



## Report of the Directors

The Directors present their report and the audited financial statements of the Company and the Group for the year ended December 31, 2001.

### Principal Activities

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

### Segment Information

During the period, the entire turnover and contribution to profit from operating activities of the Group was derived from Zhejiang Province in 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 turnover and contribution to profit from operating activities by principal activity for the year ended December 31, 2001 is set out in note 4 to the financial statements.

### Results and Dividends

The Group's profit for the year ended December 31, 2001 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 59 to 105.

An interim dividend of RMB0.03 per share (approximately HK\$0.0283) was paid on October 24, 2001. The Directors recommend the payment of a final dividend of RMB0.07 per share (approximately HK\$0.0660) in respect of the year, to shareholders in the register of members on April 8, 2002. This recommendation has been incorporated into the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

## Summary Financial Information

The following is a summary of the published consolidated results, and of the assets and liabilities of the Group prepared on the basis set out in the notes below. The amounts for each of the 4 years ended December 31, 2000 in the summary have been adjusted for the effect of the retrospective changes in accounting policy affecting dividends, as detailed in note 2 to the financial statements.

### Summary of the Group's Five Years Consolidated Results

Results	Year ended December 31				
	2001 RMB'000	2000 RMB'000	1999 RMB'000	1998 RMB'000	1997 RMB'000
Turnover	1,722,517	1,188,604	1,050,498	655,069	463,692
Operating costs	(392,535)	(248,429)	(298,417)	(220,537)	(146,046)
Gross profit	1,329,982	940,175	752,081	434,532	317,646
Other revenue	216,690	242,888	167,528	234,573	197,034
Administrative expenses	(88,487)	(64,978)	(60,320)	(45,611)	(31,126)
Other operating expenses	(18,236)	(75,317)	(2,374)	(635)	(978)
Profit from operating activities	1,439,949	1,042,768	856,915	622,859	482,576
Finance costs	(215,346)	(197,083)	(172,922)	(94,741)	(110,350)
Share of profits of associates	12,396	40,584	22,559	18,982	—
Share of loss of a jointly-controlled entity	(1,459)	(6,517)	—	—	—
Profit before tax	1,235,540	879,752	706,552	547,100	372,226
Tax	(363,970)	(186,391)	(71,810)	(73,795)	(58,639)
Profit before minority interests	871,570	693,361	634,742	473,305	313,587
Minority interests	(110,957)	(57,360)	(86,431)	(68,914)	(17,255)
Net profit from ordinary activities attributable to shareholders	760,613	636,001	548,311	404,391	296,332
Earnings per share	17.51 cents	14.64 cents	12.62 cents	9.31 cents	7.77 cents

## Summary of the Group's Five Years Assets and Liabilities

Assets and liabilities	Year ended December 31				
	2001 RMB'000	2000 RMB'000	1999 RMB'000	1998 RMB'000	1997 RMB'000
Total assets	<b>14,477,538</b>	14,586,420	13,925,688	12,993,990	11,466,377
Total liabilities	<b>3,685,828</b>	4,128,921	3,868,691	3,457,029	2,529,105
Minority interests	<b>1,502,629</b>	1,495,364	1,449,432	1,245,782	667,714
Net assets	<b>9,289,081</b>	8,962,135	8,607,565	8,291,179	8,269,558

## Notes:

1. The consolidated results of the Group for the three years ended December 31, 2000, together with the pro forma consolidated results of the Group for the year ended December 31, 1997 have been extracted from the Company's 2000 annual report dated March 5, 2001, while those of the year ended December 31, 2001 were prepared based on the consolidated income statement as set out on page 60 of the financial statements.
2. The 2001 earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended December 31, 2001 of RMB760,613,000 (2000: RMB636,001,000) and the 4,343,114,500 shares (2000: 4,343,114,500 shares) in issue during the period.

## Major Customers and Suppliers

The five largest customers and suppliers contributed less than 30% of the total toll revenue and purchases, respectively, of the Group during the period. Accordingly, a corresponding analysis of major customers and suppliers is not presented.

## Connected Transactions

Details of the connected transactions of the Group (the "Connected Transactions") carried out during the period, for which the Hong Kong Stock Exchange has granted a waiver from compliance with Chapter 14 of the Listing Rules pursuant to its letter of March 10, 2000, are disclosed in note 39 to the financial statements.

The independent non-executive Directors have reviewed the Connected Transactions and confirmed that, during the period from January 1, 2001 to December 31, 2001, such transactions were:

- (i) carried out in accordance with the terms of the agreements governing each respective transaction in question;

- (ii) entered into in the usual and ordinary course of business of the Company; and
- (iii) entered into on normal commercial terms and are fair and reasonable so far as the shareholders of the Company are concerned.

Ernst & Young, the auditors of the Company (as required by the Stock Exchange in its letter of March 10, 2000), have also reviewed the said transactions and have confirmed that the independent non-executive Directors have given their approval of these transactions and that they were carried out by the Company in accordance with the terms of the agreements governing each respective transaction during the period from January 1, 2001 to December 31, 2001.

## **Fixed Assets**

Details of movements in the fixed assets of the Company and the Group are set out in note 14 to the financial statements.

## **Capital Commitments**

Details of the capital commitments of the Company and the Group as at December 31, 2001 are set out in note 36 to the financial statements.

## **Reserves**

Details of movements in the reserves of the Company and the Group during the period are set out in note 34 to the financial statements.

## **Distributable Reserves**

As at December 31, 2001, the Company's reserves available for distribution by way of cash or in kind, calculated in accordance with relevant rules and regulations, amounted to RMB634,528,000. In addition, in accordance with the Company Law of the PRC, the amount of approximately RMB3,638,229,000 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

As at December 31, 2001, the following shareholders held 10% or more of the share capital of the Company according to the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interest) Ordinance ("SDI Ordinance"):

### The Group's Substantial Shareholders

Name	Number of shares	Percentage
Provincial Investment Co*	2,432,500,000 (domestic shares)	56.01%
Huajian	476,760,000 (domestic shares)	10.98%
HKSCC Nominees Limited	1,397,795,499 (H Shares)	32.18%

\* To be replaced by Communications Investment Group

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

## Purchase, Sale or Redemption 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 period.

## Trust Deposits

As at December 31, 2001, the Company did not have any trust deposits, nor any time deposits with any financial institution in the PRC. Other than the deposit of HK\$4,956,000 (equivalent to RMB5,257,000 approximately) placed in a non-bank financial institution in Hong Kong, all of the Company's deposits have been placed with commercial banks in the PRC. The Company has not encountered any difficulty in the withdrawal of funds.

## Directors

The Directors of the Company during the period were:

### Executive Directors

Mr. Geng Xiaoping  
Mr. Fang Yunti  
Mr. Zhang Jingzhong  
Mr. Xuan Daoguang

### Non-executive Directors

Mr. Xia Linzhang  
Ms. Zhang Chunming

### Independent Non-executive Directors

Dr. Hu Hung Lick, Henry  
Mr. Tung Chee Chen  
Mr. Zhang Junsheng

## Change in Directors and Senior Management

At the meeting of the Directors held on March 13, 2002, the Directors resolved to accept the proposal by Mr. Xia Linzhang to resign from his current directorship, and submit his proposal for approval by the shareholders of the Company at the upcoming annual general meeting; the Directors also resolved to accept the proposal to elect Ms. Zhang Yang to be a non-executive (external) director of the Company, and to submit the proposal for approval by the shareholders of the Company at the upcoming annual general meeting.

At the same board meeting, the Directors resolved to accept Mr. Geng Xiaoping's proposal to resign from the post of General Manager of the Company, and resolved to appoint Mr. Fang Yunti as General Manager of the Company, and Mr. Zhang Jingzhong as Deputy General Manager of the Company. The terms of office for Mr. Fang and Ms. Zhang is from March 14, 2002 to February 28, 2003. Mr. Geng continues to serve as Chairman of the Company.

### **Directors' and Supervisors' Service Contracts**

Each of the Executive Directors and one supervisor of the Company has entered into a service agreement with the Company, with effect from February 28, 2000, 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 determinable by the Company within one year without payment of compensation other than statutory compensation.

### **Directors' and Supervisors' Interests in Contracts**

None of the Directors or Supervisors had any material interest, whether direct or indirect, in any contract of significance to which the Company, or any of its subsidiaries, fellow subsidiaries or its holding company was a party, at the end of the year or at any time during the year.

### **Directors' and Supervisors' Interests in Shares**

As at December 31, 2001, none of the Directors, Supervisors or their associates had any personal, family, corporate or other interests in any equity or debt securities of the Company or any associated corporations (as defined in the SDI Ordinance) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.

### **Directors' and Supervisors' Rights to Subscribe for Shares or Debentures**

At no time during the year was the Company or any of its subsidiaries, jointly-controlled entities, associates or fellow subsidiaries or its holding company a party to any arrangement enabling any Directors or Supervisors or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate. No rights to subscribe for shares in, or debentures of the Company have been granted by the Company to, nor have any such rights been exercised by, any person during the year and up to the date of this report.

### **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 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 forfeit any amount of the contributions that it has previously made. Hence, no forfeited contribution was used by the Group to reduce the level of its contributions during the period. During the period, contributions to registered insurance companies made by the Group under the defined contribution retirement scheme amounted to RMB6,900,000 (2000: RMB4,358,000).

### 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.

### Taxation of the United Kingdom

An individual holder of H Shares who is resident and domiciled in 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 deduction of tax the amount included as income for the purposes 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% in the case of a basic rate or lower rate taxpayer and 32.5% in the case of a higher rate taxpayer). Where tax is withheld from the dividend, credit will be given 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.

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

A holder of H Shares which is a UK tax resident company 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 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.



## Accommodation Benefits for Employees

According to the relevant rules and regulations in the PRC, the Group and its employees are each 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 7%. There are no further obligations beyond the contribution to the accommodation fund organised by local social security authorities. In 1998, in addition to the contributions made to the accommodation fund, the Company purchased apartments for a sum of RMB19 million and made a provision of RMB15.3 million in that year for the estimated loss on their disposal. As at December 31, 2001, all the apartments have been disposed and cumulative proceeds of RMB4.3 million have been received from its employees.

Save as disclosed above, the Company did not own any staff quarters nor dispose of any staff quarters during the period.

## Subsequent Events

Details of the significant subsequent events of the Group are set out in note 40 to the financial statements.

## Compliance with the Code of Best Practice

Only one full board meeting of the Directors was held by the Company during the year as opposed to no less than one such meetings every six months recommended by paragraph 1 of the Code of Best Practice set out in Appendix 14 to the Listing Rules (the "Code"). Except for the above, the Directors are of the opinion that the Company has complied with the Code throughout the accounting period covered by the annual report.

## Audit Committee

The Company has an audit committee which was established in accordance with the requirement of the Code, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive Directors and two non-executive Directors.

## Auditors

Ernst & Young will retire and a resolution for their reappointment as international auditors of the Company will be proposed at the forthcoming annual general meeting.

## Gratitude

The Board would like to take this opportunity to express its gratitude to Mr. Geng Xiaoping who served as General Manager until March 13, 2002 for his contribution to the Company.

ON BEHALF OF THE BOARD

**Geng Xiaoping**

*Chairman*

Hangzhou, Zhejiang Province, the PRC  
March 13, 2002