

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, 2002.

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 provision of certain ancillary services, such as technical consultation, advertising, automobile

servicing and fuel facilities. There were no changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

During the year, the entire turnover and contribution to profit from operating activities of the Group were derived from the Zhejiang Province in the People's Republic of China (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, 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended December 31, 2002 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 45 to 79.

An interim dividend of Rmb0.04 per share (approximately HK\$0.038) was paid on October 31, 2002. The Directors recommend the payment of a final dividend of Rmb0.09 per share (approximately HK\$0.084) in respect of the year, to shareholders on the register of members on April 3, 2003. This recommendation has been incorporated in 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, liabilities and minority interests of the Group prepared on the basis set out in the notes below.

Year ended December 31					
	2002 Rmb'000	2001 Rmb'000	2000 Rmb'000	1999 Rmb'000	1998 Rmb'000
RESULTS					
Turnover	2,168,078	1,722,517	1,188,604	1,050,498	655,069
Operating costs	(561,918)	(392,535)	(248,429)	(298,417)	(220,537)
Gross profit	1,606,160	1,329,982	940,175	752,081	434,532
Other revenue	66,457	216,690	242,888	167,528	234,573
Administrative expenses	(95,209)	(88,487)	(64,978)	(60,320)	(45,611)
Other operating expenses	(33,109)	(18,236)	(75,317)	(2,374)	(635)
Profit from operating activities	1,544,299	1,439,949	1,042,768	856,915	622,859
Finance costs	(163,224)	(215,346)	(197,083)	(172,922)	(94,741)
Share of profits of associates	11,719	12,396	40,584	22,559	18,982
Share of profit/(loss) of a jointly-controlled entity	1,677	(1,459)	(6,517)	—	—
Profit before tax	1,394,471	1,235,540	879,752	706,552	547,100
Tax	(400,952)	(363,970)	(186,391)	(71,810)	(73,795)
Profit before minority interests	993,519	871,570	693,361	634,742	473,305
Minority interests	(103,067)	(110,957)	(57,360)	(86,431)	(68,914)
Net profit from ordinary activities attributable to shareholders	890,452	760,613	636,001	548,311	404,391
Earnings per share	20.50 cents	17.51 cents	14.64 cents	12.62 cents	9.31 cents
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	14,505,834	14,477,538	14,586,420	13,925,688	12,993,990
Total liabilities	3,826,254	3,685,828	4,128,921	3,868,691	3,457,029
Minority interests	977,789	1,502,629	1,495,364	1,449,432	1,245,782
Net assets	9,701,791	9,289,081	8,962,135	8,607,565	8,291,179

Notes:

- The consolidated results of the Group for the four years ended December 31, 2001 have been extracted from the Company's 2001 annual report dated March 13, 2002, while those of the year ended December 31, 2002 were prepared based on the consolidated income statement as set out on page 45 of the financial statements.
- The 2002 earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended December 31, 2002 of Rmb890,452,000 (2001: Rmb760,613,000) and the 4,343,114,500 shares (2001: 4,343,114,500 shares) in issue during the year.

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 year. 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 year 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 the second paragraph of note 41 to the financial statements.

The independent non-executive Directors have reviewed the Connected Transactions and confirmed that, during the year ended December 31, 2002, 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 year ended December 31, 2002.

In addition, under the agreement dated August 19, 2002, the Company purchased 6.625% equity interest in Shangsang Co.,

from Communications Investment Group, the ultimate holding company of the Company, for a consideration of Rmb187.62 million.

Since the purchase consideration represents less than 3% of the book value of the net tangible assets of the Company as disclosed in its latest published audited accounts, no shareholder approval is required under the Listing Rules.

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, 2002 are set out in note 37 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2002, before the proposed final dividend, the Company's reserves available for distribution by way of cash or in kind, as determined based on the lower of the amount determined under PRC accounting standards and the amount determined under generally accepted accounting principles in Hong Kong, amounted to Rmb500,667,000. 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.