

BUSINESS REVIEW

Driven by a 12% GDP growth rate in Zhejiang Province of the PRC, the highest growth rate for the province since the onset of the Asian financial crisis in 1997, turnover for the Group grew strongly by 32.1% during the Period to reach Rmb995,983,000, and net profit from ordinary activities attributable to shareholders grew by 21.2% to reach Rmb446,018,000.

The core business of toll road operations, which are entirely located within Zhejiang Province of the PRC, remained the mainstay of the Group's operations, contributing to 96.7% of the Group's turnover during the Period.

Toll Road Operations

On the back of strong regional economic growth, increasingly enhanced expressway networks, a surge in passenger car sales to private owners, and effective management measures by the Company, toll income achieved by the Group grew by 30.3% during the Period to reach Rmb1,016,459,000.

Among the two major road projects, average daily full trip traffic volume and toll income on the 248 km Shanghai-Hangzhou-Ningbo Expressway grew by 20.5% and 28.0% respectively, while those of the 142 km Shangsang Expressway grew by 37.4% and 40.3% respectively.

The new vehicle classification policy adopted in mid-2001 continued to result in a higher growth rate in toll income relative to traffic volume for the first half of 2002. The new policy was aimed at prohibiting larger vehicles from being classified as smaller ones that would have paid less in toll charges.

Being the most recent one among the expressways operated by the Group to fully open to traffic, Shangsang Expressway achieved the highest rate of growth both in traffic volume and in toll income, partly because of a lower basis of comparison, and partly because of the province-wide centralized toll collection and distribution system which has enhanced the network effect of expressways.

Traffic volume growth on the Jiaying section of the Shanghai-Hangzhou-Ningbo Expressway further benefited from a diversion of traffic, especially for larger vehicles, from parallel national roads onto the expressway after toll rates on certain section(s) of these national roads were raised during the first half of the year.

The opening to traffic of Northern Hangzhou Ring Road at the beginning of the year brought a surge in traffic volume and toll income on the 9.45km Shida Road, helping Hangzhou Shida Highway Co., Ltd. ("Shida Co"), a 50% jointly-controlled entity of the Company, to achieve a net profit of Rmb276,000. This is the first time that the jointly-controlled company made a profit since its establishment in 1999.

BUSINESS REVIEW (CONT'D)

Other Business Operations

Rapid growth in traffic volume on expressways operated by the Group brought increasing demand for services in the service areas along the expressways. Among the five service areas operated by the Group, collective turnover for the Period reached Rmb30.55 million, representing an increase of 188.8% as compared to the same period in 2001, while net profit was Rmb4.94 million, representing an increase of 171.8%.

Growth in retail sale of petroleum products for Zhejiang Expressway Petroleum Development Co., Ltd., a 50% owned associate of the Company, was accompanied by a sharp reduction in its wholesale business, reflecting both opportunities and challenges brought by China's entry into the World Trade Organization. Turnover during the Period was approximately Rmb301.63 million, and net profit achieved was Rmb2.97 million, representing an increase of 212.1%.

In addition to continuing to build billboards along the Shanghai-Hangzhou-Ningbo Expressway, Zhejiang Expressway Advertising Co., Ltd., a 70% owned subsidiary of the Company, kick-started its business operation along Shangsang Expressway in the first half of this year with greater expansion of business operations expected to come in the second half of the year. During the Period, turnover was approximately Rmb10.81 million while net profit was Rmb2.65 million, representing a decrease of 33.3% due to increasing maintenance cost and decreasing gross profit margins.

JoinHands Technology Co., Ltd., a 27.58% owned associate of the Company, further expanded its technological expertise into design and consulting services for logistic centers. Turnover generated during the Period from its production and sale of POS (point-of-sale) equipment, as well as from the marketing of its two-dimensional coding technology in the tobacco and power industry was Rmb8.54 million, while net profit decreased by 20.9% to reach Rmb460,000.

BUSINESS REVIEW (CONT'D)

Expansion Works

As of the end of June 2002, the first stage of the project to widen the Shanghai-Hangzhou-Ningbo Expressway (totaling approximately 44 km) progressed ahead of schedule, with successful completion and opening to traffic of two trial sections, each 2km in length, on June 18, 2002. As construction took place along the two sides of the expressway off the traveled lanes, impact to moving traffic has been negligible.

Preparation for the second stage of the widening project, which totals approximately 40km, has been underway, and construction is expected to commence before the end of the year. Total budget for the second-stage expansion works is approximately Rmb1,055 million.

Due to the fact that the Company's plan to issue domestic ordinary shares to the public for the funding of the first and second-stage widening projects was not implemented, the Directors intend to seek alternate funding sources for the widening works, with a preference for debt financing over equity financing.