000
Shanghai-Hangzhou Expressway			
Jiaxing section	506,463	28.8%	30.0%
Yuhang section	115,560	6.6%	14.1%
Hangzhou section	36,062	2.1%	16.0%
Hangzhou-Ningbo Expressway	780,106	44.4%	18.3%
Shangsang Expressway	318,074	18.1%	732.7%
Total	1,756,265	100.0%	44.0%



The significant growth in toll income was also attributable to the adoption of a new vehicle classification policy, which started on June 13, 2001. This effectively decreased the percentage of the smaller class 1 vehicles by 9.0%, while increasing the percentage of the larger class 2 and 3 vehicles by 6.7% and 1.9% respectively on the Shanghai-Hangzhou-Ningbo Expressway.

Vehicle Makeup on Shanghai-Hangzhou-Ningbo Expressway in 2001

Class Vehicles	% Before June	% After June	Change in %
1 Passenger vehicles with up to 20 seats; Trucks with tonnage of 2 tons or below	69.9	60.9	-9.0
2 Passenger vehicles with seats above 20 and below 40 (inclusive); Trucks with tonnage of above 2 tons and below 5 tons (inclusive)	19.8	26.5	6.7
3 Passenger vehicles with seats above 40; Trucks with tonnage of above 5 tons and below 10 tons (inclusive)	9.0	10.8	1.9
4 Trucks with tonnage above 10 tons and below 20 tons (inclusive)	1.3	1.7	0.4
5 Trucks with tonnage above 20 tons and below 50 tons (inclusive)	0.1	0.1	0.0

Due to higher fees charged for larger vehicles, the new vehicle classification policy directly increased the average toll collected per vehicle by approximately 9.5% on the Shanghai-Hangzhou-Ningbo Expressway, and by approximately 9.0% on the Shangsang Expressway.

With increasing mileage of expressways completed and opened to traffic within Zhejiang Province, a province-wide integrated toll collection system came into effect on December 25, 2001. The Shanghai-Hangzhou-Ningbo Expressway and the Shangsang Expressway were incorporated into this toll collection system.

The new toll collection system, managed by the Provincial Integrated Toll Collection Center (省聯網收費中心) under the Provincial Roadway Authority (浙江省公路管理局), aims to integrate the toll collection and distribution of all expressways in the province into one centralized system. With the integrated toll collection system, expressway users who travel across different but inter-connected expressways, which are independently operated, need only stop and pay the usage fees once, upon leaving the expressway system.

Management Discussion and Analysis (Cont'd)

Shanghai-Hangzhou-Ningbo Expressway

Toll income on the Shanghai-Hangzhou-Ningbo Expressway grew by 21.7% during the Period as compared with 2000 to reach RMB1,438.2 million, representing approximately 81.9% of the Group's total revenue. The corresponding average daily full trip traffic volume grew by 15.9% over 2000, details of which are set out below:

Monthly Average Daily Full Trip Traffic Volume in 2001

Mileage (km) Month	Shanghai-Hangzhou Expressway						Hangzhou-Ningbo Expressway	
	Hangzhou section (3.4km)		Yuhang section (11.1km)		Jiaxing section (88.1km)		Expressway (145.0km)	
	vehicles per day	YoY %	vehicles per day	YoY %	vehicles per day	YoY %	vehicles per day	YoY %
January	29,915	2.68	29,092	2.19	16,964	10.23	16,274	-4.41
February	33,606	50.15	32,485	48.71	17,915	40.28	17,329	26.55
March	37,262	18.75	36,257	18.74	20,491	23.57	18,982	7.13
April	37,264	9.88	36,389	10.28	21,277	16.54	19,237	2.32
May	36,504	10.57	35,682	10.83	21,232	16.83	18,965	3.90
June	34,123	11.68	33,382	12.48	20,467	23.15	18,273	8.90
July	33,347	10.13	32,553	10.63	20,198	22.04	17,761	10.34
August	36,344	14.07	35,536	14.72	22,398	28.65	18,942	14.27
September	39,446	13.87	38,519	14.82	24,061	35.88	20,179	12.96
October	37,865	14.41	36,950	14.63	23,070	30.49	19,609	13.68
November	38,290	15.40	37,186	15.03	22,940	30.03	20,230	18.90
December	37,038	12.08	35,716	11.19	21,796	24.73	19,790	17.42
Average	35,917	15.31	34,979	15.35	21,067	25.20	18,798	11.00



An issue of concern for the Company during the year was to maintain a relatively high level of service for expressway users, while accommodating the growing traffic volume. In addition to putting increased efforts into the maintenance of road surfaces and bridges, a number of measures were taken by the Company to improve the quality of operational management.

The computer main board used in toll collection was upgraded to reduce processing time at toll stations, as a result of which incidents of road congestion were reduced by approximately 21% through streamlining the traffic monitoring and control system on the expressway.

A further development welcomed by expressway users was the May 2001 launch of the rechargeable non-contact prepaid IC card used in paying toll charges. The new card offers further flexibility and convenience to frequent users, in addition to reducing error rates as well as improving the level of reliability of the collection system and safeguarding of toll income.

The unusual surge in traffic volume on the Jiaxing section during the second half of the year was due in part to traffic diversions from the parallel section of Nation Road 320 which was partially closed off for repairs and renovation during that time. The effect is considered to be temporary, and is not expected to last into 2002.

Shangsan Expressway

2001 was the first year of operation since the expressway was fully completed and opened to traffic in December 2000. Daily full trip traffic volume grew steadily from an average of 7,901 during the first half of the year to 8,695 during the second half of the year. Daily average full trip traffic volume for the year was 8,301.

With toll income contribution of approximately RMB318 million in 2001, representing 18.1% of the Group's total toll income, Shangsan Expressway has become a significant contributor to the Group in both revenue and net profit.

The performance in traffic volume and toll income was generally in line with the latest forecast conducted by the Company's traffic consultant. This was despite a higher occurrence of partial road closure due to expressway traffic accidents as well as adverse weather conditions during the Expressway's first year of full operation.

Shida Road

Traffic volume on Shida Road benefitted from an increasingly enhanced expressway network, as well as persistent efforts by Shida Co in promoting the use of Shida Road through traffic radio broadcastings and installation of road signs. Average daily traffic volume on Shida Road grew by 65% to reach 6,767 vehicles, while toll income grew by 74.3% to reach RMB19.2 million.

Management Discussion and Analysis (Cont'd)

Despite its toll income growth, Shida Co nevertheless recorded a loss of RMB5.0 million due to substantial interest payments and depreciation charges. The loss for the year was reduced by 67.9% as compared to the loss of approximately RMB15.6 million during the same period in 2000. The company is expected to break even by the end of 2002.

Other Businesses

In addition to carrying out advertising business along expressways through a subsidiary, the Group is also involved in the retail sale of petroleum products, as well as the design and marketing of logistics management and anti-counterfeiting systems through two associates, details of which are set out below.

Advertising Co

During the Period, Advertising Co further expanded advertising along the expressways operated by the Group through flexible pricing and incentive marketing strategies. Turnover from Advertising Co was approximately RMB21.2 million, representing an increase of approximately 46.2% over 2000.

Net profit realized by Advertising Co during the Period was approximately RMB7.3 million, representing a reduction of 43.0% over 2000. The reduction was due to the first time levy of enterprise income tax, from which the company has been exempted for the past two years.

Petroleum Co

With a new emphasis on retail sales of petroleum products, Petroleum Co was able to record a 21% growth in retail sales amid increasing retail competition and substantially reduced wholesale business.

However, mainly due to a revocation in corporate income tax exemptions which the Company had enjoyed over the past two years, Petroleum Co suffered a loss of approximately RMB10.4 million for the Period.



JoinHands Technology

Following the completion of a successful trial phase in Zhejiang Province, JoinHands Technology has begun to market its core-technology in logistics management and anti-counterfeiting systems in a number of other provinces with an aim of becoming a leading player in the market.

Turnover realized during the Period was approximately RMB24.9 million, while net profit was approximately RMB6.9 million, compared to RMB6.25 million and RMB0.25 million respectively in 2000.

Human Resources

As at December 31, 2001, the Group had a total of 1,959 employees, of whom 342 were administrative staff, 136 were engineering technicians, and 1,481 were toll collection and maintenance staff.

The Company has consistently strived to improve the overall quality of staff through active human resource management. The objective is reflected in its selective training courses organized for existing employees, as well as in its hiring practices.

Considering the need for well-rounded management staff, the Company will be conducting periodic rotations in management posts in 2002 to provide different exposures offered by the various positions.

Remuneration to staff is devised on a competitive basis, with dual emphasis on job performance and work experience. In addition, the Company has set up an incentive policy under which a portion of the bonus paid to middle and senior management relates to the price performance of the Company's shares.



Project Acquisition

In light of the favorable economic growth prospects and the potential growth in expressway traffic in Zhejiang Province, the Company remains focused in its development strategy of acquiring toll road projects within Zhejiang Province, with a preference for operational projects.

Through arm's length negotiations with relevant parties, the Company was able to successfully increase its stake in Jiaxing Co, which is the holding company of the Jiaxing section of the Shanghai-Hangzhou Expressway, details of which are set out below:

- On June 4, 2001, the Company entered into agreements to acquire a 2.1% and a 1.0% interest in the capital of Jiaxing Co from Jiaxing Xiuzhou Yitong Development Company (嘉興市秀洲區益通開發公司) and Jiashan County Yintong Company Limited (嘉善縣銀通有限公司) for a consideration of RMB63,249,984 and RMB30,119,040, respectively.
- Subsequently, on December 27, 2001, the Company entered into agreements to acquire a 1.5% and a 1.3% interest in the capital of Jiaxing Co from Haining Hengtong Development Company (海寧恒通開發公司) and Tongxiang Huatong Company (桐鄉市華通總公司) for a consideration of RMB44,620,800 and RMB38,671,400, respectively.
- And finally on January 18, 2002, the Company entered into an agreement to further acquire 9.9% interest in the capital of Jiaxing Co from Jiaxing Road and Bridge Construction and Development Company (嘉興市路橋建設開發公司) for a consideration of RMB303,700,000.

In addition to the above, the Company entered into an agreement on December 27, 2001 to acquire a 2% equity interest in Shangsang Co from Shengzhou Shangsang Development Company Limited (嵊州市上三發展有限公司) for a consideration of RMB57,600,000.

Through the above-mentioned transactions, the Company increased its stake in Jiaxing Co from 84.19% to 99.99% in aggregate, and in Shangsang Co from 61% to 63%, for a total consideration of RMB537,961,224.

Project under Construction

Construction work to expand a 44km section of the Shanghai-Hangzhou-Ningbo Expressway between Hongken and Guzhu from four lanes to six lanes progressed in accordance with the work schedule. During the Period, soft soil ground treatment and most of the roadbed buildup works were completed along the expansion route.

The Company took extensive measures to minimize inconveniences to road users brought on by the construction. As a result, the overall effect on the flow of traffic on existing lanes was not significant.

Financial Analysis

The Group adopts a financial policy characterized by being both proactive and prudent. The Directors and senior management review the Group's liability portfolio from time to time, and make adjustments whenever they deem necessary, to establish an effective and stable capital structure. In view of the Group's future profitability, the Directors and senior management also make prudent investment decisions from time to time with an aim to achieve long-term stable growth for the Group.

Return on Equity

The return on equity for the period (before charging the distributable dividends) is 8.2% (2000: 7.1%) representing an increase of 15.5% over the previous period:

	2001 RMB mil.	2000 RMB mil.
Net profit attributable to shareholders	760.6	636.0
Shareholders' equity (proposed final dividend not deducted)	9,289.1	8,962.1
Return on equity	8.2%	7.1%

The growth in return on equity is mainly due to:

1. the opening of Shangsang Expressway to traffic;
2. the natural growth in vehicle flow on the Shanghai-Hangzhou-Ningbo Expressway;
3. the favourable classification policy for vehicles; and
4. a one-off net gain arising from the advance repayment of the World Bank loan amounting to RMB27.8 million.

Liquidity

As the Group is principally engaged in toll road operations, the Group generates strong and steady cash inflows from its ordinary operations.

	2001 RMB mil.	2000 RMB mil.	% Increase
Daily average toll fee revenue	4.8	3.3	45.5%
Net cash inflow from operations	1,603	1,040	54.1%

The amount of trade receivables, other receivables and inventories of the Group is small. As at December 31, 2001, of the current assets of RMB1,950,483,000 in aggregate, trade receivables, other receivables and inventories represented approximately 6% (December 31, 2000: 6%).

The Company plans to raise approximately RMB1 billion by issuing not more than 300,000,000 A shares in the PRC.

As a result of these factors, in the opinion of the Board, the Group should not experience any liquidity problems in the foreseeable future.

Capital Expenditure Commitments

In 2001, the capital expenditure of the Group was approximately RMB560,000,000 of which the capital expenditure of the Company was approximately RMB210,000,000.

As at December 31, 2001, the Group and the Company planned that in 2002 and thereafter, there would be capital expenditure commitments of RMB2,589,625,000 and RMB2,068,945,000 respectively.

Details of Expenditure Commitments

	Group RMB mil.	Company RMB mil.
1st stage of the project to widen the Shanghai-Hangzhou-Ningbo Expressway (Hongken to Guzhu section)	273.6	273.6
2nd stage of the project to widen the Shanghai-Hangzhou-Ningbo Expressway (Shenshi to Hongken section)	860.0	860.0
Acquisition of additional 18.4% equity interest in Shangsang Co.	485.0	485.0
Remaining construction works of the Shangsang Expressway	485.3	—
Construction works under Contract No. 11 of the Shanghai-Hangzhou Expressway	35.4	—
Acquisition of additional stake in Shangsang Co	57.6	57.6
Acquisition of additional stake in Jiaying Co	387.0	387.0
Others	5.7	5.7
Total	2,589.6	2,068.9

In particular, capital expenditure marked for 2002 and 2003 are RMB1,055.3 million and RMB350.0 million respectively for the Group.

The above capital expenditure will firstly be financed by the Group's internal financial resources, and any shortfall will be financed by new equity issue, bank loans and other appropriate means.

Capital Structure

The Group's capital structure as at December 31, 2001, and the comparative figures for the corresponding period in 2000 are as follows:

	2001		2000	
	RMB'000	%	RMB'000	%
Shareholders' equity	9,289,081	64.2%	8,962,135	61.4%
Fixed rate liabilities	2,093,569	14.5%	1,668,069	11.4%
Floating rate liabilities	935,440	6.5%	1,778,529	12.3%
Interest-free liabilities	2,159,448	14.9%	2,177,687	14.9%
Total	14,477,538	100.0%	14,586,420	100.0%
Gearing ratio 1		55.9%		62.8%
Gearing ratio 2		15.3%		18.0%

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

The Directors believe that the current gearing ratio is relatively low, thus allowing room for obtaining debt financing for the future development of the Group.



Management Discussion and Analysis (Cont'd)

Financial Resources and Financing Arrangements

As at December 31, 2001 the Group held RMB1,831,212,000 in cash and cash equivalents, time deposits and other short-term investments, details of which are set out below:

	December 31	
	2001	2000
	RMB'000	RMB'000
Cash and cash equivalent	434,771	1,323,513
RMB	365,110	390,449
US\$ in RMB equivalent	7,393	932,337
Euro in RMB equivalent	56,991	0
HK\$ in RMB equivalent	5,277	727
Time deposits	384,255	390,821
RMB	260,579	273,764
US\$ in RMB equivalent	92,731	111,754
Euro in RMB equivalent	24,259	0
HK\$ in RMB equivalent	6,686	5,303
Short term investments	1,012,186	377,965
RMB	1,012,186	377,965
Total	1,831,212	2,092,299
RMB	1,637,875	1,042,178
US\$ in RMB equivalent	100,124	1,044,091
Euro in RMB equivalent	81,250	0
HK\$ in RMB equivalent	11,963	6,030

The average interest rates during the period for bank deposits in Renminbi, US dollars, Euro and Hong Kong dollars were approximately 1.5%, 4.0%, 4.1% and 3.6% respectively.

Short-term Investments

Short-term investments in low risk marketable securities were carried out by the Group as part of its treasury management to maximize returns on funds temporarily idle while limiting investment risks.

As at December 31, 2001, the market value of the remaining short-term investments for the Group was RMB1,012,186,000. The distribution of investments is summarized as follows:

	December 31	
	2001	2000
	RMB'000	RMB'000
Government bonds	733,724	156,525
Convertible bonds	160,614	99,485
Close-end equity investment funds	97,810	121,955
Open-end equity investment funds	20,038	—
Total	1,012,186	377,965

In 2001, profit before taxation derived from short-term investments was approximately RMB105,522,000 (2000: RMB153,566,000), and the corresponding average rate of return on investments was approximately 10% (2000: 12%).

Borrowings

As at December 31, 2001, the interest-bearing borrowings profile of the Group are summarized as follows:

	Maturity Profiles			
	Gross Amount	Within 1 year	2-5 years Inclusive	Beyond 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
Floating rates				
World Bank loan	935,440	77,809	296,692	560,939
Fixed rates				
Commercial bank loans	1,655,500	1,510,500	145,000	—
Policy loans	238,069	32,469	200,800	4,800
Corporate bonds	200,000	—	200,000	—
Total as at December 31, 2001	3,029,009	1,620,778	842,492	565,739
Total as at December 31, 2001	3,446,598	1,831,817	948,328	666,453

During the Period, the interest rates of all borrowings of the Group were not materially different to those in 2000. In particular, the floating rate of World Bank loans in US dollars ranged between 5.11% and 8.76%; the interest rate of commercial bank loans in Renminbi ranged between 5.022% and 5.643%, with the average interest rate of approximately 5.22%. The interest rate of policy loans in Renminbi ranged between 3% and 5.5% and the interest rate of corporate bonds was 3.78%. The average interest rate of all borrowings of the Group was approximately 5.23% in 2001.

Ratio of Gains to Interests

The interest expenses for the Period was RMB218,045,000 (2000: RMB224,318,000) while the profit before tax but before interests was approximately RMB1,038,429,000 (2000: RMB849,659,000). The ratio of profit to interests was 4.8 (2000: 3.8).

	2001 RMB'000	2000 RMB'000
Profit before tax	1,038,429	849,659
Interest expenses	218,045	224,318
Ratio of profit to interests	4.8	3.8

Foreign Exchange Exposure

With the Company's advance repayment of the World Bank loan denominated in US dollars during 2001, as at December 31, 2001, the Group's liabilities in foreign currency mainly represent a World Bank loan borrowed for the construction of Shanghai-Hangzhou Expressway of approximately US\$113 million.

In addition, the Company's dividends for H Shares are settled in HK dollars.

Currently, the exchange rate of RMB is stable and the Directors do not anticipate any material foreign exchange exposure to the Group. However, there can be no assurance that the foreign exchange exposure will not affect the operating results of the Group.

Contingent Liability

Other than a loan guarantee provided to a jointly-controlled entity, namely, Shida Co, of RMB30 million, the Group does not have any contingent liability as at December 31, 2001.

Pledges and Guarantees of Assets

As at December 31, 2001, the details of pledged and guaranteed assets of the Company are set out below:

The Company provided a guarantee of RMB200 million in respect of corporate bonds issued by Shangsang Co in November 2000. The maturity of the bonds is 3 years with an annual interest rate of 3.78%. The principal and the interest have to be paid in a lump sum when they fall due.

The Company has provided a guarantee of RMB565 million in respect of bank loans to Shangsan Co from February 2001 to July 2004, and has provided a guarantee of RMB30 million in respect of bank loans to Shida Co from September 2001 to September 2007 .

Shangsan Co has provided a guarantee of RMB280 million in respect of bank loans to the Company from February 2001 to February 2002.

Other than the guarantees above, the Company does not have any other guarantees and pledges of assets.

Restructuring of State-owned Shares

The transfer of 476,760,000 State-owned shares of the Company, representing approximately 11% of the issued share capital of the Company, from Provincial Investment Co to Huajian on December 28, 2000 was approved by the Ministry of Foreign Trade and Economic Cooperation of the PRC on December 26, 2001. Accordingly, Provincial Investment Co's interest in the issued capital of the Company is reduced from approximately 67% to 56%, while the remaining approximate 33% interest held by overseas investors remains unchanged.

Pursuant to a notice (Zhe Zheng Fa [2001] No. 42) issued by Zhejiang provincial government dated July 2, 2001, Provincial Investment Co will be replaced by Communications Investment Group, a newly formed State-owned enterprise under the provincial asset management authority, as the parent company holding approximately 56% of the issued share capital of the Company. The replacement of Provincial Investment Co by Communications Investment Group is subject to the approval of and registration with the relevant government authorities.

The change in the Company's parent company is part of a province-wide restructuring of State-owned assets by the Zhejiang provincial government aimed at improving the effectiveness in the management of designated State-owned assets. Details of the change were set out in the Company's announcement dated January 21, 2002.

The Hong Kong Securities and Futures Commission has confirmed that Communications Investment Group will not be obliged to make a general offer for all the issued shares of the Company upon the completion of the proposed change.

Level-I ADR Program

The Board authorized the establishment of a Level-I ADR program sponsored by the Company on October 30, 2001, with the aim of enhancing the liquidity of the Company's H Shares as well as broadening the Company's investor base.

The Company's sponsored Level-I ADR program is maintained by The Bank of New York, as depositary, pursuant to a deposit agreement dated February 14, 2002, among the Company, The Bank of New York, as depositary, and all owners and beneficial owners of ADRs representing deposited H Shares of the Company. No new shares of the Company will be issued in connection with the Level-I ADR program.

The Registration Statement in respect of the ADSs evidenced by the ADRs was declared effective by the U.S. Securities and Exchange Commission on February 14, 2002. The ADSs are traded on the over-the-counter market in the United States. Investors who wish to participate in the Company's ADR program are advised to consult with their professional advisors.

Proposed Issue of A Shares

The volatility of the Chinese stock market during the second half of 2001 resulted in the postponement of the Company's plan to issue not more than 300 million A Shares for the funding of the 1st and 2nd stages of the project to widen the Shanghai-Hangzhou-Ningbo Expressway.

The Board has resolved to seek a further approval from the shareholders of the Company for the plan in the upcoming annual general meeting scheduled to be held on April 30, 2002.

Outlook for 2002

2001 was an eventful year for China, capped with its successful entry into the World Trade Organization in November, a development that has been anticipated with both excitement and anxiety across the country.

Nowhere was the news more welcomed than in Zhejiang Province, where the economy is dominated by small to medium-sized non-State-owned enterprises eager to join the global competition.

While the forecast GDP growth rate for Zhejiang Province is slightly lower in 2002 when compared to the past few years, the growth rate in traffic volume on expressways operated by the Group overall is expected to be higher than the regional GDP growth rate.

With approximately 540km of expressways expected to be completed and opened to traffic in Zhejiang Province in 2002, more kilometers than any other single year before, the need for coordination and cooperation between the various independent expressway operators is stronger than ever.

The newly implemented integrated toll collection system, though not without problems and challenges such as the standardization of toll collection procedures among the different participants during its early stage of operation, is nevertheless expected to enhance further growth in traffic volume on the expressways by providing seamless transition for users who travel across different expressways.



Management Discussion and Analysis (Cont'd)

The long awaited fuel tax may be implemented later in 2002. The move is structured to reduce government red tape by substituting the numerous administrative fees levied on vehicle owners with a flat surcharge on fuel consumption. This, combined with the immediate reduction in prices of both domestic and imported cars following China's accession to the World Trade Organization, will make owning a private car in China much more affordable than before, serving to boost traffic volume growth on the expressways.

The plan to build a new bridge across the Hangzhou Bay, linking the two major port cities of Shanghai and Ningbo, is reportedly to have obtained the central government's approval. Though no immediate impact is foreseen in the short-term on the expressways operated by the Group, the new bridge does have the potential to compete to a certain extent with the Shanghai-Hangzhou-Ningbo Expressway for traffic flow upon its completion.

The Company intends to take advantage of the improved investment environment resulting from the latest round of restructuring of State-owned assets. The Company will actively pursue potential projects to further expand its toll road portfolio within Zhejiang Province, while keeping a look out for suitable projects outside of the province.

