With anticipated growth in traffic on existing expressways, the Company has taken steps to increase service capacities at its service areas, in addition to continuing with its Phase II and Phase III of the Widening Project which is targeted for full completion by the end of 2007.

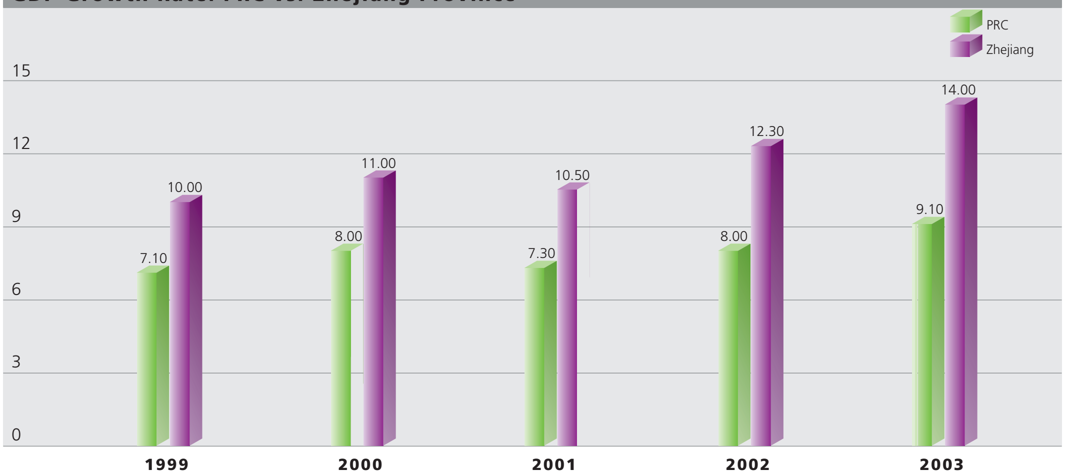
BUSINESS REVIEW

2003 was a special year for the Company. Traffic volume on the Shanghai-Hangzhou-Ningbo Expressway grew at a rate that was approximately half the usual rate, primarily as a result of traffic diversion by the eastern section of Hangzhou City Ring Road subsequent to its opening to traffic since the beginning of the year.

The outbreak of Severe Acute Respiratory Syndrome ("SARS") in the second quarter of the year prompted local governments to adopt stringent measures to contain the disease, further reducing traffic volumes on the roads, including expressways throughout Zhejiang and neighboring cities and provinces.

But the phenomenal growth of China's economy remained unabated in 2003, as the economy quickly recovered in the third quarter, leading to annual GDP growth rates of 9.1% for the country as a whole and 14.0% for Zhejiang Province, despite a dip in the second quarter as a result of SARS. Both of the above growth rates were the highest since the Asian Financial Crisis.

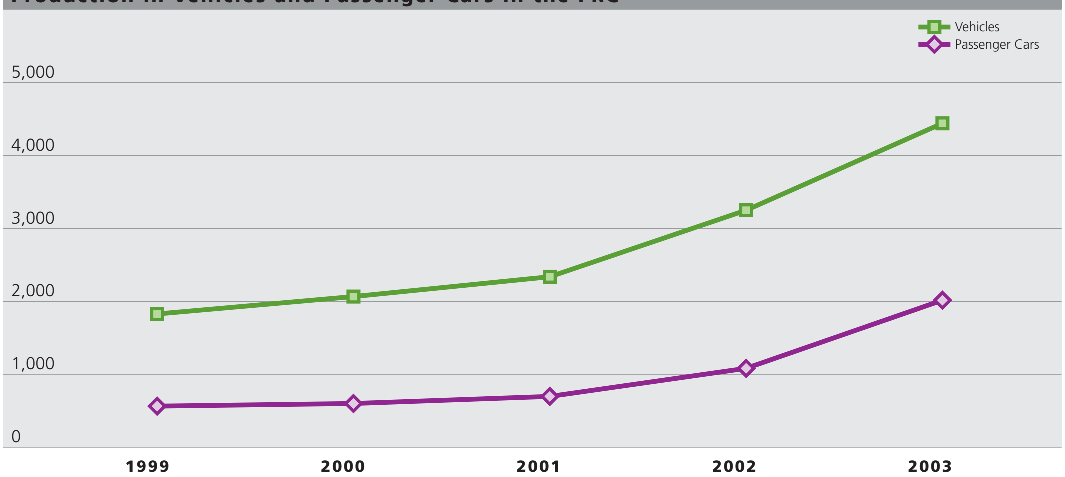
GDP Growth Rate: PRC vs. Zhejiang Province



Source: China National Statistics Bureau

The strong economic growth, accompanied by exceptional growth in vehicle sales and further expansion in expressway networks, among others, resulted in continued growth in traffic volumes on the expressways operated by the Group that more than compensated the fall in traffic volumes due to local traffic diversions and temporary disruptions due to the occurrence of SARS.

Production in Vehicles and Passenger Cars in the PRC



Source: Media Reportings

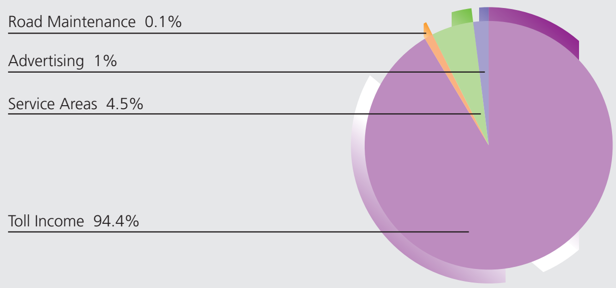
Turnover for the Group grew by 14.0% during the Period to reach Rmb2,471.8 million, details of which are as follows:

	Year ended December 31		
	2003 Rmb'000	2002 Rmb'000	% Change
Toll income			
Shanghai-Hangzhou-Ningbo Expressway	**1,908,764**	1,745,931	+9.3
Shangsan Expressway	**549,962**	438,266	+25.5
Other income			
Service areas	**117,205**	73,043	+60.5
Advertising	**26,138**	27,742	-5.8
Road maintenance	**2,669**	1,704	+56.6
	2,604,738	2,286,686	+13.9
Revenue taxes	**(132,933)**	(118,608)	+12.1
Turnover	**2,471,805**	2,168,078	+14.0

TOLL ROAD OPERATIONS

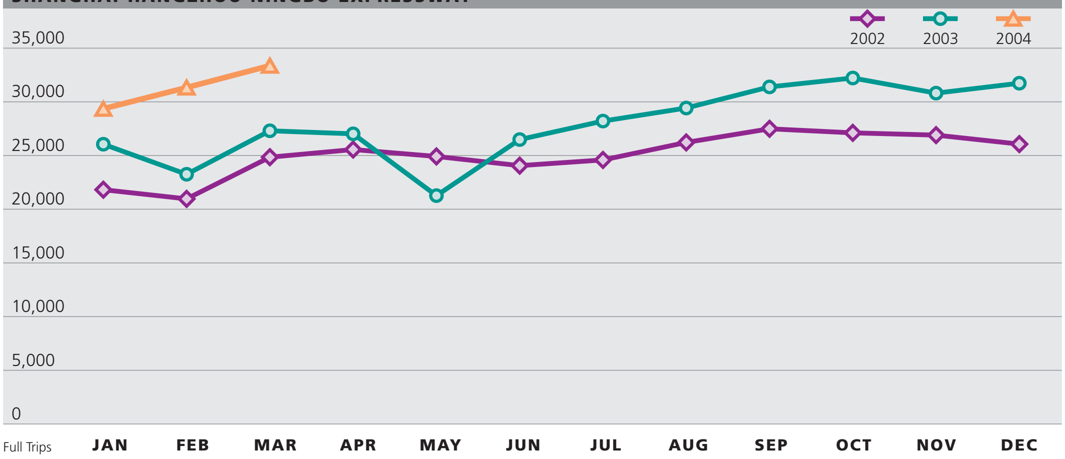
Toll road operations remained the core business operation of the Group, as toll income contributed to 94.4% of the overall income for the Group, though a slight decrease from 95.5% in 2002 due to higher rates of growth in other business operations.

BREAKDOWN OF GROUP TURNOVER IN 2003



Amongst the two major expressways operated by the Group, daily average full-trip traffic volume for the Shanghai-Hangzhou-Ningbo Expressway in 2003 was 27,938, representing an increase of 11.5% over 2002.

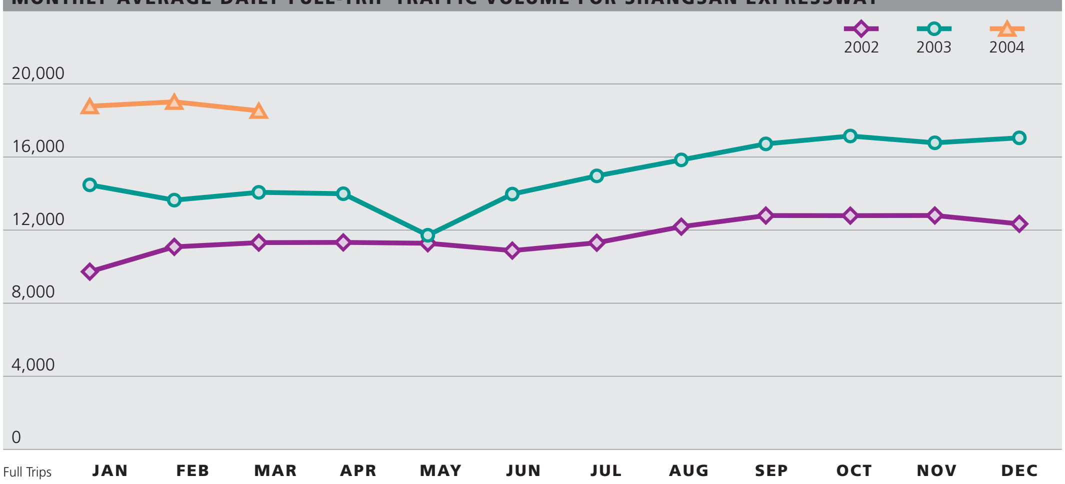
MONTHLY AVERAGE DAILY FULL-TRIP TRAFFIC VOLUME FOR SHANGHAI-HANGZHOU-NINGBO EXPRESSWAY



A slower traffic volume growth rate on the Shanghai-Hangzhou-Ningbo Expressway was attained in 2003 compared to previous years. Apart from being a more mature expressway, the expressway was also subject to direct traffic diversion by the Hangzhou City Ring Road, as well as greater impact by measures taken to contain the spread of SARS in the second quarter of the year.

Growth in traffic volume of the Shangsan Expressway in 2003 was much higher at 29.0% to reach 15,011 in daily average full-trip traffic volume.

MONTHLY AVERAGE DAILY FULL-TRIP TRAFFIC VOLUME FOR SHANGSAN EXPRESSWAY



Apart from the fact that the Shangsan Expressway, being a newer expressway, was expected to undergo a higher rate of growth in traffic volume than the Shanghai-Hangzhou-Ningbo Expressway, the fact that it is situated entirely within Zhejiang Province as well as having a higher proportion in truck traffic had led to less negative impact on traffic volume due to the outbreak of SARS as compared to the Shanghai-Hangzhou-Ningbo Expressway.

Having commenced in the second half of 2002, the road surface-overlaying project on the Shanghai-Hangzhou-Ningbo Expressway continued in 2003, with 126km renovated at a cost of Rmb159.7 million.

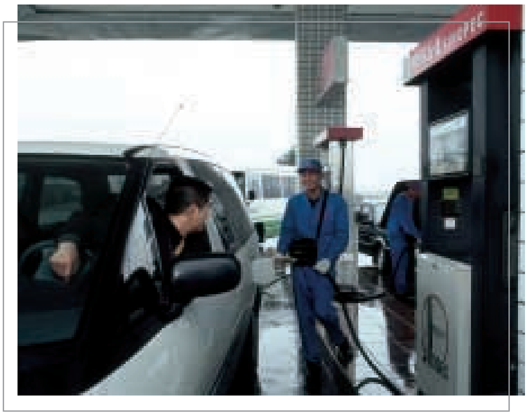
Since having turned profitable for the first time in 2002, the 9.45km Shida Road, owned and operated by Hangzhou Shida Highway Co., Ltd., a 50% jointly-controlled entity of the Company, underwent 78.0% growth in traffic volume and 63.9% growth in toll income, realizing a net profit of Rmb17.8 million for the jointly-controlled entity during the Period (2002: Rmb1.4 million).

OTHER BUSINESS OPERATIONS

There are six pairs of service areas in operation along the expressways operated by the Group in 2003, as compared to five in 2002. Driven by strong growth in demand for restaurants, gas stations and vehicle services offered in these service areas, revenue from the service area operations grew by 60.5% to reach Rmb117.2 million in 2003.

Income from advertising came mainly from the advertising business operated by Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co"). Facing increasing competition as well as accommodating inconveniences brought by construction works relating to the Widening Project on the Shanghai-Hangzhou-Ningbo Expressway during the Period, Advertising Co realized a turnover of Rmb24.7 million during the Period, representing a slight decrease of 5.8% over the same period in 2002. Net profit realized was approximately Rmb5.0 million.

A separate business operation involving gas stations spanning across Zhejiang Province is conducted through Zhejiang Expressway Petroleum Development Co., Ltd., a 50% owned associate of the Company. Strong growth in retail sales during the Period helped to bring a 42.1% growth in revenue as compared to 2002, and a 30.6% growth in net profit which amounted to Rmb21.3 million.



JoinHands Technology Co., Ltd. (a 27.58% owned associate of the Company) overcame a 10.3% decrease in turnover during the Period, primarily due to the disruption from SARS as well as increasing market competition for its products, and realized a net profit of Rmb6.76 million, representing a slight decrease of 0.6% over 2002.

The Group reorganized its ancillary business operations with the establishment of Zhejiang Expressway Investment Development Co., Ltd. ("Development Co") on May 28, 2003 and its subsidiary Services Co on July 31, 2003, with the aim of streamlining the structure for the operations of, ancillary businesses of the Group. Principal activities of Development Co include the operation of service areas, and the Group's roadside advertising as well as vehicle towing and servicing operations along expressways through its 70% owned Advertising Co and 85% owned Services Co.

PROJECT INVESTMENTS

Phase I of the project to widen Shanghai-Hangzhou-Ningbo Expressway from four lanes to eight lanes (the "Widening Project") was completed in December 2003. With a total investment of approximately Rmb550 million, Phase I covered a 44km section from Hongken to Guzhu, currently the section with the highest traffic flow. The opening to traffic of the eight-lane section substantially improved travel conditions.

Construction works on Phase II of the Widening Project commenced in July 2003, and is targeted for completion by the end of 2005. To be widened to a standard six-lane expressway from Dajing to Shenshi (approximately 17km), and a standard eight-lane expressway from Shenshi to Fengjing (approximately 79km), leading into Shanghai, the 96km section's construction works will involve a cost of approximately Rmb2,500 million.

ILLUSTRATION ON THE WIDENING PROJECT

Phase III of the Widening Project is expected to commence construction in June 2004 for completion by the end of 2007. The 80km section from Guzhu to Duantang, leading into Ningbo, is also designed as a standard eight-lane expressway, with an estimated widening cost of approximately Rmb2,300 million.

Other than the above projects, on May 8, 2003 the Company further acquired an additional 2% ownership interest in Zhejiang Shangsan Expressway Co., Ltd. ("Shangsan Co"), a subsidiary of the Company, from Xinchang County Transport Development Company ("Xinchang Transport") for a cash consideration of Rmb57.6 million. As a result of the acquisition, the Company's ownership interest in Shangsan Co increased from 71.625% to 73.625%, while Xinchang Transport's ownership interest decreased from 2% to zero.

HUMAN RESOURCES

During the Period, the Group's total number of employees increased by 746 to 2,744, among whom 509 were administrative staff, 393 were engineering technicians, and 1,842 were involved in toll collection, maintenance and service areas.

The increase in employees during the Period was mainly due to a change in employment policies that changed the status of many seasonal and temporary workers to long-term contract workers of the Group in response to the growing demand for personnel in servicing ever increasing traffic flows on the two expressways operated by the Group, especially in the substantially expanded service area operations.

The Company encourages competitive performance and improvement in professional skills amongst its employees through evaluation and training programs. In addition to basic salaries, overall remuneration of the employees include a bonus based on business performance of the Company, and for management team, a bonus based on share price performance of the Company. Total remuneration for the Period was Rmb89.7 million, representing an increase of 3.4% over 2002.

INVESTOR RELATIONS

In following through its commitment to maintaining a continuously open dialogue with shareholders and the investment community at large, the Company actively participated in meetings with investors and analysts through global roadshows, investor conferences, company visits and conference calls that amounted to more than 90 meetings held with more than 250 individual investors and analysts during the Period.

Through these and other dialogues, the Company was able to project a clear picture of its business operations and growth prospects to the market, resulting in wide recognition amongst the market participants for its transparency and accessibility.

FINANCIAL ANALYSIS

As at December 31, 2003, net profit attributable to shareholders was approximately Rmb1,008.8 million, representing an increase of 13.3% over 2002; earnings per share increased 13.3% to Rmb23.23 cents, while return on equity for the Period increased from 9.2% to 9.9%.

PROFITABILITY

In the past five years, the Group was able to maintain double-digit growth in earnings per share, with a compound annual growth rate of 20.1%. Details are as follows:

	Year ended December 31				
	1999	2000	2001	2002	**2003**
EPS (Rmb cents)	12.62	14.64	17.51	20.50	**23.23**
Growth rate (%)	35.6	16.0	19.6	17.1	**13.3**

To enhance shareholder's value, the Group follows a steady dividend policy with high payout ratio, while seeking continued growth in return on equity. During the Period, the Group's return on equity ("ROE") increased by 8.3% over the same period of the previous year to reach 9.9%. Details of dividends and ROEs in the past five years are as follows:

	Year ended December 31				
	1999	2000	2001	2002	**2003**
Dividends (Rmb'000)	238,871	390,880	434,311	564,604	**651,467**
Dividend payout ratio (%)	43.6	61.5	57.1	63.4	**64.6**
ROE (%)	6.4	7.1	8.2	9.2	**9.9**

The high rate of growth in earnings per share and ROE reflected the profitability, as well as potentials for further growth, of the expressways operated by the Group.

FINANCIAL RESOURCES AND LIQUIDITY

Financial Resources

As at December 31, 2003, the Group held Rmb567.2 million in cash and cash equivalents, Rmb251.6 million in time deposits and Rmb1,104.3 million in short-term investments, totaling Rmb1,923.1 million. Details are as follows:

	As at December 31	
	2003 Rmb'000	2002 Rmb'000
Cash and cash equivalent	**567,195**	666,291
Rmb	**565,251**	532,358
US$ in Rmb equivalent	**1,393**	131,744
Euro in Rmb equivalent	**59**	22
HK$ in Rmb equivalent	**492**	2,167
Time deposits	**251,600**	282,779
Rmb	**251,598**	192,824
US$ in Rmb equivalent	**—**	79,967
Euro in Rmb equivalent	**—**	—
HK$ in Rmb equivalent	**2**	9,988
Short term investments	**1,104,266**	858,114
Rmb	**1,104,266**	858,114
Total	**1,923,061**	1,807,184
Rmb	**1,921,115**	1,583,296
US$ in Rmb equivalent	**1,393**	211,711
Euro in Rmb equivalent	**59**	22
HK$ in Rmb equivalent	**494**	12,155

The steady large inflow of cash from expressway operations under the Group made it possible for the Group to hold a sizable amount in liquid assets. Due to the investment characteristics of the toll road industry, where a substantial amount of investment in cash may be needed in a short period of time, the Group chose to maintain such a sizable liquid assets as an adequate reserve for potential capital expenditures.

As part of its cash management practice and an important constituent of its financial resources, a short-term investment portfolio is maintained by the Group with the aim of maximizing returns on cash that are temporarily idle while controlling relevant investment risks by choosing investment products with relative small risks. Amongst the short-term investments held by the Group during the Period, approximately 92.1% were treasury bonds, with the remaining being mostly close-ended security investment funds.

With a total of Rmb1,923.1 million held in cash and cash equivalent, time deposits and highly liquid short-term investments, as well as an asset-liability ratio of only 26%, the Group has ample resources for debt financing.

Cash Flow and Liquidity

The Group had adequate net cash inflows from operating activities, which amounted to Rmb1,670.3 million as of the end of the Period.

A measure of the Group's cash flow is the cash to investment ratio, defined as the ratio of operating cash flows of the past five years to the sum of capital expenditure, increase in inventory and cash dividend in the past five years, was 0.77 as at December 31, 2003, an indication of the Group's substantial self-sustaining fund and strong financial flexibility.

The current assets held by the Group amounted to Rmb1,999.4 million as at December 31, 2003, amongst which account receivables, other receivables and inventories accounted for 3.8% (as at December 31, 2002: 7.4%); and the current ratio of the Group for the year ended December 31, 2003 was 1.09, representing adequate working capital held by the Group.

As a result, the Directors believe that the Group has sufficient financial resources to meet its operational needs in the foreseeable future.

BORROWINGS AND DEBT REPAYMENT ABILITY

During the Period, total interest-bearing borrowings of the Group decreased from Rmb3,038.2 million at the beginning of the year to Rmb2,720.1 million by the end of the year, amongst which Rmb975.9 million were short-term interest-bearing liabilities, representing a decrease of 48.1% over 2002, and Rmb1,744.1 million were long-term interest-bearing liabilities, representing an increase of 50.8%. Details are as follows:

Maturity Profiles

	Gross amount Rmb'000	Within 1 year Rmb'000	2-5 years inclusive Rmb'000	Beyond 5 year Rmb'000
Floating rates				
World Bank loan	847,526	127,950	341,191	378,385
Fixed rates				
Commercial bank loans	800,000	800,000	—	—
Government loans	72,600	48,000	24,020	580
Corporate bonds	1,000,000	—	—	1,000,000
Total as at December 31, 2003	2,720,126	975,950	365,211	1,378,965
Total as at December 31, 2002	3,038,200	1,881,553	681,064	475,583

The annual coupon rate on the Rmb1 billion corporate bonds for a term of 10 years issued by the Company at the beginning of the year was fixed at 4.29%, with interests payable annually. The floating rates of the Group's Rmb847.5 million World Bank loans, denominated in US dollars, ranged between 5.02% and 4.62% during the Period, averaging approximately 4.80%. The interest rates on other borrowings of the Group, all in Rmb, were not materially different from those in 2002.

With interest expenses at approximately Rmb142.3 million and profit before interest and tax at approximately Rmb1,735.5 million, the Group's interest cover ratio was 12.2 during the Period, representing a 28.4% increase over the same period last year.

	2003 **Rmb'000**	2002 Rmb'000
Profit before tax and interest	**1,735,492**	1,557,695
Interest expenses	**142,303**	163,224
Interest cover ratio	**12.2**	9.5

The Group's asset-liability ratio had decreased gradually over the past three years due to continued strong net cash inflow from its operating activities that was more than sufficient in meeting its capital expenditure needs.

Following the adjustment in the maturity profile of the Group's interest-bearing borrowings in 2003, the match between current asset with current liability, and long-term asset with long-term liability and equity were improved markedly, further enhancing the debt-repayment capability of the Group.

The Directors believe that the adjustment in the maturity profile of the Group's interest-bearing borrowings during the Period is better suited to the Group's present asset structure.

CAPITAL STRUCTURE

As at December 31, 2003, the Group's capital structure comprised Rmb10,146.0 million in shareholders' equity, Rmb1,872.6 million in fixed rate liabilities, Rmb847.5 million in floating rate liabilities and Rmb2,202.6 million in interest-free liabilities and minority interest, representing approximately 67.3%, 12.4%, 5.6% and 14.6%, respectively, of the Group's total capital.

	As at December 31, 2003		As at December 31, 2002	
	Rmb'000	**%**	Rmb'000	%
Shareholders' equity	**10,145,979**	**67.3%**	9,701,791	66.9%
Fixed rate liabilities	**1,872,600**	**12.4%**	2,147,600	14.8%
Floating rate liabilities	**847,526**	**5.6%**	890,600	6.1%
Interest-free liabilities	**2,202,582**	**14.6%**	1,765,843	12.2%
Long-term interest-bearing liabilities	**1,744,176**	**11.6%**	1,156,647	8.0%
Total	**15,068,687**	**100.0%**	14,505,834	100.0%
Gearing ratio 1	**48.5%**		49.5%	
Gearing ratio 2	**17.2%**		11.9%	
Asset-liability ratio	**26.0%**		26.4%	

Notes: Gearing ratio 1 represents the sum of fixed rate liabilities, floating rate liabilities, interest-free liabilities and minority interest vs. the shareholders' equity; gearing ratio 2 represents the total amount of the long-term interest-bearing liabilities vs. the shareholders' equity.

CAPITAL EXPENDITURE COMMITMENTS AND UTILIZATION

During the Period, the capital expenditure incurred by the Group was Rmb859.9 million, with corresponding capital expenditure for the Company amounting to Rmb271.3 million. Amongst the Rmb859.9 million capital expenditure incurred by the Group, Rmb605.4 million was utilized toward the Widening Project.

As at December 31, 2003, the Group and the Company had capital expenditure commitments of Rmb5,052.7 million and Rmb2,961.4 million, respectively, for 2004 and beyond. In particular, approximately Rmb1,345.5 million capital expenditure will be spent by the Group in 2004, with approximately Rmb1,141.0 million spent on the Widening Project, Rmb50.5 million on equipment acquisition and Rmb154.0 million on expressway ancillary facilities.

	As at December 31, 2003					
	Group			Company		
	Commitments Rmb'000	Utilization Rmb'000	Balance Rmb'000	Commitments Rmb'000	Utilization Rmb'000	Balance Rmb'000
Expressway Widening Project						
From Hongken to Guzhu	553,129	447,389	105,740	553,129	447,389	105,740
From Dajing to Fengjing	2,508,190	472,660	2,035,530	—	—	—
From Guzhu to Duantang	2,300,000	—	2,300,000	2,300,000	—	2,300,000
Acquisition of additional 18.4% equity interest in Shangsan Co	485,000	—	485,000	485,000	—	485,000
Renovation of Service Area	5,893	—	5,893	4,950	—	4,950
Remaining construction works of the Shangsan Expressway	43,754	—	43,754	—	—	—
Purchase of machinery	76,197	—	76,197	65,697	—	65,697
Construction works under contract No.11 of the Shanghai-Hangzhou Expressway	52,550	51,957	593	—	—	—
Total	6,024,713	972,006	5,052,707	3,408,776	447,389	2,961,387

The Group will fund the above capital expenditures with its internal financial resources, meeting any shortfall by utilizing other funding options, with a preference for debt financing.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

Other than a loan guarantee of Rmb30 million provided in favor of Hangzhou Shida Highway Co., Ltd. ("Shida Co"), a jointly controlled entity, in respect of a commercial bank loan of the same amount extended to Shida Co from September 2001 to September 2009, the Group did not have any contingent liabilities as at December 31, 2003. In addition, the Group had no pledge of assets during the Period.

FOREIGN EXCHANGE EXPOSURE

The Group has a World Bank loan of approximately Rmb847.5 million, denominated in US Dollars and borrowed for the construction of the Shanghai-Hangzhou-Ningbo Expressway. In addition, dividends for H shares payable by the Company are settled in HK dollars.

In view of the stable exchange rate between Renminbi and US dollars, the Directors do not foresee any material foreign exchange risk for the Group. However, there is no assurance that any foreign exchange exposure will not adversely affect the operating results of the Group in the future.

OUTLOOK FOR 2004

With China being on the verge of a new round of accelerated economic growth, according to many economic observers, the Yangtze River Delta region, including the city of Shanghai and the two provinces of Jiangsu and Zhejiang, will be the engine to power this next phase of economic expansion. Already a highly urbanized region, the Yangtze River Delta region will undergo further integration amongst its cities to accommodate a greater level of cooperation.

An important aspect to the integration drive is the announcement by regional governments of more ambitious transportation plans that will result in the operational mileage of expressways in Zhejiang Province to be further extended by approximately 1,000km within the next four years. The newly planned expressways are intended to serve the anticipated growth in transportation demand in the region by alleviating the excess traffic burdens forecasted in the near future on existing expressway networks, including the corridor along the Hangzhou Bay, connecting the three major cities of Shanghai, Hangzhou and Ningbo. As such, the new expressways will present far more opportunities than challenges for the Group.

Continued heavy investments in infrastructure in the region will help to sustain accelerated economic growth, which will in turn spur substantial growth in production and sales of vehicles, especially passenger cars for private consumption. Faced with a rapidly expanding expressway network that is making the transport system more easily accessible and efficient to more vehicles than ever, the prospects for continued strong traffic volume growth on the expressways operated by the Group are favorable. As more expressways are being completed and opened to traffic, and still more are being planned for Zhejiang Province, prospects for new project investment and acquisition are also improving.

With anticipated growth in traffic on existing expressways, the Company has taken steps to increase service capacities at its service areas, in addition to continuing with its Phase II and Phase III of the Widening Project which is targeted for full completion by the end of 2007.

The road surface-overlaying project on the Shanghai-Hangzhou-Ningbo Expressway will be concluded in 2004, covering approximately 47km of roadways, ramps, toll plazas and interchanges at an estimated cost of Rmb95.5 million.

Due to the growing traffic volume that has made it increasingly difficult to perform road surface-overlaying works on a large scale during a relative short period of time without adversely affecting normal traffic flow, starting from 2005, the Group will be conducting these works on a smaller scale but with higher frequency, so that while the overall impact on normal traffic flow will be minimized, the annual cost will be more evenly distributed, and the average cost expected to be slightly lower than usual as a result of reduced routine maintenance costs relating to road surface.

The Company intends to build upon its renewed emphasis on providing quality service to its customers, while in the process taking advantage of all the positive developments in the industry, creating value for its customers, employees, business partners, shareholders and the community at large.