

OUTLOOK

The new session of China's central government, taking office in March 2003, has shown determination to further integrate cities and provinces in the Yangtze River Delta region. Ranked as the largest economic region in China earlier this year, for the first time in more than twenty years, the region is expected to foster greater cooperation between the various cities and provinces, with interaction between Zhejiang Province and Shanghai expected to intensify in particular.

With the impact of the SARS outbreak largely subsided by July 2003, and many local enterprises putting in extra effort to recover earnings lost during the SARS outbreak, we already see a stronger-than-usual growth in traffic volumes on the two expressways operated by the Group, indicating a return to robust economic growth for Zhejiang Province in the second half of the year.

As future transport demand in the Yangtze River Delta region is expected to exceed previous forecasts, local transport authorities are planning more transportation infrastructure projects. On June 7, 2003, the Hangzhou Bay Bridge commenced construction, and is scheduled for completion by the end of 2008.

Although the Hangzhou Bay Bridge, along with several other expressways and bridges tentatively planned for the Yangtze River Delta region, will result in diversions in traffic flow from certain sections of existing expressways such as the Shanghai-Hangzhou-Ningbo Expressway in the immediate years upon their opening to traffic – the exact degree of which is still being studied by the Company, these expressways and bridges also serve to help enhance the networking effect, thereby benefiting the existing expressways operated by the Group.

The increasingly comprehensive expressway network within and around Zhejiang Province, coupled with the rapidly growing volume of containers handled by the Port of Shanghai and Port of Ningbo, have already resulted in substantially increased container truck traffic on the expressways operated by the Group. With major expressways connecting Zhejiang Province and the neighboring provinces expected to be completed in the next few years, thereby linking inland provinces directly to the ports, increasing heavy truck traffic is expected to be generated on the expressways operated by the Group.

Rapid economic development in cities and townships along the expressways operated by the Group has also led to proposals currently being studied by the Company to increase the number of interchanges along these expressways, as well as to extend connecting roads between the expressways and the cities and townships, so as to provide better access and wider reach for the expressways operated by the Group.

In view of the above, the challenge for the Company is to take full advantage of the enormous opportunities presented by an increasingly integrated Yangtze River Delta region, while limiting the impact of potential traffic diversions from existing expressways operated by the Group.