

The internal audit department, working in coordination with the Company's external auditors and independently from the management of the Company, conducted evaluations on the effectiveness of the Company's internal control mechanisms under the direction of the Audit Committee from time to time, and reported periodically to the Audit Committee on its findings.

### **Human Resources**

As at December 31, 2002, the Group had a total of 1,998 employees, among whom 342 were administrative staff, 161 were engineering technicians, and 1,495 were toll collection and maintenance staff.

Recognizing that human resources are the first and foremost resources in any endeavor it undertakes, the Company made substantial efforts in training and recruiting staff with an aim to realize its long-term strategic goals.

The Company initiated a scheme during the Period in which job performance evaluation is more closely linked with incentives. The scheme proved to be a great success, especially in the routine maintenance area.

In order to encourage a more active participation by employees in the day-to-day running of the Company, a campaign was launched during the Period to invite employees to submit any suggestions or proposals that they might have regarding the Company's operational management. Among the 69 proposals submitted, while some have already been adopted in practice, 20 were selected and were rewarded for their outstanding contributions to the Company.

The series of measures had not only served to encourage care and innovation among employees, but also served to improve efficiency and productivity of the Company's business operations. During the Period, the number of vehicles served per person increased by 13.2% over 2001 in expressway operations, while net profit realized per person in the service areas increased by 19.3% over 2001.



### **Investor Relations**

As a listed company, ever since its primary listing on The Hong Kong Stock Exchange, the Company has maintained an active investor relations program has been an important part of the Company's commitment to serving the long-term interests of all of its shareholders, not the least its minority shareholders.

In addition to regulatory disclosures made through corporate documents, press announcements, notices to the stock exchanges, etc., the Company keeps in close contact with its investors through regular global roadshows, participation in investor forums, and an open channel of dialogue with investors and stock analysts.

To facilitate our communication with investors and other interested parties in Hong Kong where all of our retail investors are located, a representative office of the Company was set up in Hong Kong on March 1, 2002.



“Although I have not worked for Zhejiang Expressway for a long time, the Company’s good system in human resources development, staff deployment and training have deeply impressed me. With two years of conscientious work, I have been rewarded by the Company on a number of occasions: promotions, overseas training in Germany, being nominated an Outstanding Staff, etc. All these make me realize that it is performance and contribution that count in this company, not simply seniority. And there are lots of people in this company who have similar experience to mine. We all say that at Zhejiang Expressway, opportunities are in the hands of those who are capable.”

— Mr Wang Weili, Engineering & Maintenance Department of the Company

## FINANCIAL ANALYSIS

Driven by a better-than-expected business performance in 2002, net profit attributable to shareholders realized by the Group was approximately Rmb890 million, representing an increase of 17.1% over 2001, while return on equity for the year was approximately 9.2%, compared with 8.2% in 2001.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to generate strong and steady cash inflows from its ordinary operating activities. Net cash inflow from operating activities in 2002 was approximately Rmb1,536 million, representing an increase of Rmb458 million over 2001.

Account receivables, other receivables and inventories, on the other hand, accounted for only 7.4% of the current assets of Rmb1,952.2 million as at December 31, 2002. The Directors do not expect the Company to experience any problem with liquidity in the foreseeable future.

As at December 31, 2002, the Group held Rmb1,807.2 million in cash and cash equivalents, time deposits and short-term investments, with cash and cash equivalents accounting for 36.9%, time deposits for 15.6% and short-term investments for 47.5% of the total.

Among the Rmb858,114,000 held in short-term investments, approximately 85% are held in government bonds, with the

remaining 15% held in corporate bonds and close-ended security investment funds, etc.

	As at December 31,	
	2002	2001
	Rmb'000	Rmb'000
Cash and cash equivalent	666,291	434,771
Rmb	532,358	365,110
US\$ in Rmb equivalent	131,744	7,393
Euro in Rmb equivalent	22	56,991
HK\$ in Rmb equivalent	2,167	5,277
Time deposits	282,779	384,255
Rmb	192,824	260,579
US\$ in Rmb equivalent	79,967	92,731
Euro in Rmb equivalent	0	24,259
HK\$ in Rmb equivalent	9,988	6,686
Short term investments	858,114	1,012,186
Rmb	858,114	1,012,186
Total	1,807,184	1,831,212
Rmb	1,583,296	1,637,875
US\$ in Rmb equivalent	211,711	100,124
Euro in Rmb equivalent	22	81,250
HK\$ in Rmb equivalent	12,155	11,963

The average interest rates for bank deposits in Renminbi, US Dollars, Euro and HK Dollars during the Period were approximately 1.1%, 3.7%, 0.7% and 1.6%, respectively, while average yield of short-term investments during the year was approximately 2.0%.

## BORROWINGS AND CAPITAL STRUCTURE

As at December 31, 2002, the Group had total interest bearing borrowings in Renminbi equivalent to approximately Rmb3,038.2 million, among which Rmb2,147.6 million was subject to fixed interest rates, and Rmb890.6 million was subject to floating interest rates.

	Gross Amount Rmb'000	Maturity Profiles		
		Within 1 year Rmb'000	2-5 years Inclusive Rmb'000	Beyond 5 years Rmb'000
<b>Floating rates</b>				
World Bank loan	890,600	99,553	318,264	472,783
<b>Fixed rates</b>				
Commercial bank loans	1,875,000	1,545,000	330,000	—
Policy loans	72,600	37,000	32,800	2,800
Corporate bonds	200,000	200,000	—	—
<b>Total as at</b>				
December 31, 2002	3,038,200	1,881,553	681,064	475,583
<b>Total as at</b>				
December 31, 2001	3,029,009	1,620,778	842,492	565,739

With the average interest rate in 2002 at approximately 4.8%, total interest expense for the year was approximately Rmb163.2 million, resulting in a profit before taxation and interest to interest expense ratio of 8.9 (2001: 4.8).

In addition, non-interest bearing liabilities and shareholders' equity amounted to approximately Rmb1,765.8 million and Rmb9,701.8 million, respectively. The ratio of total liabilities over shareholders' equity at the end of 2002 was 49.5% (2001: 55.9%). Details of the Group's capital structure as at December 31, 2002, together with its comparative figures for the corresponding period in 2001 are as follows:

	2002		2001	
	Rmb'000	%	Rmb'000	%
Shareholders' equity	9,701,791	66.9%	9,289,081	64.2%
Fixed rate liabilities	2,147,600	14.8%	2,093,569	14.5%
Floating rate liabilities	890,600	6.1%	935,440	6.4%
Interest-free liabilities	1,765,843	12.2%	2,159,448	14.9%
<b>Total</b>	<b>14,505,834</b>	<b>100.0%</b>	<b>14,477,538</b>	<b>100.0%</b>
Gearing ratio 1		49.48%		55.90%
Gearing ratio 2		11.92%		15.30%

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.

Net proceed, in the amount of Rmb991 million, from the issue of Rmb1 billion corporate bonds by the Company during the period from January 24 to February 17, 2003, has been collected by the Company on February 19, 2003. Details of the issue were disclosed in the Company's announcement dated January 22, 2003.



## COMMITMENTS AND UTILIZATION OF CAPITAL EXPENDITURE

Capital expenditures incurred during the period was approximately Rmb831.6 million, approximately Rmb689.8 million of which was used on acquisition of additional interests in subsidiaries. Most of the remaining capital expenditure was used on the Widening Project and other expressway-related projects.

Capital expenditure commitments for the Group as at December 31, 2002 amounted to approximately Rmb5,454 million, among which Rmb485 million will be used on acquiring additional interest in a subsidiary, Rmb4,483 million will be used on the Widening Project, with the remaining balance to be used on other expressway-related projects, details of which are as follows:

	Group Rmb'000	Company Rmb'000
Expressway Widening Project		
From Hongken to Guzhu	349,542	349,542
From Dajing to Fengjing	2,508,190	2,508,190
From Guzhu to Dazhujia	1,625,410	1,625,410
Acquisition of additional 18.4% equity interest in Shangsang Co	485,000	485,000
Renovation of Sanjiang Service Area	14,000	14,000
Remaining construction works of the Shangsang Expressway	460,529	—
Construction works under Contract No. II of the Shanghai-Hangzhou Expressway	10,719	10,719
Total	5,453,390	4,992,861

The Company will finance its capital expenditure needs with its own financial resources, as well as through additional bank borrowings and/or issue of corporate bonds.

## CONTINGENT LIABILITIES

Other than a loan guarantee of Rmb30 million provided in favor of Shida Co, in respect of a commercial bank loan of the same amount extended to Shida Co from September 2001 to September 2009, the Group does not have any contingent liabilities as at December 31, 2002.

## GUARANTEES AND PLEDGES OF ASSETS

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

## FOREIGN EXCHANGE EXPOSURE

The Group had an outstanding World Bank loan denominated in US Dollars in the amount of Rmb890.6 million as at December 31, 2002. In addition, the Company paid its dividends for H Shares in HK Dollars.

Although all of the income of the Group is in Renminbi and the Directors do not anticipate any substantial fluctuations in the exchange rates between Renminbi and foreign currencies that will cause material foreign exchange exposure to the Group, there is no assurance that the foreign exposure will not affect the operating results of the Group.

Province starting from the second half of 2002, the Group is expected to enroll in these compulsory schemes in 2003. Judging from the arrangements of the schemes, the Directors do not anticipate any significant impact of its participation in the scheme on the Group's financial standing, in particular its consolidated income statement and consolidated balance sheet.



## EMPLOYEES' BASIC MEDICAL INSURANCE SCHEME

Medical expenses for employees of the Group were accounted for as part of the benefits provided by the Group in 2002 and the years before, in accordance with relevant accounting rules and internal policies. Following the promulgation of employees' basic medical insurance schemes by local governments in Zhejiang



## OUTLOOK FOR 2003

Zhejiang Province's GDP grew at an accelerated rate during 2002 on a quarter-to-quarter basis. As both micro and macro environmental factors appear to be favorable for both the PRC and the province, prospects for continued economic growth for the province are good. The successful bidding by neighbouring Shanghai to host the World Expo 2010 will further fuel economic growth for the Yangtze River Delta region.

Having achieved a record year of growth in 2002, especially for passenger cars, vehicle sales are set to reach a new high in 2003 amid a flurry of new manufacturers and models hitting the market with competitive prices.

With the completion and opening to traffic of an additional 537km of expressways in Zhejiang Province by the end of 2002, the overall expressway network in the province is substantially expanded, thereby creating a networking effect that will certainly benefit most of the existing expressways in 2003.

While the general business environment bodes well for the Company's business operations, there are also challenges facing the Company's management. A portion of the traffic flow on the Hangzhou and Yuhang sections of the Shanghai-Hangzhou-Ningbo Expressway is expected to be diverted due to the opening to traffic of the Hangzhou City Ring Road whose eastern section overlaps with a 39.3km section of the Shanghai-Hangzhou-Ningbo Expressway at its Hangzhou end, though this is not expected to halt the overall trend of continued traffic growth on the expressway. Meanwhile, heavy traffic flow on certain sections of the Shanghai-Hangzhou-Ningbo Expressway has led to excessive road-surface deterioration as well as congestion, both on the expressways and in service areas.

In response to the above-mentioned challenges, the Company has already undertaken corresponding strategies to be implemented in 2003 and beyond. Firstly, following the completion of road surface-overlaying works in 2002 on a 93km section of the Shanghai-Hangzhou-Ningbo Expressway, another 84km of the expressway is slated for surface overlays

in 2003, which is expected to substantially improve road conditions whilst lowering routine maintenance costs at the same time. Secondly, the Company will further expand its service area operations to meet increased demand from the extended expressway network, by increasing the capacities at the current service areas through enlarging the areas and employing additional service staff, and by initiating the process of building more service areas along the expressways under the Group's operation.

By the end of 2003, the initial phase of the Widening Project for the Shanghai-Hangzhou-Ningbo Expressway is expected to be completed and open to traffic. As a result, a 44km section of eight-lane expressway with emergency parking areas will be operational, allowing for continued growth in traffic volume and providing substantially improved road conditions on the section. This will greatly increase the carrying capacity of the expressway beyond 2004.

Over the longer term, the Company will benefit from the full completion and opening to traffic of more expressways in Zhejiang Province by the end of the year, including two major expressways linking the two neighboring provinces of Jiangxi and Fujian. The Company intends to grasp any opportunities in project investments and acquisitions, with a view to achieving the Group's vision of becoming a leading company investing in and operating infrastructure businesses, with an emphasis on expressways, in the PRC by 2010.

