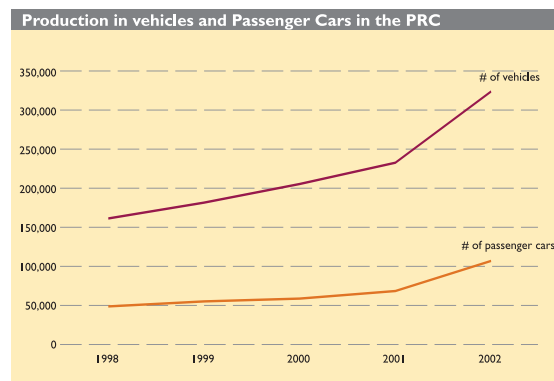


Zhejiang Province's robust economic foundation is demonstrated by the fact that twenty-four of its counties have been included among "Top 100 Counties by Economic Strength" among a total of 2,861 counties nationwide according to a national research institute, making it the province having the most number of such counties among all provinces or municipalities in China:

Number of Top 100 Counties by Economic Strength	
Province / Municipality / Autonomous Region	No. of Counties Ranked Among "Top 100"
Fujian	8
Guangdong	15
Hebei	3
Henan	2
Hubei	2
Hunan	1
Jiangsu	17
Liaoning	5
Shandong	20
Shanghai	1
Sichuan	1
Xinjiang	1
Zhejiang	24
Total	100

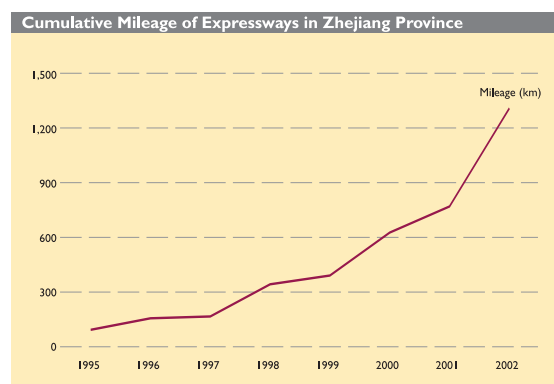
Source: Media reports

Both production and sales of passenger cars soared to new heights amid a continued build-up in optimism towards the general economy and personal wealth, coupled with increasing availability of auto financing and more new passenger car models coming into the market than ever. During the year, sales in passenger cars reached 1,058,000 nation-wide, representing an increase of 50% over 2001, the highest growth rate since 1993. Much of the increase in demand came from the private sector, as approximately 60% of the sales went to private individuals.



Source: China Statistical Year Book and media reports

As traffic in cities within Zhejiang Province is becoming increasingly congested due to the rapid increase of passenger cars, especially during rush hours, driving from city to city was made much easier by the end of the year, thanks to the substantially expanded expressway system. Following the completion and opening to traffic of an additional 537km of expressways by the end of 2002, the total mileage of expressways operational in Zhejiang Province has now reached 1,307km, linking every major city within the province to the provincial capital, Hangzhou.



Source: Media reports

The combination of the above-mentioned factors, among others, has created a generally favorable operating environment for the Group's business in 2002.



“Our operations department, as a service-providing department, is involved in a lot of aspects of work. The objective of operational work is to provide satisfactory services to our customers and to earn more income for the Company. This objective calls for carrying out our operational work with an emphasis on road safety and smooth traffic, comfortable travel conditions and quality service.”

— Ms Zhang Xiuhua, Operations Department of the Company

ANALYSIS OF BUSINESS OPERATIONS

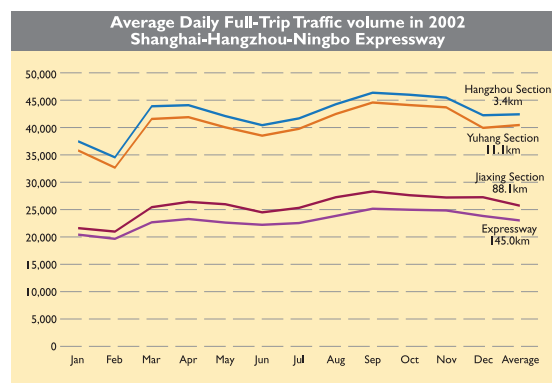
During the year, the Group's business operations continued to focus on the two major expressways: the 248km Shanghai-Hangzhou-Ningbo Expressway and the 142km Shangsang Expressway, with toll income contributing to approximately 95.5% of the Group's total income, details of which are as follows:

	2002 Rmb'000	2001 Rmb'000	% change
Toll income	2,184,197	1,756,265	+24.4
Shanghai-Hangzhou-Ningbo			
Expressway	1,745,931	1,438,191	+21.4
Shangsang Expressway	438,266	318,074	+37.8
Other income			
Advertising	27,742	22,462	+23.5
Road Maintenance	1,704	4,649	-63.3
Service Areas	73,043	34,465	+111.9
	2,286,686	1,817,841	+25.8
Revenue taxes	(118,608)	(95,324)	+24.4
Turnover	2,168,078	1,722,517	+25.9

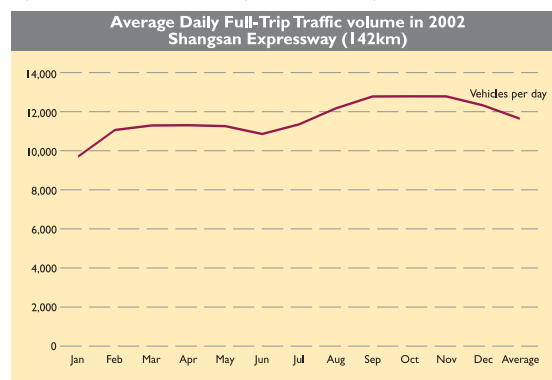
Toll Road Operations

Since the Hangzhou-Ningbo section was completed and opened to traffic in 1996 and the entire expressway became fully operational in 1998, the Shanghai-Hangzhou-Ningbo Expressway has been undergoing robust growth in both traffic volume and toll income, which had continued in 2002. Daily average full-trip traffic volume was 25,048, representing an increase of 21.6% over 2001, while toll income for the Period was approximately Rmb1,746 million, representing an increase

of 21.4% over 2001 and 79.9% of the Group's total toll income (2001: 81.9%).



Fully completed and opened to traffic in 2000, the Shangsang Expressway continued to operate at a high rate of growth in traffic volume, benefiting from both a lower basis of comparison and an increasingly enhanced expressway network within the province. During the Period, daily average full-trip traffic volume was 11,634, representing an increase of 39.8% over 2001, while toll income for the Period was approximately Rmb438 million, representing an increase of 37.8% over 2001 and 20.1% of the Group's total toll income (2001: 18.1%).



Shida Road, a 9.45km interlink owned and operated by Shida Co, enjoyed a surge in traffic volume and toll income. The surge was mainly the result of Shida Road being the only link between the northern section of the newly completed Hangzhou City Ring Road and the Shanghai-Hangzhou-Ningbo Expressway. With traffic volume growth at 72% and toll income growth at 46.8%, the jointly-controlled entity recorded its first-ever net profit for the year of approximately Rmb1.4 million (2001: - Rmb5.0 million).

Operational Management

Since mid-2001, the Company adopted a new vehicle classification standard that was aimed at correcting some larger vehicles from being classified as smaller vehicles. The continued efforts in implementing the new classification standard during the year resulted in toll income consistently growing at a higher rate than traffic volume for both expressways during the first half of the year.



Following the successful launch of pre-paid IC card system in October 1999 and a subsequent upgrade in October 2000, the system was expanded to cover the Shangsang Expressway in 2002. The system, designed to reduce cash transactions for toll collection, contributed to total sales of Rmb81.7 million for the year, representing an increase of 253% over 2001.

Zhejiang Expressway Company Limited

Measures were taken during the Period to discourage overloaded trucks from getting onto the expressways operated by the Group, as it had become apparent that the damage that such trucks did to the road surface in monetary terms costs more than the toll charges that they paid. In addition, they also slowed down traffic flow on the expressways due to their slower travel speeds.

Working in coordination with Advertising Co, the Company issued updated travel directories on the expressways under the Group's operation, in an effort to offer convenience to its expressway travelers. The Company also publicized the expressways to travelers in surrounding areas who might not be familiar with the Group's expressways.

Further measures were taken by the Company to reduce human errors in classifying vehicles on the one hand, and to improve the quality of services provided to expressway users on the other hand, through installing more monitoring and display facilities at toll stations, along the expressways and within service areas.

Road Maintenance

Commenced in the second half of 2002, the major road surface overlaying project on the Shanghai-Hangzhou-Ningbo Expressway covered a length of approximately 93km. Including sizable repairs and bridge-head differential-settlement treatments along the affected sections, the combined cost was



approximately Rmb156.0 million, in addition to the cost of Rmb33.1 million attributable to routine maintenance works.

Through careful coordination and strict site supervision, such as limiting construction works to night time in order to reduce the risk of accidents posed to expressway travelers, the Group's maintenance works did not significantly impact normal traffic flow on the expressways. Traffic volume on the Shanghai-Hangzhou-Ningbo Expressway continued to grow unimpeded, while routine maintenance cost for the Company was slightly reduced as compared to 2001 as a result of the road surface-overlying project.

Another section of Shanghai-Hangzhou-Ningbo Expressway, totaling approximately 84km, will undergo road surface-overlay in 2003 at a cost of approximately Rmb141.4 million.

Quality Control

Since the adoption of internationally recognized quality standards early in 2001 for operations directly affecting the Company's customers, the quality control system was renewed and further expanded to cover virtually all aspects of internal management in 2002. Major projects undertaken during the year, such as the expressway widening projects and the road surface-overlying projects, all passed their respective quality tests, with no major breaches in quality control or complaints recorded.

With regular internal auditing and annual external auditing on the execution of the system, the Company is confident that it is able to maintain and even improve the quality of services that it provides to its customers in a measurable manner.

Other Businesses

Service Area Operations

After the opening of two more service areas at full capacity along the Shangsang Expressway at the beginning of 2002, there are currently five service areas in operation under the Group. However, the development of the Company's service area operations still fell behind the increasing demand for such services.



The Company took measures to relieve congestion and queuing for service within the service areas, through expanding the service areas on the one hand, and separating vehicles coming in for gasoline fill-up from vehicles seeking other services such as restaurants and resting areas on the other hand. These measures have been proven to be effective.

Revenue from service areas was further enhanced with a newly implemented contract-out policy, through an open bidding process, for some of the businesses available at these service areas. The policy has significantly increased returns generated by the facilities concerned, contributing to a total revenue of approximately Rmb73.0 million for the five service areas, an increase of approximately 112% over 2001 when only three service areas were in operation.



Advertising Business

The Company further expanded its roadside billboard advertising business from the Shanghai-Hangzhou-Ningbo Expressway to the Shangsang Expressway. The business is operated by Advertising Co. Although turnover grew substantially by 23.6% to reach Rmb27.7 million for the subsidiary, net profit grew slightly by 7.0% to Rmb7.8 million, mainly due to increased costs at the initial phase of business expansion to the Shangsang Expressway, as well as increased market competition from areas surrounding the expressway.

Petroleum Co

Growing demand, as well as increasing competition in the petroleum retail market, presented both opportunities and challenges for Petroleum Co. Continued growth in retail sales contributed to a net profit for the Period of approximately Rmb16.3 million for Petroleum Co (2001: - Rmb10.4 million).



JoinHands Technology

Having expanded into the new field of design and consulting services for logistics centers, JoinHands Technology made further investments in project research and development during the year. Relying mainly upon its production and sale of POS equipment, as well as the application of two-dimensional coding

technology in the tobacco and power industries, JoinHands Technology recorded a net profit for the Period of Rmb6.8 million, a slight decrease by 1.4% as compared to 2001 due to heavier investment in research and development.

Project Investments

Acquisitions

In addition to the acquisition of a 12.7% equity interest in Jiaxing Co in December 2001 and January 2002 and a 2.0% equity interest in Shangsang Co in December 2001, for a total consideration of Rmb444.6 million in cash, the Company further entered into acquisition agreements in August 2002 to purchase from Communications Investment Group and Tiantai County Transport Development Company a 6.625% equity interest and a 2.0% equity interest, respectively, in Shangsang Co for a consideration of Rmb187.6 million and Rmb57.6 million in cash, respectively. Details of the acquisitions were disclosed in the Company's announcement dated August 20, 2002.

Widening Project

In response to the rapid expansion of the regional economy and the fast growth of expressway traffic, and in view of the decline of the average travel speed and level of service along the Shanghai-Hangzhou-Ningbo Expressway in recent years, initiatives have been undertaken to widen the expressway from its current four lanes to eight lanes ("Widening Project").

Involving a total distance of 223 km and at an estimated cost of approximately Rmb4,780 million, the overall Widening Project is expected to be completed by the end of 2007.

The initial phase of the Widening Project, from Hongken to Guzhu, pertains to approximately 44km in length. Construction of the project commenced in October 2000 and is progressing ahead of schedule with completion expected by the end of 2003. At a construction cost of approximately Rmb647 million as of the latest budget, the section is expected to be widened to eight lanes instead of six as originally planned, with emergency parking areas provided at intervals of 500 meters. A committee

of specialists and experts has approved the change in plans, with final approval by relevant authorities to be obtained later this year.

The next phase of the Widening Project, from Dajing to Fengjing, pertaining to approximately 95km and budgeted at approximately Rmb2,508 million, is being designed for widening to a standard eight-lane expressway. Construction works are expected to commence in the fourth quarter of 2003, with completion targeted by the end of 2006.



The last phase of the Widening Project, from Guzhu to Dazhujia, pertaining to approximately 84km, is budgeted at approximately Rmb1,625 million. Construction works are expected to commence in mid-2004, to be completed by the end of 2007.

Construction works will take place off the shoulders of the expressways, such that traffic flow on the traveled lanes will not be stopped. Measures have been taken so as not to significantly slow down normal traffic flow.

Among the total funding needs of approximately Rmb4.78 billion for the Widening Project, approximately Rmb2 billion will be financed by the Group's internal resources, Rmb1 billion to Rmb3 billion from the issuance of corporate bonds, and

the remaining balance from domestic commercial bank borrowings.

The increase in equity interests and carrying capacity in existing expressways are general reflections of the Company's growth strategy, which is to remain focused on expressway operations while continuing to seek potential investment opportunities among infrastructure projects for future expansion.

Internal Control

Following the establishment of an internal audit department in mid-2001, the Company further revised and enhanced its internal control mechanisms during the year through a combination of its own management experience and adaptation of the latest applicable rules, regulations and guidelines announced by regulatory authorities from time to time on this issue.

The newly established internal control measures cover, among other aspects, operations management and financial controls, with a special emphasis on financial controls over various aspects of the Company's operations, investment and funding activities.

