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COMPANY PROFILE

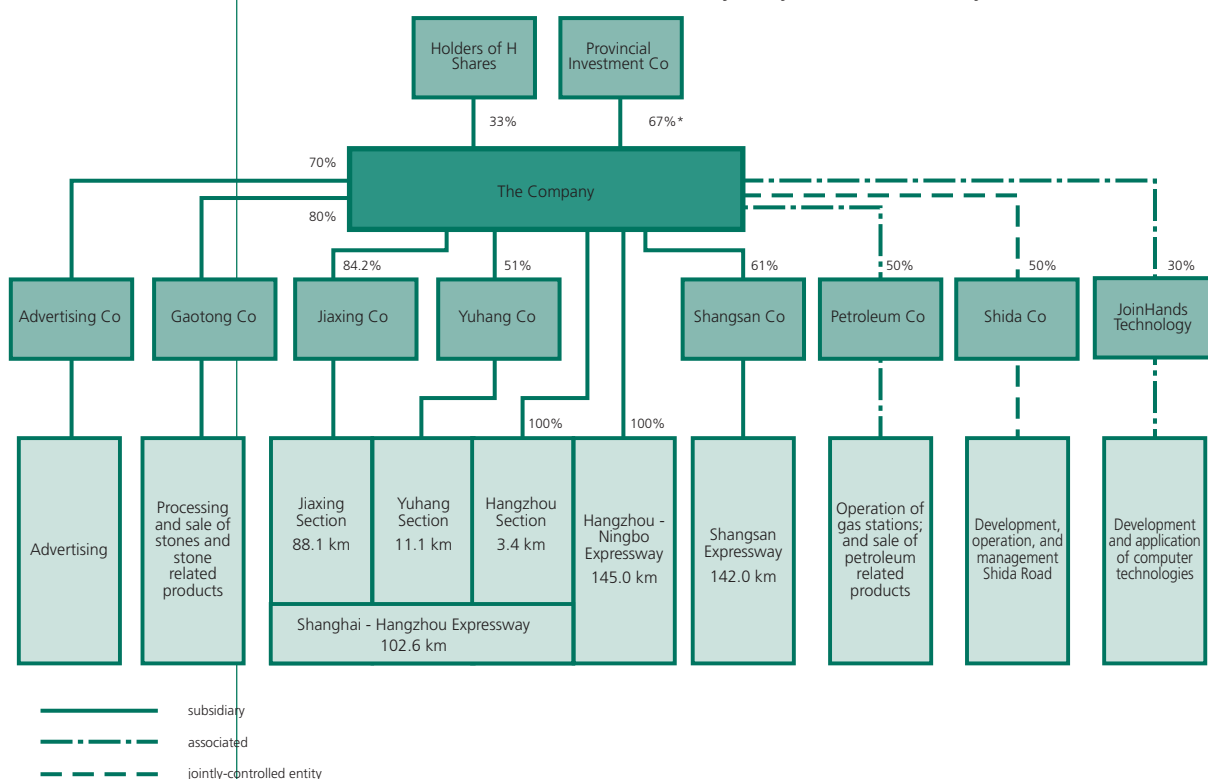
Zhejiang Expressway Co., Ltd. is an infrastructure company principally engaged in investing in, constructing and managing high grade roads. The Company and its subsidiaries also carry out certain ancillary businesses such as automobile servicing and the operations of gas stations and bill board advertising along expressways.

The Company was incorporated on March 1, 1997 as the main vehicle of the Zhejiang Provincial Government for investing in, constructing and operating expressways and class 1 roads in Zhejiang Province.

The H Shares of the Company, which represent approximately 33% of the issued share capital of the Company, were listed on the Hong Kong Stock Exchange in May 1997, and subsequently obtained a secondary listing on the London Stock Exchange Limited in May 2000.

While the Company will keep its foothold on the toll road sector and will continue to search for investment opportunities in the sector, it has also begun to seek investment opportunities in other infrastructure sectors such as water and gas supply networks as well as port and wharf facilities in line with the Company's vision of becoming a leading Chinese infrastructure investment company and its ultimate objective of maximizing shareholder value.

Set out below is the corporate and business structure of the Company and its subsidiaries, as well as associates and a jointly-controlled entity.



* Upon completion of relevant legal procedures, Huajian will become a shareholder of the Company with 11% interest in the issued share capital of the Company. Provincial Investment Co's interest in the issued share capital of the Company will be reduced to 56%.

Definition of Terms

Advertising Co	Zhejiang Expressway Advertising Co., Ltd., a 70% owned subsidiary of the Company
A Shares	the domestic ordinary shares of RMB1.00 each in the share capital of the Company proposed to be issued by the Company
Board	the board of directors of the Company
Company	Zhejiang Expressway Co., Ltd., a joint stock limited company incorporated in the PRC with limited liability on March 1, 1997
CSRC	China Securities Regulatory Commission
Domestic Shares	shares of nominal value of RMB1.00 each in the share capital of the Company, subscribed for in Renminbi
Gaotong Co	Zhejiang Gaotong Stone Development Co., Ltd., an 80% owned subsidiary of the Company
GDP	gross domestic product
Group	the Company and its subsidiaries
H Shares	the overseas listed foreign shares of RMB1.00 each in the share capital of the Company which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Huajian	Huajian Transportation Economic Development Center, a state-owned enterprise
Jiaxing Co	Zhejiang Jiaxing Expressway Co., Ltd., an 84.2% owned subsidiary of the Company
JoinHands Technology	JoinHands Technology Co., Ltd., a 30% owned associate of the Company
Listing Rules	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
Petroleum Co	Zhejiang Expressway Petroleum Development Co., Ltd., a 50% owned associate of the Company
PRC	the People's Republic of China
Provincial Investment Co	Zhejiang Provincial High Class Highway Investment Co., Ltd., a state-owned enterprise
RMB	Renminbi, the lawful currency of the PRC
Shangsan Co	Zhejiang Shangsan Expressway Co., Ltd., a 61% owned subsidiary of the Company
Shida Co	Hangzhou Shida Highway Co., Ltd., a 50% jointly-controlled entity of the Company
Supervisory Committee	the supervisory committee of the Company
Yuhang Co	Zhejiang Yuhang Expressway Co., Ltd., a 51% owned subsidiary of the Company

MAJOR CORPORATE EVENTS

February 23, 2000

Annual results for 1999 were announced in Hong Kong.

February 28, 2000

An extraordinary general meeting was held in Hangzhou to elect a new session of Directors and Supervisors; an Audit Committee was established under the Board.

March, 2000

The Company continued to be enlisted as a constituent stock in Morgan Stanley Capital International's China Free Index.

April 6, 2000

The Company acquired a 30% ownership interest in JoinHands Technology.

May 5, 2000

The H Shares were admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange Limited.

May 25, 2000

The 1999 annual general meeting was convened.

July 18, 2000

The Ministry of Foreign Trade and Economic Cooperation of the PRC issued its approval to change the Company's status from being a joint stock company with limited liabilities to a foreign-invested joint stock company with limited liabilities.

September 25, 2000

The Company acquired a further 6% ownership interest in Shangsang Co.

December, 2000

In the 2000 Reuters Survey of Global Emerging Markets conducted by Tempest Consultants Limited, the Company was ranked second by brokerage analysts in transparency and quality of reporting and disclosure among listed companies in the Emerging Markets in Asia.

December 26, 2000

The Shangsang Expressway, totaling 142 km in length, was completed and formally opened to traffic and began toll collection.

December 28, 2000

Provincial Investment Co transferred 476,760,000 state-owned shares representing approximately 11% of the issued share capital of the Company originally held by Provincial Investment Co to Huajian. However, according to relevant PRC laws, legal procedures in relation to the above share transfer were not completed as of December 31, 2000.

January 4, 2001

The China Classification Society Quality Assurance Ltd. certified the quality system of the Company in expressway management as conforming to Quality Standard GB/T19002-1994 idt ISO9002: 1994.

January 8, 2001

The Company announced the proposal to issue not more than 300 million A Shares and the proposed acquisition of a further 18.4% ownership interest in Shangsang Co.

FINANCIAL AND OPERATING HIGHLIGHTS

Results

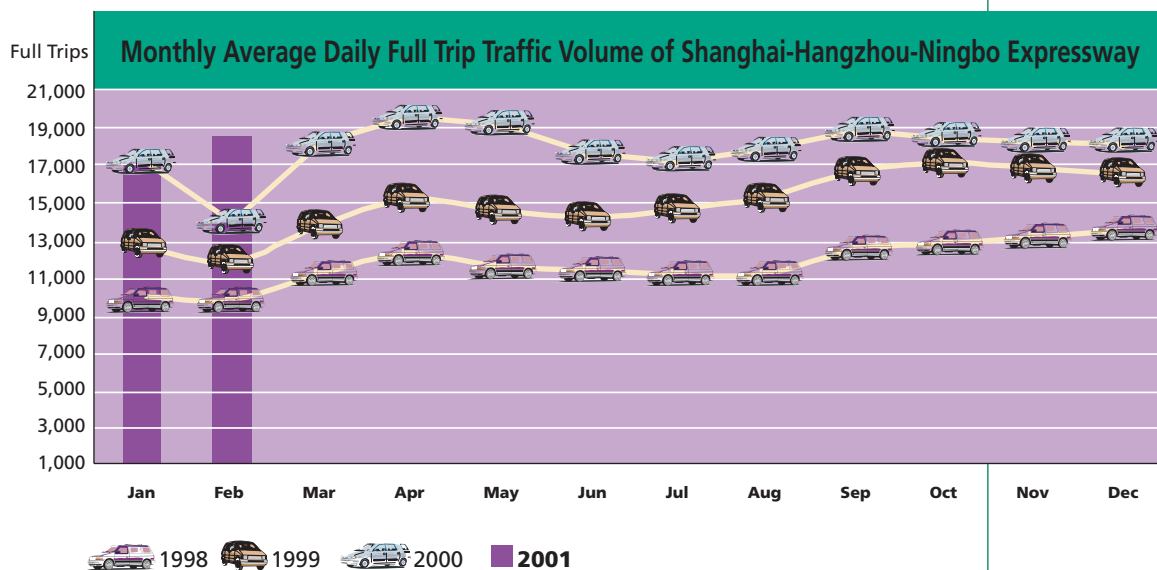
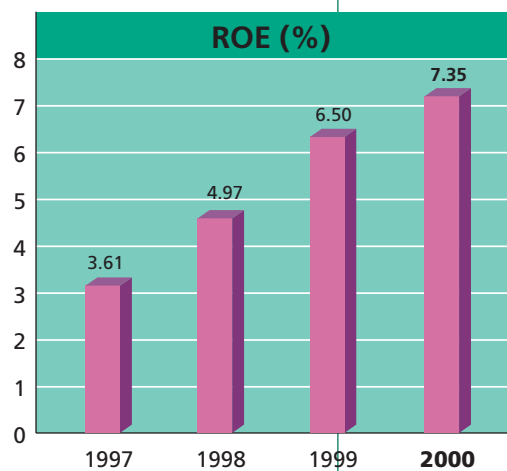
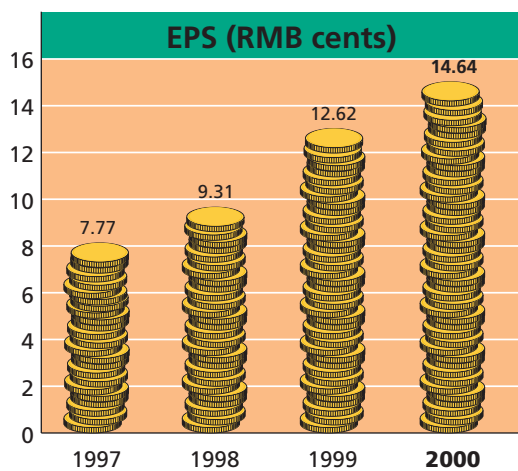
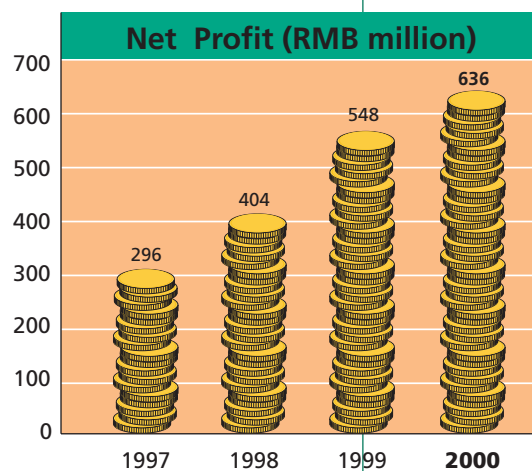
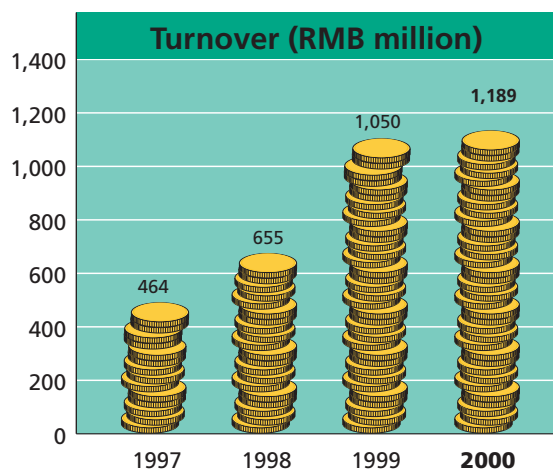
	Year ended December 31,			
	1997	1998	1999	2000
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover	463,692	655,069	1,050,498	1,188,604
Profit Before Tax	372,226	547,100	706,552	879,752
Tax	(58,639)	(73,795)	(71,810)	(186,391)
Minority Interests	(17,255)	(68,914)	(86,431)	(57,360)
Net Profit From Ordinary Activities				
Attributable To Shareholders	296,332	404,391	548,311	636,001
Earnings Per Share (EPS)	7.77 cents	9.31 cents	12.62 cents	14.64 cents

Return on Equity (ROE)

	1997	1998	1999	2000
ROE	3.61%	4.97%	6.50%	7.35%

Monthly Average Daily Full Trip Traffic Volume of Shanghai-Hangzhou-Ningbo Expressway

	1998	1999	2000	2001
January	9,881	12,559	17,125	17,290
February	9,683	11,688	13,853	18,450
March	11,096	13,686	18,082	—
April	12,159	15,061	19,458	—
May	11,485	14,474	19,061	—
June	11,264	14,066	17,496	—
July	11,004	14,546	17,058	—
August	11,115	15,204	17,738	—
September	12,448	16,610	18,750	—
October	12,710	17,012	18,300	—
November	13,028	16,744	18,155	—
December	13,424	16,386	17,990	—



CHAIRMAN'S STATEMENT



- **Steady corporate strategy**

The growth in 2000 was also a result of the Company's adherence to a steady corporate strategy. We emphasize the focus on toll road operations, and on the premise of consolidating our core business operations, we aim to further develop ancillary business and gradually expand into other infrastructure sectors. We set out strict criteria on returns and risks when choosing investment projects, and require these projects to be in line with the Company's long term growth strategy.

- Focusing on core business operation

The most important part of the Company's corporate strategy is its focus on developing the toll road business. Currently, 97.3% of the Company's turnover is attributable to the Company's core business of toll road operations. The business provides strong positive cash inflows to the Company, and serves as a solid foundation for the Company's growth.

The toll road business is a relatively new industry, in which we strive to become a leader. In order to enhance the Company's core competence in the toll road business, we adhere to the operating tenet of "pursue excellence", and continuously improve our key operations. We have established a quality assurance system which focuses on customers and have upgraded our toll collection system and maintenance techniques, enabling us to provide faster and more convenient service to our customers.

We have also expanded the Company's asset base and profitability through acquisition of additional interests in our existing expressways.

- Expanding ancillary businesses

The expansion of ancillary businesses can increase the value of toll roads. In addition to enjoying steady returns as evidenced from the petroleum business, the Group also excels in this regard, as evidenced by the 175% growth in the operation of its advertising business along its expressways.

- Looking into other infrastructure sectors

In order for the Company to become a leading infrastructure company in the PRC by 2010, we must be well informed of the developments in the infrastructure sector outside of toll road operations. We have begun research into this area which I believe is a necessary step before we expand into a new business arena.

- **An economy in transition**

We are in the era of a changing economy, which is undergoing a transition from a “planned economy” to a “market economy”, and from a “traditional economy” to a “new economy”. The most obvious characteristic of an economy in transition is the acceleration of changes, even to the extent of affecting people’s value systems.

The fact is that “change” is the only thing that will never change. The key is not whether to change or not, but how to manage change. We believe this means managing risks and grasping opportunities. While trying to minimize uncertainties, what we ought to do is to seize development opportunities and continuously provide value and good return to our shareholders.

- **Continuously improving corporate governance**

In order to ensure the Company’s strategy always stays on the right track, and that it sustains its excellent performance, the Company is committed to continuously improving its corporate governance.

As an important part and basis of improving its corporate governance, the second session of the Board and Supervisory Committee increased the number of non-executive and independent members. The profiles of the members of the Board and Supervisory Committee are provided on pages 34 to 39.

CHAIRMAN'S STATEMENT (Cont'd)

In addition, two sub-committees were formed under the Board in 2000. One is the Audit Committee, comprising five non-executive Directors, the other is the strategic development committee comprising four executive Directors.

We believe that the increase in these non-executive and independent members, as well as the setting up of the two sub-committees, will help us to make wiser strategic decisions and enhance internal controls.

What is worth mentioning is that two overseas investment funds have each invested in more than 10% of the Company's H Shares, thus becoming major overseas shareholders of the Company. We are very pleased with this development, and welcome more value-based long-term investors to become our shareholders. In addition, as a result of a transfer of state-owned shares, Huajian will become the Company's second largest shareholder. We believe that the joining of overseas institutional investors as well as Huajian as our major shareholders will provide further impetus to our efforts in improving corporate governance.

We are confident that we can do better in corporate governance, and will carry out the following two initiatives in addition to the above:

1. To use strategies such as salary, bonus and long-term motivation schemes to align the interest of the management with that of our shareholders; and
2. To gradually improve the Company's organization structure to closely monitor the strategic decisions made by the top management.

- **Corporate culture**

The Company promotes a corporate culture of "harmony and openness", because we believe a corporate culture like this is beneficial to our customers, employees, shareholders and the society at large. In particular, we encourage employees to work in a harmonious and open atmosphere, continuously learning new knowledge and techniques. Indeed, our staff have demonstrated team spirit while working diligently. We also welcome capable individuals to join our team.

Furthermore, the Company continues to improve corporate transparency, maintaining an open channel of communication with investors and shareholders. This is also an extension of the Company's corporate culture of "harmony and openness".

- **Outlook**

The Group's growth will come from the organic growth of its expressway assets such as the Shanghai-Hangzhou-Ningbo Expressway, as well as from the addition of more value-added projects. In the next few years, along with the deepening of the PRC's reforms, taking advantage of the PRC's imminent accession to the World Trade Organization and the Company's research into other sectors of infrastructure, we will seize more expansion opportunities, providing higher growth and creating more value to our shareholders.

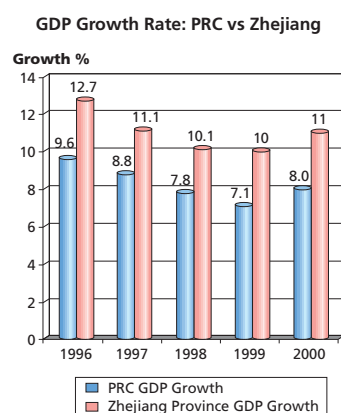
- **Appreciation**

Finally, I would like to thank every employee of the Group for their hard work during the past year, and to extend my sincere gratitude toward Mr. Ying Shudeng and Mr. Xu Yikuang, who have retired from their positions of Directors, for their invaluable contribution during the Company's establishment and development.

MANAGEMENT DISCUSSION AND ANALYSIS

The Operating Environment

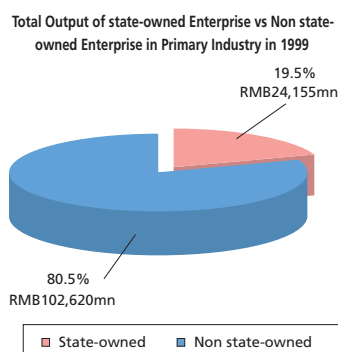
Three years after a financial crisis had swept through Asia, the PRC economy successfully achieved a turnaround in 2000 with a GDP growth rate of 8.0%. Once again, taking advantage of its strategic location and well-diversified economic structure, Zhejiang Province outpaced the national average GDP growth rate by three percentage points, making it one of the most economically dynamic provinces in the East Coast region of the PRC.



		PRC	Zhejiang	
	GDP (RMB bil.)	% Growth	GDP (RMB bil.)	Province % Growth
2000	8,940	8.0	603	11.0
1999	8,191	7.1	537	10.0
1998	7,835	7.8	499	10.1
1997	7,446	8.8	464	11.1
1996	6,789	9.6	415	12.7

Zhejiang Province is one of the leading provinces with the most active non state-owned primary industries in the country, most of which are small enterprises capable of adapting quickly to changing markets.

Composition of Value-added Primary Industry in Zhejiang Province



Type of enterprise	Output value		
	in 1999 (RMB million)	% of Total Output	Change from 1998
State-owned	24,155	19.5	-2.3
Non state-owned	102,620	80.5	+2.3

Economic Performance of East Coast Cities and Provinces in 2000

	GDP Total (RMB million)	% Growth	GDP Per Capita (RMB)
Shandong Province	766,210	10.1	8,673
Jiangsu Province	769,782	10.1	10,665
Shanghai	403,496	10.2	30,805
Zhejiang Province	536,489	10.0	12,037
Fujian Province	355,024	10.0	10,797
Guangdong Province	846,431	9.5	11,728

Accompanying the country's economic growth was the rapid expansion of its expressway network. Over the past five years, total mileage of expressways constructed in the PRC grew by 647% to reach approximately 16,000km, the third largest expressway network in the world after the United States and Canada. During the same period, total mileage of expressways constructed in Zhejiang Province reached approximately 627km, of which the Group operates approximately 390km.

Cumulative Mileage of Expressways in Zhejiang Province

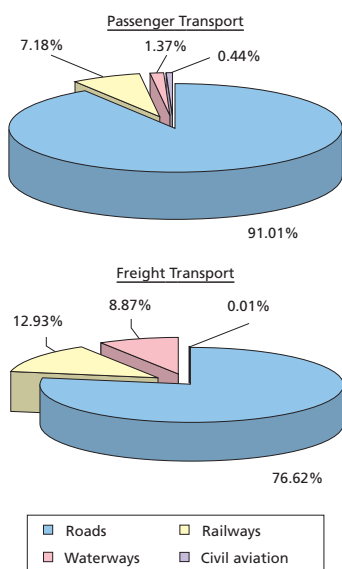
	1996	1997	1998	1999	2000	2001	2002
Mileage (km)	158	168	344	392	627	770*	1,310*

* Forecast figures

The rapid development of the expressway network in the PRC over the past five years contributed to increased proportions of passenger and freight transport carried by expressways. This in turn created even more demand for expressways, which are increasingly the preferred choice of transport by offering not only more convenient, but also faster and safer services compared to other modes of transportation.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Heavy Reliance on the Road Transportation



Proportion of Passenger and Freight Transport among Various Modes of Transportation in 1999

	Passenger	Freight
Roads	91.01%	76.62%
Railways	7.18%	12.93%
Waterways	1.37%	8.87%
Civil aviation	0.44%	0.01%
Total	100%	98.43%

In parallel with strong economic growth and an increasingly refined road network, ownership of civil vehicles including cars, buses and trucks in the PRC jumped from 11 million in 1996 to 16 million in 2000. Demand for civil vehicles in 2001 is estimated to reach 2.37 million, a substantial amount of which is expected to come from the increasing demand for private vehicle ownership.

Number of Civil Vehicles in the PRC

	1996	1997	1998	1999	2000
Number of vehicles ('000)	11,000	12,190	13,190	14,530	15,800

The combination of rapid growth in the economy and vehicle ownership, together with an increasingly refined expressway network, has created a favorable environment for the Group's core business of toll road operations.

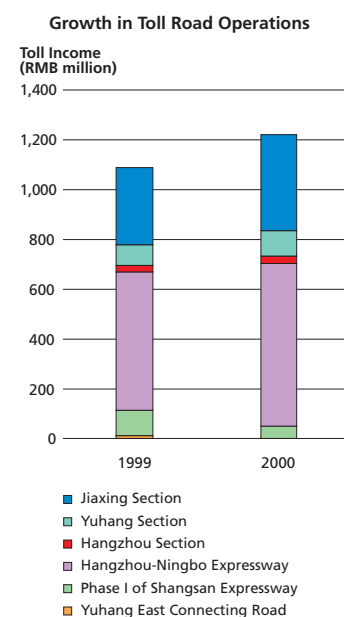
Analysis of Business Operations

Toll Road Operations

During the year under review, toll income for the Group reached approximately RMB1,219.7 million, representing an increase of approximately 12.1% over that of 1999. Contributions from Shanghai-Hangzhou-Ningbo Expressway (comprising Jiaxing Section, Yuhang Section and Hangzhou Section of the Shanghai-Hangzhou Expressway, and the Hangzhou-Ningbo Expressway) and Shangsans Expressway respectively, were as follows:

Expressways	Toll Income (RMB'000)	% of Total Toll Income	% of Growth over 1999
Shanghai-Hangzhou Expressway			
Jiaxing Section	389,570	31.9	+25.2
Yuhang Section	101,323	8.3	+24.1
Hangzhou Section	31,090	2.5	+20.2
Hangzhou-Ningbo Expressway	659,489	54.2	+18.6
Shangsans Expressway	38,200	3.1	N/A*
Total	1,219,672	100.00	—

* For details please see the section headed "Shangsans Expressway" below.





Shanghai-Hangzhou-Ningbo Expressway

The Shanghai-Hangzhou-Ningbo Expressway (Zhejiang section), totaling 248km in length, became fully operational in December 1998. With 20 toll stations and three service areas, it is the only expressway directly linking the three major cities of Shanghai, Hangzhou and Ningbo along the East Coast of China, forming part of the twelve "National Trunk Roads" planned by the central government.

Since the completion of the entire Shanghai-Hangzhou-Ningbo Expressway, the economic significance of the expressway to the surrounding region has become increasingly apparent. During the first ten months of 2000, contracted foreign investment in the cities and counties along the expressway amounted to 89% of the total contracted foreign investment in Zhejiang Province during the same period.

The importance of the Shanghai-Hangzhou-Ningbo Expressway in Zhejiang Province is further reflected by the outstanding growth of its traffic volume during 2000, which grew by approximately 20% on average over that of 1999, details of which are shown below:

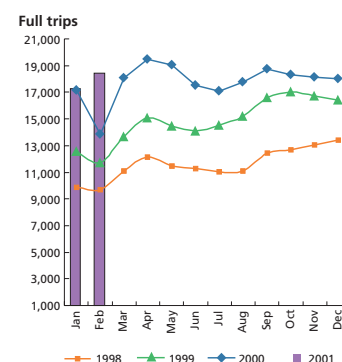
Monthly Average Daily Full Trip Traffic Volume in 2000

Month	Shanghai-Hangzhou Expressway								Hangzhou
	Hangzhou Section				Yuhang Section				-Ningbo
	(3.4km)				(11.1km)				Expressway
	(88.1km)				(145.0km)				
	Vehicles		Vehicles		Vehicles		Vehicles		
	Per Day	YoY%	Per Day	YoY%	Per Day	YoY%	Per Day	YoY%	
January	29,133	37.04	28,469	33.92	15,389	51.60	17,025	28.87	
February	22,382	19.17	21,845	18.42	12,771	20.61	13,693	17.18	
March	31,378	28.03	30,534	28.22	16,583	36.13	17,719	30.34	
April	33,914	26.59	32,996	26.31	18,258	31.56	18,801	28.31	
May	33,013	29.44	32,196	29.09	18,173	35.40	18,254	29.96	
June	30,554	27.08	29,677	26.45	16,619	27.77	16,779	22.04	
July	30,279	23.81	29,426	23.12	16,550	19.18	16,096	15.07	
August	31,861	24.60	30,977	23.89	17,410	19.89	16,576	13.43	
September	34,640	23.48	33,548	22.41	17,708	13.56	17,864	10.81	
October	33,096	12.61	32,233	11.60	17,679	9.35	17,249	5.72	
November	33,180	14.94	32,326	13.86	17,642	14.45	17,014	3.94	
December	33,045	18.12	32,123	16.59	17,474	17.50	16,854	4.20	
Average	31,403	23.29	30,559	22.57	16,869	23.48	17,005	17.41	

The growth trend in traffic volume throughout the year was fairly consistent with those of previous years. However, the percentage of growth during the second half of the year was substantially less than average. This was mainly due to the temporary closure of certain sections of parallel national roads for maintenance and renovations during the second half of 1999, which continued into the first half of 2000.

The temporary closure diverted additional traffic onto parallel sections of the Shanghai-Hangzhou-Ningbo Expressway, resulting in a higher basis of comparison in traffic volume for the second half of 2000. In addition, the occurrence of heavy fog in the fourth quarter of the year forced the expressway to be closed on several occasions, further curbing traffic volume growth.

Daily Traffic Volume of Shanghai-Hangzhou-Ningbo Expressway



MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

As the above special circumstances were short-term, the slowdown in traffic volume growth during the second half of 2000 is not expected to continue into 2001.

A toll rate adjustment took place on July 1, 1999, which increased distance-based mileage fees for Class 1 vehicles from 40cents per vehicle per km to 45cents per vehicle per km, resulting in an overall increase in toll charges by approximately 5%. The current toll rates and corresponding percentage of the various classes of vehicles traveling on the Shanghai-Hangzhou-Ningbo Expressway are as follows:

Vehicle		Entrance Fee	Mileage Fee	% of Total
Class	Classification Standards	(RMB/vehicle)	(RMB/vehicle/km)	Vehicles in 2000
1	Cars, vans and trucks of 2 tons or less	5.00	0.45	65.93
2	Buses and trucks of over 2 tons but not more than 5 tons	10.00	0.80	3.53
3	Minibus and trucks of over 5 tons but not more than 10 tons	15.00	1.20	9.31
4	Trucks of over 10 tons but not more than 20 tons	20.00	1.60	1.12
5	Trucks over 20 tons	25.00	2.00	0.12

Of the RMB1,181.5 million toll income collected on the Shanghai-Hangzhou-Ningbo Expressway in 2000, 14.5% was attributable to entrance fees.

Shangsan Expressway

The Shangsan Expressway (formerly known as the Shangyu-Sanmen Road) is a 142km four-lane expressway connecting the Hangzhou-Ningbo Expressway and the Ningbo-Taizhou-Wenzhou Expressway. It runs from Guzhu Interchange on the Hangzhou-Ningbo Expressway at the northern end to Wuao Interchange on the Ningbo-Taizhou-Wenzhou Expressway at the southern end, with a total of 11 toll stations and three service areas situated in between.



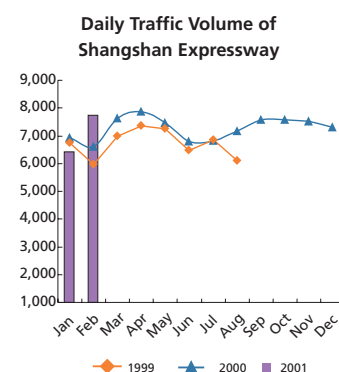
The construction of the Shangsang Expressway was divided into two phases. Phase 1, consisting of four short sections in Shangyu, Shenzhou, Xinchang and Tiantai with a total length of 37.5 km, has been operational since February 1997 whilst the construction of Phase 2 commenced in February 1998.

Due to the construction of Phase 2, Phase 1 had been only partially operational since January 2000, until the entire Phase 1 ceased toll collection in August. Average daily traffic volume in full trips during the period of partial operation was 6,699, representing a decrease of 7.9% over the daily average in 1999. The entire Shangsang Expressway was completed and formally opened to traffic and started toll collection on December 26, 2000.

In the concession agreement in relation to the Shangsang Expressway entered into between the Company and the Zhejiang provincial government dated October 31, 1997, the provincial government has undertaken to the Company that toll rates of Shangsang Expressway may be set at a level of not less than 90% of the toll rates charged for the Shanghai-Hangzhou-Ningbo Expressway.

Accordingly, the provincial government approved on December 25, 2000 the toll rates proposed for the Shangsang Expressway at the same level as those on the Shanghai-Hangzhou-Ningbo Expressway, except for the mileage fees for Class 1 vehicles which is 0.40 RMB/vehicle/km, with effect immediately upon the commencement of operation of the expressway.

The operation of, and the toll collection on, the Shangsang Expressway will be carried out by Shangsang Co, which will also be responsible for routine maintenance. Any major overhaul will be put out to tender. In addition, through a monitoring and toll collection center operated by the Company, Shangsang Expressway is placed under a unified operation system with the Shanghai-Hangzhou-Ningbo Expressway. Vehicles travelling through the intersection of these two expressways will not have to stop to settle fees.



MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Shida Road

Shida Road is a 9.45km connecting road operated by Shida Co. Its main function is to provide an additional route for traffic flow between the Shanghai-Hangzhou-Ningbo Expressway and the city of Hangzhou. Average daily traffic volume in 2000 grew by 60% over that of 1999 to reach approximately 4,104 vehicles, and toll income grew by 82% to reach approximately RMB11.03 million.

Although interest payments on commercial loans continued to outweigh operating profit, and Shida Co recorded a loss of approximately RMB15.57 million during the year, the operation of Shida Road nevertheless enhanced the overall accessibility of the Shanghai-Hangzhou-Ningbo Expressway. As the metro area of Hangzhou continues to expand, more vehicles will be using the Shida Road for access to the Shanghai-Hangzhou-Ningbo Expressway, and profitability of Shida Co is expected to improve accordingly.

Other Businesses

Petroleum Co

The global rise in crude oil and petroleum product prices during the year did not have a significant impact on the business performance of Petroleum Co. However, due to changes in the PRC distribution system of petroleum products which took place in late 1999, Petroleum Co's wholesale business in petroleum products was reduced by approximately 50%. In response to this latest development, Petroleum Co reduced its registered capital by RMB200 million, and re-focused its business operations on retail sales of petroleum products. Petroleum Co's net profit contribution to the Group in 2000 was approximately RMB28.1 million, representing a return on capital of approximately 26%.

Advertising Co

Advertising Co, which operates billboard advertising along expressways operated by the Group, was successful in reaching out to a wider market through extensive use of intermediate advertising agents. Turnover for the year was approximately RMB14.2 million, and net profit was approximately RMB12.7 million, representing increases of 175% and 326% over that of 1999, respectively.

JoinHands Technology

JoinHands Technology is a start-up company principally engaged in the application of computer technologies in the areas of anti-counterfeiting and modern logistics management networks. Since the Company's investment in April 2000, JoinHands Technology made a breakthrough in opening up markets with the introduction of its technology to the local merchandising market. Various degrees of headway in marketing were also made in areas such as agricultural products, finance, pharmaceuticals, publishing, taxation receipts and legal certificates. Turnover realized in 2000 was approximately RMB6.25 million, and a net profit of approximately RMB250,000 was realized for the first time.

Expressway Management

An essential part of the Company's continued efforts in improving core competence is the constant improvement in expressway management techniques. Following the adoption of pre-paid IC cards throughout the Shanghai-Hangzhou-Ningbo Expressway in October 1999 aimed at offering convenience to frequent expressway travelers, the Company further introduced a credit card payment option in September 2000.

Meanwhile, a complete upgrade of the toll collection system operated by the Group was completed in October 2000 to replace the slide-through IC cards used for recording vehicle and travel information with contactless IC cards. This latest upgrade has proved to increase efficiency of the toll collection operation.

On April 18, 2000, the Company initiated a campaign to establish a service quality assurance system covering all aspects of expressway management. The initiative was aimed at improving the quality of service on the expressways operated by the Group and establishing the Company as a leading toll road operator. During the campaign, a "Quality Handbook" and 41 procedures were produced following the principle of "Focus on Customers".

After four months of successful trial, on January 4, 2001, the China Classification Society Quality Assurance Ltd. certified the Company's expressway management system as conforming to Quality Standard GB/T19002-1994 idt ISO9002: 1994.



MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Human Resources

As of December 31, 2000, the Group had 1,937 employees, of whom 337 were administrative and management staff, 131 were engineering and technical staff and 1,469 were toll collection and maintenance staff.

The Company recognizes that its employees are its most precious asset, because a company can only be as good as the people who are running it. Employees are encouraged to combine self-learning with regular and topic-specific training programs provided by the Company to keep abreast of the latest technology and business management skills.

The Company structures its remuneration packages to link rewards more closely with performance so as to ensure salary competitiveness as well as accountability of various key positions. As an essential part of this policy, a performance assessment program was established whereby management staff have to undergo assessments by supervisors, colleagues and subordinates.

Project Development

The investment environment in the PRC was generally encouraging during the year as the PRC made preparations for its imminent accession to the World Trade Organization. The demand for funding for infrastructure construction continued to accelerate, and more projects were made available for investment, resulting in increased choices in, and stronger competition for, project investments at the same time.

During the year under review, the Company actively pursued a number of potential investment projects, two of which came to fruition with acquisition costs amounting to RMB191.3 million.

In April 2000, the Company invested an aggregate amount of RMB18.5 million to acquire a 30% equity interest in JoinHands Technology. Details of this acquisition were disclosed in the Company's announcement dated April 7, 2000.

In September 2000, the Company acquired a further 6% equity interest in Shangsang Co through two separate acquisitions for a total consideration of RMB172.8 million, details of which were disclosed in the Company's announcement dated September 25, 2000.

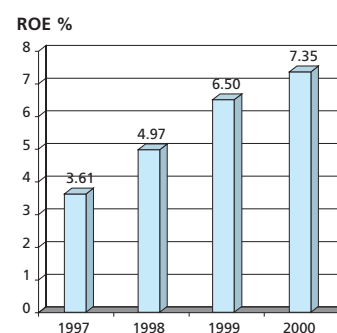
FINANCIAL ANALYSIS

The Company adopted a treasury policy characterized by pro-activeness with prudence. The Company reviews its liability profiles from time to time, and makes adjustments whenever it is deemed necessary. While strictly limiting investment risks, the Company intends to raise its gearing ratio in an effort to realize its aim of increasing the Company's return on shareholders' equity.

Return on Equity

During the year under review, return on shareholders' equity (the "ROE"), or, net profit attributable to shareholders/shareholders' equity, was approximately 7.35%. Growth in ROE since the establishment of the Company in 1997 is shown below:

	2000	1999	1998	1997
ROE	7.35%	6.50%	4.97%	3.61%



Liquidity

As at December 31, 2000, the interest bearing borrowings of the Group are summarized below:

Interest Portfolio and Committed Borrowing Facilities

	Gross		Floating		Committed
	Amount	Fixed Rate	Rate	Percentage	Borrowing
	RMB'000	RMB'000	RMB'000	%	Facilities RMB'000
World Bank loan (US\$)	1,778,529	—	1,778,529	51.6	313,564
Commercial bank loans	1,230,000	1,230,000	—	35.7	550,000
Policy loans	238,069	238,069	—	6.9	—
Bonds	200,000	200,000	—	5.8	—
Total	3,446,598	1,668,069	1,778,529	100.0	863,564

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Notes:

- The interest rates for World Bank Loans were floating rates, with US\$97,733,910 charged at the cost of qualified borrowings as reasonably determined by the World Bank plus a margin of 0.5%, and US\$117,133,332 charged at LIBOR plus 0.5%;
- The fixed rates of the commercial bank loans range from 5.022% to 5.94% per annum (1999: from 5.022% to 6.327% per annum);
- Policy loans bear interest ranging from 3% to 5.5% per annum (1999: from 3% to 5.5% per annum); and
- The bonds issued by Shangsang Co bear a fixed interest rate of 3.78% per annum (1999: Nil). The interest will be repaid upon the expiry of the bonds.

The respective maturity profiles of the Group's interest bearing borrowings are shown below:

Maturity Profiles

	Gross Amount RMB'000	Within 1 year RMB'000	2-5 years, Inclusive RMB'000	Beyond 5 years RMB'000
Floating rates				
World Bank loan (US\$)	1,778,529	838,348	286,328	653,853
Fixed rates				
Commercial bank loans	1,230,000	970,000	260,000	—
Policy loans	238,069	23,469	202,000	12,600
Bonds	200,000	—	200,000	—
Total	3,446,598	1,831,817	948,328	666,453

Further details on the interest bearing borrowings of the Group, together with 1999 comparative figures, are set out in note 25 to the financial statements.

Being engaged in the toll road operations, the Group has generated strong positive cash inflows from the operating activities since its establishment, and the management does not envisage any liquidity problem for the Group.

	2000	1999	1998	1997
	RMB mil.	RMB mil.	RMB mil.	RMB mil.
Operating cash inflows	1,040	1,048	611	454

Capital Expenditure Commitments and Financial Resources

As at December 31, 2000, the Group and the Company had capital expenditure commitments of approximately RMB3,610,550,000 and RMB1,741,080,000, respectively, details of which are set out below:

	Group	Company
	RMB'000	RMB'000
1st stage of the project to widen the Shanghai-Hangzhou-Ningbo Expressway (Hongken to Guzhu section)	394,194	394,194
2nd stage of the project to widen the Shanghai-Hangzhou-Ningbo Expressway (Shenshi to Hongken section)	860,000	860,000
Acquisition of additional 18.4% equity interest in Shangsang Co.	485,000	485,000
Remaining construction works of the Shangsang Expressway	1,816,980	—
Construction works under Contract No.11 of the Shanghai-Hangzhou Expressway	52,490	—
Others	1,886	1,886
Total	3,610,550	1,741,080

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

As disclosed in the press announcement dated February 2, 2001, the Company intends to apply to the CSRC and the Shanghai Stock Exchange of the PRC for the issue by way of public offer and placement of not more than 300 million A Shares in 2001. The total amount of proceeds from the proposed A Share issue is expected to be approximately RMB1 billion.

Subject to obtaining the requisite shareholder approval and government and regulatory approvals, the Company intends to fund the two projects to widen the Shanghai-Hangzhou-Ningbo Expressway with the proceeds from the proposed A Share issue. The balance of the proceeds will be used to fund the proposed acquisition of an additional 18.4% equity interest in Shangsang Co. If the proceeds from the A share issue are not sufficient for funding the above projects/transaction, internal resources and/or bank loans will be used.

The remaining construction works of the Shangsang Expressway and construction works under Contract No.11 of the Shanghai-Hangzhou Expressway will be funded by the internal resources and/or bank loans.

Capital Structure

The Group's capital structure as at December 31, 2000 and comparative figures in 1999 are summarized below:

	As at December 31, 2000		As at December 31, 1999	
	Gross Amount	Percentage	Gross Amount	Percentage
	RMB'000	%	RMB'000	%
Shareholders' equity	8,658,117	59.4	8,433,840	60.6
Fixed rate liabilities	1,668,069	11.4	1,408,069	10.1
Floating rate liabilities	1,778,529	12.2	1,751,828	12.6
Interest-free liabilities	2,481,705	17.0	2,331,951	16.7
Total	14,586,420	100.0	13,925,688	100.0
Gearing ratio 1	68.5%		65.1%	
Gearing ratio 2	18.7%		24.3%	

Note: The computation of gearing ratio 1 represents the sum of fixed rate liabilities, floating rate liabilities and interest-free liabilities vs. the equity. The computation of gearing ratio 2 represents the total amount of the long-term liabilities vs. the equity.

Cash and Debt Management

As of December 31, 2000, the Group held (in RMB equivalent) RMB2,092,299,000 in cash and cash equivalents, time deposits and other short-term investments, and had RMB3,446,598,000 in borrowings.

	As at December 31, 2000		As at December 31, 1999	
	Group	Company	Group	Company
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalent				
RMB	390,449	221,444	294,025	173,403
US\$ (in RMB equivalent)	932,337	890,215	1,461	1,384
HK\$ (in RMB equivalent)	727	727	4,768	4,761
Time deposits				
RMB	273,764	168,764	127,931	127,931
US\$ (in RMB equivalent)	111,754	53,807	934,628	934,628
HK\$ (in RMB equivalent)	5,303	5,303	5,867	5,867
Short term investments				
RMB	377,965	180,294	1,083,394	801,766
Total				
RMB	1,042,178	570,502	1,505,350	1,103,100
US\$ (in RMB equivalent)	1,044,091	944,022	936,089	936,012
HK\$ (in RMB equivalent)	6,030	6,030	10,635	10,628
Borrowings				
RMB	1,668,069	800,000	1,403,569	1,090,000
US\$ (in RMB equivalent)	1,778,529	808,902	1,756,328	894,490

The average interest rates for bank deposits in US dollars, HK dollars and RMB were 7.0%, 5.5% and 2.1%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Interest expenses during the year amounted to approximately RMB224,318,000 (including interest capitalized as part of the cost of construction in progress amounting to approximately RMB27,235,000). With profit before interest and taxation at approximately RMB849,659,000, the interest cover provided was approximately 4.3 (1999: 4.5).

Short-term Investments

Short-term investments in treasury notes and close-ended security investment funds were carried out by the Group as part of its cash management scheme to maximize returns on funds temporarily uncommitted while limiting investment risks.

Pre-tax income from short-term investments in 2000 amounted to approximately RMB153,566,000 (1999: RMB77,577,000), representing an average investment return rate of 12.0% (1999: 8.2%).

Foreign Exchange Exposure

The substantial portion of bank deposits was maintained in US dollars to reduce the Group's exposure to foreign exchange risks. Due to relatively high interest rates charged on the Group's outstanding World Bank loans, the Company decided to use its US dollar bank deposits for the early repayment of approximately US\$94.2 million in World Bank loans, settlement of which is expected to be completed during the first half of 2001.

OUTLOOK FOR 2001

Economic outlook in 2001 for Zhejiang Province and its neighboring cities and provinces continue to be optimistic.

The provincial government recently announced a 9% annual GDP growth target for the next five years from 2001 to 2005, while accelerating the urbanization process already underway in many parts of Zhejiang Province. With the pending accession of the PRC to the World Trade Organization, Zhejiang Province is well positioned both geographically and economically to enter a new stage of rapid economic growth.

Steady growth in personal wealth and decrease in passenger car prices over the past few years have created a sizeable demand in private vehicle ownership, especially in the economically dynamic East Coast region of the PRC. This potential demand will lead to a surge in road traffic, benefiting toll road operators such as the Company.

Preparation for introduction of a fuel tax designed to replace certain administrative fees has been completed, and the new tax is expected to be launched later in 2001. The elimination of fixed administrative fees is likely to provide another push to unleash the potential demand in private vehicle ownership.

The first stage of the project to widen the Shanghai-Hangzhou-Ningbo Expressway (approximately 44km, from Hongken to Guzhu) which commenced on October 18, 2000 will see relevant roadbeds prepared in 2001. The construction is not expected to affect the normal operation of existing roadways in any significant way.

The Shangsang Expressway was successfully opened to traffic before the end of 2000, bringing the Group's toll road mileage from approximately 285 km to approximately 390 km. Toll income from the newly opened Shangsang Expressway will become a major revenue contributor to the Group in 2001, in addition to the network effect created by its direct linkage with the Shanghai-Hangzhou-Ningbo Expressway. The Company is confident about the continued strong growth in traffic volume on these expressways in 2001.

The Company intends to apply to the CSRC and the Shanghai Stock Exchange of the PRC for the issue by way of public offer and placement of not more than 300 million A Shares in 2001. Details of the proposed application and proposed use of proceeds were disclosed in the Company's announcements dated January 10, 2001 and February 2, 2001, respectively.

The Company will strive to seize the moment to further expand its business operations in the toll road sector, while continuing to seek investment opportunities in other infrastructure sectors with maximizing shareholder value as the ultimate objective.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PROFILES

Executive Directors



Mr. GENG Xiaoping, age 52, is the Chairman and General Manager of the Company responsible for the overall management of the Company's businesses. Mr. Geng graduated from the East China College of Political Science and Law and obtained a bachelor's degree in law in 1984. From 1979 to 1991, he held various positions at the People's Procuratorate of Zhejiang Province including Secretary, Division Chief and Deputy Procurator. In 1991, he was appointed the Deputy Director of the Zhejiang Provincial Expressway Executive Commission, responsible for the business operation and administration of the expressway system in the Zhejiang Province. Mr. Geng has been the Chairman and General Manager of the Company since March 1997.



Mr. FANG Yunti, age 51, senior engineer, is the Deputy General Manager and Chief Financial Officer of the Company responsible for the planning, finance, project development, investment and administration of the Company. Mr. Fang graduated from Qing Hua University and majored in automotive engineering in 1976. From 1983 to 1988, he was the Deputy General Manager of Zhejiang Province Automobile Transport Company. From 1988 to 1990, he was the Chief Engineer at the Provincial Road Transport Company. In 1991, he was appointed as the Head of the Operating Administrative and Technical Equipment Divisions of the Zhejiang Provincial Expressway Executive Commission where his responsibilities included supervision of the operation management and equipment purchasing of the Shanghai-Hangzhou-Ningbo Expressway. Mr. Fang was a Director and Deputy General Manager of the Company from March 1997 to February 2000 responsible for the overall operations of the Shanghai-Hangzhou-Ningbo Expressway including responsibility for technical equipment used by the Company in its operations.

Mr. ZHANG Jingzhong, age 37, senior lawyer, is the Secretary to the Board. Mr. Zhang graduated from Hangzhou University in July 1984 obtaining of a bachelor's degree in law. In 1984, he joined the Zhejiang Provincial Political Science and Law Policy Research Unit. From 1988 to 1994, he was the Associate Director of Hangzhou Municipal Foreign Economic Law Firm. In 1992, he obtained the qualifications required by the regulatory authorities in China in order to practice in securities law. In January 1994, Mr. Zhang became Senior Partner at the T&C Law Firm in Hangzhou. Mr. Zhang has been a Director and Secretary to the Board since April 1997.



Mr. XUAN Daoguang, age 56, senior engineer, is the Deputy General Manager of the Company responsible for the operation, maintenance and equipment of the Company. Mr. Xuan graduated from the Tong Ji University in 1967 with a degree in engineering, and majored in the construction and design of bridges and tunnels. Mr. Xuan has 31 years of experience in engineering maintenance with the Road Administration Division and has held positions such as Section Head and Head of the Road Administrative Division of Jinhua City. He has worked for the Zhejiang Provincial Expressway Executive Commission and was responsible for the administration of engineering work within Zhejiang Province, including repair and maintenance on the completed sections of the Shanghai-Hangzhou-Ningbo Expressway. Mr. Xuan was a Director and Manager of the Company from March 1997 to February 2000 responsible for repair and maintenance work.



Non-executive Directors

Mr. XIA Linzhang, age 57, senior engineer, is a member of the Audit Committee. Mr. Xia graduated from Jiao Zou Mining College. He was the head of Suichang Coal Mine, Standing Deputy Head and Head of Suichang County, Zhejiang Province. Mr. Xia was appointed the Chief of the Planning and Finance Division of the Zhejiang Provincial Expressway Executive Commission. He is currently the Deputy General Manager and Manager of Provincial Investment Co responsible for finance. Mr. Xia was the Chairman of Supervisory Committee from March 1997 to February 2000.





Ms. ZHANG Chunming, age 36, senior lawyer, is a member of the Audit Committee. Ms. Zhang graduated from the East China College of Political Science and Law in Shanghai obtaining a bachelor's degree in law in 1986. From 1987 to 1994, she practiced as a lawyer with the Zhejiang Provincial Economics Law Firm in Hangzhou where her practice included financial, securities and property matters. Ms Zhang has also obtained the qualifications required by the regulatory authorities in China in order to practice in securities law and, in 1994, she spent six months undergoing training in Hong Kong. Since 1994 she has been a Partner and Director of Zhejiang Shield Law Office. Ms. Zhang was a Director and Manager of the Company from March 1997 to February 2000 responsible for legal and securities related issues.

Independent non-executive Directors



Dr. HU Hung Lick, Henry G.B.S. O.B.E. Ph.D. J.P., age 81, is a member of the Audit Committee. Dr. Hu has been practicing as a barrister for over 45 years and is currently the President of Shue Yan College in Hong Kong, a member of the Standing Committee of the Chinese People's Political Consultative Congress and the China International Economic and Trade Arbitration Commission. Dr. Hu is also an adviser to the China Research Committee of Juvenile Delinquency. Dr. Hu has been an independent non-executive Director since March 1997.



Mr. TUNG Chee Chen, age 58, Chairman of Orient Overseas (International) Limited, is the Chairman of the Audit Committee. Mr. Tung was educated at the University of Liverpool, England, where he received his Bachelor of Science degree. He later acquired a Master's degree in mechanical engineering at the Massachusetts Institute of Technology in the United States. He is currently a registered Professional Engineer in the State of California. Mr. Tung has been an independent non-executive Director since March 1997.

Mr. ZHANG Junsheng, age 64, professor, is a member of the Audit Committee. Mr. Zhang graduated from Zhejiang University in 1958, and was a lecturer, an associate professor, an advising professor at the Zhejiang University, and a professor concurrently at, amongst other universities, the Zhongshan University. In 1980, he became the Deputy General Secretary of Zhejiang University. In 1983, Mr. Zhang served as Deputy General Secretary of the Hangzhou City Government. In 1985, he began to work for the Xinhua News Agency, Hong Kong Branch, and became its Deputy Director in 1987. Mr. Zhang took up the post of General Secretary of Zhejiang University in September 1998. In addition, Mr. Zhang is currently a Special Advisor to the Zhejiang Provincial Government, an Advisor to the Sichuan Provincial Government, and a Senior Advisor to the Shenzhen City Government.

Supervisors

Mr. MA Kehua, age 48, senior economist, is the Chairman and non-executive member of the Supervisory Committee. Mr. Ma graduated from Shanghai Railway Institute in 1977, after which he worked as an engineer at Shanghai Railway Bureau No. 1 Construction Company and the Plumbing and Electricity Section of Shanghai Railway Bureau, Hangzhou Branch. Mr. Ma was in charge of the Planning and Finance Division at the Zhejiang Local Railway Company, and became Deputy Division Chief and Division Chief of Zhejiang Jinwen Railway Executive Commission responsible for material supply since 1993. Mr. Ma took up the post of Deputy General Secretary of Zhejiang Construction and Investment Company in March 1999, and is currently the Deputy General Secretary of Provincial Investment Co.



DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PROFILES (Cont'd)



Mr. NI Ciyun, age 50, senior economist, is a member of the Supervisory Committee representing the staff and workers. Mr. Ni graduated from Tianjin University in 1976 majoring in mechanical manufacturing. He was a Deputy Manager and Manager at Zhejiang Jiaxing Shipping Company since 1981, Deputy Director of Jiaxing Communications Bureau in 1989, Director of Zhapu Port Executive Commission in 1990, Director of Jiaxing Zhapu Port Authority in 1992, and Deputy Director of Shanghai-Hangzhou-Ningbo Expressway Jiaxing Construction Executive Commission in 1993. Mr. Ni is currently the Chief Administrator of the Jiaxing Section of the Shanghai-Hangzhou-Ningbo-Expressway.



Mr. LU Fan, age 45, senior economist, is an independent non-executive member of the Supervisory Committee. Mr. Lu has a master's degree in economics and was an assistant researcher at the World Economy Research Institute of Zhejiang Social Science Academy. He became the Vice-Director of Zhejiang Asia-Pacific Research Institute in 1991. Mr. Lu joined Zhejiang Securities Co., Ltd. in 1994. He was the General Manager of the Investment Banking Division and is currently the Vice President of Zhejiang Securities Co., Ltd.

Mr SUN Xiaoxia, age 38, professor, is an independent non-executive member of the Supervisory Committee. Mr. Sun graduated from Wuhan University, School of Law with a master's degree in law. He had worked as Assistant Lecturer, Lecturer, Assistant Professor and Tutor for graduate students at Hangzhou University, School of Law. Mr. Sun is currently Deputy Dean of School of Law and Dean of Department of Law, Zhejiang University. In addition, Mr. Sun is a lawyer with Zheda Law Firm, a standing member of China Jurisprudence Research Society, a member of the International Society for Philosophy of Law and Social Philosophy ("IVR"), and a member of the IVR's China Branch.



Mr. ZHENG Qihua, age 38, senior accountant, is an independent non-executive member of the Supervisory Committee. He is currently the Deputy General Manager of the Zhejiang Pan-China Certified Public Accountants, and guest professor at Zhejiang Finance and Economics Institute. Mr. Zheng was amongst the first batch of Chinese registered accountants to obtain qualifications required for practicing accountancy involving securities in 1992. He has working and training experience in Hong Kong and Singapore, and spent approximately six months working with the Listing Division of China Securities Regulatory Commission during 1997 and 1998.



REPORT OF THE DIRECTORS



Segmented information

During the year, the entire turnover and contribution to profit from operating activities of the Group was derived from Zhejiang Province, in 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, 2000 is as follows:

	Turnover Rmb'000	Contribution to profit from operating activities Rmb'000
By activity:		
Toll income	1,157,098	1,024,432
Advertising income	14,535	11,261
Road maintenance income	4,853	3,409
Others	12,118	3,666
	<u>1,188,604</u>	<u>1,042,768</u>

Results and dividends

The Group's profit for the year ended December 31, 2000 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 58, 60, 61, 64 and 65.

An interim dividend of Rmb0.02 per share (approximately HK\$0.0187) was paid on October 31, 2000. The Directors recommend the payment of a final dividend of Rmb0.07 per share (approximately HK\$0.065) in respect of the year, to shareholders on the register of members on March 27, 2001. This recommendation has been incorporated into the financial statements.

Summary of financial information

The following is a summary of the consolidated results, and of the assets and liabilities of the Group prepared on the basis set out in the notes below:

	Year ended December 31				
	2000	1999	1998	1997	1996
Results	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover	1,188,604	1,050,498	655,069	463,692	273,843
Operating costs	(248,429)	(298,417)	(220,537)	(146,046)	(33,867)
Gross profit	940,175	752,081	434,532	317,646	239,976
Other revenue	242,888	167,528	234,573	197,034	40,928
Administrative expenses	(64,978)	(60,320)	(45,611)	(31,126)	(57,716)
Other operating expenses	(75,317)	(2,374)	(635)	(978)	(243)

REPORT OF THE DIRECTORS (Cont'd)

	Year ended December 31				
	2000	1999	1998	1997	1996
Results	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Profit from operating activities	1,042,768	856,915	622,859	482,576	222,945
Finance costs	(197,083)	(172,922)	(94,741)	(110,350)	(62,981)
Share of profit in associates	40,584	22,559	18,982	—	—
Share of loss in a jointly-controlled entity	(6,517)	—	—	—	—
Profit before tax	879,752	706,552	547,100	372,226	159,964
Tax	(186,391)	(71,810)	(73,795)	(58,639)	(60,296)
Profit before minority interests	693,361	634,742	473,305	313,587	99,668
Minority interests	(57,360)	(86,431)	(68,914)	(17,255)	186
Net profit from ordinary activities attributable to shareholders	636,001	548,311	404,391	296,332	99,854
Earnings per share	14.64 cents	12.62 cents	9.31 cents	7.77 cents	3.43 cents

	Year ended December 31				
	2000	1999	1998	1997	1996
Assets and liabilities	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Total assets	14,586,420	13,925,688	12,993,990	11,466,377	6,222,082
Total liabilities	4,432,939	4,042,416	3,609,038	2,598,595	3,013,678
Minority interests	1,495,364	1,449,432	1,245,782	667,714	435,073
Net assets	8,658,117	8,433,840	8,139,170	8,200,068	2,773,331

Notes:

1. The consolidated results of the Group for the year ended December 31, 1999 and 1998, together with the pro forma consolidated results of the Group for the two years ended December 31, 1997 have been extracted from the Company's 1999 annual report dated February 22, 2000, while those of the year ended December 31, 2000 were prepared based on the consolidated income statement as set out on page 58 of the financial statements.
2. The 2000 earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended December 31, 2000 of Rmb636,001,000 (1999: Rmb548,311,000) and the 4,343,114,500 shares (1999: 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. None of the Directors, Supervisors or their associates, or any shareholder (which to the knowledge of the Directors and Supervisors own more than 5% of the Company's share capital) have any interest in the five largest customers and suppliers of the Group.

REPORT OF THE DIRECTORS (Cont'd)

Connected transactions

Details of the connected transactions of the Group (the “Connected Transactions”) carried out in the year, which the Hong Kong Stock Exchange has granted a waiver (for compliance with Chapter 14 of the Listing Rules pursuant to its letter of March 10, 2000), are disclosed in note 36 to the financial statements.

The independent non-executive Directors have reviewed the Connected Transactions and confirmed that, during the period from January 1, 2000 to December 31, 2000, 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 Hong Kong 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 period from January 1, 2000 to December 31, 2000.

Fixed assets

Details of movements in the fixed assets of the Company and the Group are set out in note 12 to the financial statements.

Capital commitments

Details of the capital commitments of the Company and the Group as at December 31, 2000 are set out in note 33 to the financial statements.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 13 to the financial statements.

Jointly-controlled entity and associates

Particulars of the Company's and the Group's interests in a jointly-controlled entity and associates are set out in notes 14 and 15 to the financial statements, respectively.

Interest capitalised

During the year, interest capitalised as part of the costs of construction in progress amounted to approximately Rmb27,235,000 (1999: Rmb14,843,000).

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

Distributable reserves

As at December 31, 2000, the Company's reserves available for distribution by way of cash or in kind, calculated in accordance with relevant rules and regulations, amounted to Rmb339,302,000. In addition, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,633,159,000 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.

REPORT OF THE DIRECTORS (Cont'd)

Substantial shareholders

As at December 31, 2000, the following shareholders held 10% or more of the share capital of the Company according to the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interest) Ordinance (Chapter 396 of the Law of Hong Kong) ("SDI Ordinance"):

	Number of shares	Percentage
Provincial Investment Co	2,909,260,000	66.99%
	(domestic shares)	
HKSCC Nominees Limited	1,397,795,499	32.18%
	(H Shares)	

Purchase, sale or redemption of the listed securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Bank loans and other loans

Particulars of the bank loans and other loans of the Company and the Group are set out in note 25 to the financial statements.

Trust deposits

As at December 31, 2000, except for a trust deposit of Rmb150,000,000 with Huaxia Bank, Hangzhou Branch, the Company does not have any trust deposit, nor any time deposit with any other financial institution in the PRC. All of the Company's deposits have been placed with commercial banks in the PRC and financial institutions in Hong Kong. The Company has not encountered any difficulty in the withdrawal of funds.

Use of IPO proceeds from the issue of H Shares

The net IPO proceeds of the Company in 1997 amounted to approximately Rmb3,524 million. Details of the applications of such proceeds as at December 31, 2000 are set out below:

- Approximately Rmb534.45 million was applied as capital contribution to Jiaxing Co for completing construction works of the Jiaxing Section of the Shanghai-Hangzhou-Ningbo Expressway;
- Approximately Rmb5.34 million was used in relation to Contract No.8 of the Hangzhou-Ningbo Expressway;
- Approximately Rmb637.48 million was used towards repayment of loans and payment of interest;
- Approximately Rmb29.4 million was used to purchase approximately 2.44 per cent of the registered capital of Jiaxing Co;
- At the time of the Company's listing, approximately Rmb900 million was reserved for the potential investment in the Huzhou Section of the Hangzhou-Nanjing Expressway. However, in November 1999, the Company, with the approval from its shareholders, applied this portion of the IPO proceeds to pay for the consideration for the acquisition of an approximately 30.748 per cent interest in the capital of Jiaxing Co (the "Acquisition"). The total consideration in relation to the Acquisition was approximately Rmb914.7 million, and was funded entirely by the IPO proceeds;
- Approximately Rmb1,224 million was used as capital contribution to Shangsang Co;
- Approximately Rmb38 million was used as capital contribution to Petroleum Co;

As at December 31, 2000, the Company used approximately Rmb3,383 million, or approximately 96% of its IPO proceeds. The balance of approximately Rmb141 million was deposited in commercial banks in the PRC and invested in marketable securities.

REPORT OF THE DIRECTORS (Cont'd)

Directors

The Directors during the year were:

Executive Directors

Mr. Geng Xiaoping

Mr. Fang Yunti

Mr. Zhang Jingzhong

Mr. Xuan Daoguang

As an important part and basis of improving its corporate governance, the second session of the Board and Supervisory Committee increased the number of non-executive and independent members. We believe that the increase in these non-executive and independent members will help us to make wiser strategic decisions and to build a company with improved corporate governance.

Non-executive Directors

Mr. Xia Linzhang

Ms. Zhang Chunming

Independent non-executive Directors

Dr. Hu Hung Lick, Henry

Mr. Tung Chee Chen

Mr. Zhang Junsheng

All of the Directors were appointed on February 28, 2000. In accordance with the Company's articles of association, all the Directors continue in office.

Directors and senior management biographies

Biographical details of the Board and the senior management of the Group are set out under the Management Profile section of this report from pages 34 to 39 .

Directors' and Supervisors' service contracts

Each of the Executive Directors and one of the Supervisors have entered into a service agreement with the Company, with effect from 28 February 2000, for an initial term of three years.

Save as disclosed above, none of the Directors and Supervisors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' and Supervisors' interests in contracts

None of the Directors or Supervisors had any material interest, whether direct or indirect, in any contract of significance to which the Company, or any of its subsidiaries, fellow subsidiaries or its holding company was a party, at the end of the year or at any time during the year.

Directors' and Supervisors' interests in shares

As at December 31, 2000, none of the Directors, Supervisors or their associates had any personal, family, corporate or other interests in any equity or debt securities of the Company or any associated corporations (as defined in the SDI Ordinance) as recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.

Directors' and Supervisors' rights to subscribe for shares or debentures

At no time during the year was the Company or any of its subsidiaries, jointly-controlled entities, associates or fellow subsidiaries or its holding company a party to any arrangement enabling any Directors or Supervisors or the spouses or children under the age of 18 of any such Directors or Supervisors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. No rights to subscribe for shares in, or debentures of the Company have been granted by the Company to, nor have any such rights been exercised by, any person during the year and up to the date of this report.

REPORT OF THE DIRECTORS (Cont'd)

Directors' and Supervisors' remuneration

Rmb'000

Fees	—
Basic salaries, other allowances and benefits in kind	1,440
Pension scheme contributions	—
Bonuses paid and payable	477
	<hr/>
	1,917
	<hr/>

The amount disclosed above included remuneration of HK\$145,000 payable to each of the two independent non-executive Directors (1999: HK\$120,000), and Rmb5,000 payable to another independent non-executive Director (1999: Nil). There was no arrangement under which any of the Directors or Supervisors waived or agreed to waive any remuneration.

Highest paid individuals

The five highest paid individuals of the Company were all Directors. The aggregate amount paid/payable to them for the year was approximately Rmb1,674,600 (1999: Rmb762,000). None of them received remuneration in excess of HK\$1 million.

Retirement scheme

As required by the state regulations of the PRC, the Group participates in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. The Group is required to make contributions to registered insurance companies at rates ranging from 20% to 21% of the average basic salaries of the previous year within the geographical area where the employees are under employment with the Group. The Group has no obligation for the payment of pension benefits beyond such annual contributions to the registered insurance companies. When an employee leaves the scheme, the Company is not entitled to forfeit any amount of the contributions that it has previously made. Hence, no forfeited contribution was used by the Company to reduce the level of its contributions during the year. During the year, contributions to registered insurance companies made by the Group under the defined contribution retirement scheme amounted to Rmb4,358,000 (1999: Rmb3,052,000).

Pre-emptive rights

There is no provision for pre-emptive rights in the Company's articles of association or the laws of the PRC, which would require the Company to offer new shares on a pro rata basis to existing shareholders.

Accommodation benefits for employees

According to the relevant rules and regulations in the PRC, the Group and its employees are each required to make contributions to an accommodation fund, which are in proportion to the salaries and wages of the employees at an average rate of 7%. There are no further obligations beyond the contribution to the accommodation fund. In 1998, in addition to the contribution made to the accommodation fund as required, the Company purchased apartments for the sum of Rmb19 million and made a provision of Rmb15.3 million in that year for the estimated loss on their disposal. In 2000, the Company sold most of the purchased apartments amounting to Rmb15.5 million to certain eligible employees of the Company; the aggregate proceeds received as at December 31, 2000 amounted to Rmb2.6 million.

Save as disclosed above, the Company did not own any staff quarters and did not dispose of any staff quarters during the year.

On September 6, 2000, the Ministry of Finance issued a directive (the "Directive") numbered Caiqi [2000] 295 in respect of accounting policies in relation to the national enterprises housing reform. The Directors have examined the relevant issue, and has concluded that the Directive does not have any significant impact on the results and financial standing of the Group for the year.

Compliance with the Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

Auditors

Ernst & Young will retire and a resolution for their reappointment as international auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Geng Xiaoping

Chairman

Hangzhou, Zhejiang Province, the PRC

March 5, 2001

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

The new session of the Supervisory Committee began to discharge its duties on March 1, 2000. In order to strengthen the independence of the committee, the Company reorganized the structure whereby the number of members was increased from three to five, and except for one non-executive supervisor and one supervisor representing staff and workers of the Company, the other three members were all independent non-executive supervisors.

The committee held two meetings in 2000. At the first meeting, among others, the Chairman was elected. At the second meeting, the committee reviewed the Company's financial statements and finalized rules of procedure.

In compliance with the Company Law of the PRC, the relevant laws and regulations of Hong Kong and the Company's articles of association, the five-member committee earnestly discharged its statutory supervisory duties, safeguarding the lawful interests of the shareholders and the Company. The main tasks of the committee in 2000 included, among others, attending board meetings; advising on important issues such as the Company's project development, investment decisions and dividend policies; participating in major functions of the Company, and through other means, understanding and monitoring the conduct of the Directors, General Manager and other senior officers in business management and daily operations; and carefully reviewing the financial position of the Company, discussing and reviewing the financial statements and dividend distribution proposal to be submitted by the Board to the annual general meeting.

The committee concludes that the Directors, General Manager and other senior officers of the Company were proactive and enterprising in spirit in 2000. They continued to achieve excellent operating results, providing good returns to shareholders and safeguarding a superior corporate image in the domestic and overseas capital markets.

The committee has examined the financial statements of the Company for 2000 prepared to be submitted by the Board to the annual general meeting, and concluded that the statements accurately reflected the Company's operating results and asset position in 2000 and were in compliance with relevant laws and regulations and the Company's articles of association. The dividend distribution proposal for 2000 increased dividend payout ratio, thereby increasing cash returns to shareholders. Consequently, we endorsed this dividend distribution proposal, and recommended shareholders to approve the proposal at the forthcoming annual general meeting.

The committee reviewed the Report of the Directors to be submitted to the annual general meeting, and considered it to be a fair representation of the Company's actual situation. In the course of the Company's business operations, the members of the Board, General Manager and other senior officers of the Company observed their fiduciary duties and worked diligently while exercising their rights or discharging their duties. We did not find any abuse of power or infringement of the interests of shareholders and employees.

The committee is satisfied with the accomplishments attained by the Company in its various tasks.

By the Order of the Supervisory Committee

Ma Kehua

Chairman of the Supervisory Committee

March 5, 2001

REPORT OF THE INTERNATIONAL AUDITORS



To the shareholders

Zhejiang Expressway Co., Ltd.

(Established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 58 to 104 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Statements on Auditing issued by the International Federation of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company and the Group as at December 31, 2000 and of the profit, and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

March 5, 2001

CONSOLIDATED INCOME STATEMENT

Year ended December 31, 2000

		2000	1999
	Notes	Rmb'000	Rmb'000
TURNOVER	3	1,188,604	1,050,498
Operating costs		(248,429)	(298,417)
Gross profit		940,175	752,081
Other revenue	3	242,888	167,528
Administrative expenses		(64,978)	(60,320)
Other operating expenses		(75,317)	(2,374)
PROFIT FROM OPERATING ACTIVITIES	4	1,042,768	856,915
Finance costs	5	(197,083)	(172,922)
Share of profit of associates		40,584	22,559
Share of loss of a jointly-controlled entity		(6,517)	—
PROFIT BEFORE TAX		879,752	706,552
Tax	6	(186,391)	(71,810)
PROFIT BEFORE MINORITY INTERESTS		693,361	634,742
Minority interests		(57,360)	(86,431)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	7	636,001	548,311
Dividends	10	(390,880)	(238,872)
RETAINED PROFIT FOR THE YEAR		245,121	309,439
EARNINGS PER SHARE	11	14.64 cents	12.62 cents

The notes on pages 66 to 104 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended December 31, 2000

		2000	1999
	Note	Rmb'000	Rmb'000
Effect of changes in accounting policy		—	19,133
Net gains not recognised in the income statement		—	19,133
Net profit for the year attributable to shareholders		636,001	548,311
Total recognised gains and losses		636,001	567,444
Goodwill eliminated directly against reserves	31	(20,844)	(14,769)
		615,157	552,675

The notes on pages 66 to 104 form an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

December 31, 2000

		2000	1999
	Notes	Rmb'000	Rmb'000
NON-CURRENT ASSETS			
Fixed assets	12	11,681,806	10,621,870
Interest in a jointly-controlled entity	14	57,126	65,000
Interests in associates	15	167,316	231,439
Expressway operating rights	16	232,045	240,745
Long term investments	17	32,867	38,650
Long term receivables	18	6,450	3,870
		12,177,610	11,201,574
CURRENT ASSETS			
Short term investments	17	377,965	1,083,394
Inventories		718	1,049
Trade receivables	19	19,202	4,749
Other receivables	20	296,591	266,249
Cash, cash equivalents and time deposits	21	1,714,334	1,368,673
		2,408,810	2,724,114
CURRENT LIABILITIES			
Trade payables	22	204,559	226,895
Profits tax payable		103,022	116,245
Other taxes payable		17,003	11,735
Other payables and accruals	23	617,522	524,298
Interest-bearing bank and other borrowings	24	1,831,817	1,106,425
		2,773,923	1,985,598
NET CURRENT ASSETS/(LIABILITIES)		(365,113)	738,516

		2000	1999
	Notes	Rmb'000	Rmb'000
<hr/>			
TOTAL ASSETS LESS CURRENT			
LIABILITIES		11,812,497	11,940,090
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	25	1,414,781	2,053,472
Long term bonds	26	200,000	—
Other long term liabilities		1,134	—
Deferred tax	29	43,101	3,346
Minority interests		1,495,364	1,449,432
<hr/>			
NET ASSETS		8,658,117	8,433,840
<hr/>			
CAPITAL AND RESERVES			
Issued capital	30	4,343,115	4,343,115
Reserves	31	4,315,002	4,090,725
<hr/>			
		8,658,117	8,433,840
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Geng Xiaoping

Director

Fang Yunti

Director

The notes on pages 66 to 104 form an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2000

		2000	1999
	Note	Rmb'000	Rmb'000
NET CASH INFLOW FROM			
OPERATING ACTIVITIES	32(a)	1,040,303	1,047,828
RETURNS ON INVESTMENTS			
AND SERVICING OF FINANCE			
Interest received		67,253	78,225
Interest paid		(254,312)	(177,880)
Dividends paid		(260,587)	(217,156)
Dividends paid to minority interests		(33,324)	(6,840)
Dividends from an associate		8,302	10,659
Net cash outflow from returns on investments and servicing of finance		(472,668)	(312,992)
TAX			
Taxes paid and refunded, net		(99,805)	(43,978)
INVESTING ACTIVITIES			
Additions to fixed assets		(72,469)	(187,903)
Additions to construction in progress		(1,126,911)	(808,691)
Decrease in time deposits		27,131	586,490
Decrease in long term investments		—	2,500
Increase in deferred costs		—	(174)
Decrease/(increase) in short term investments		705,429	(96,611)
Acquisition of additional interests in subsidiaries		(172,800)	(565,812)
Acquisition of a jointly-controlled entity		—	(65,000)
Acquisition of an associate		(18,500)	—
Reduction of capital in an associate		100,000	—
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(558,120)	(1,135,201)

	Note	2000 Rmb'000	1999 Rmb'000
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(90,290)	(444,343)
FINANCING ACTIVITIES	32(b)		
New bank and other loans		2,732,281	2,890,122
Repayment of bank and other loans		(2,645,580)	(1,996,999)
Minority interests		176,381	217,769
Issue of bonds		200,000	—
Net cash inflow from financing activities		463,082	1,110,892
INCREASE IN CASH AND CASH EQUIVALENTS		372,792	666,549
Cash and cash equivalents at beginning of year		950,721	284,172
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,323,513	950,721
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		320,304	300,247
Time deposits with original maturity of less than three months when acquired		1,003,209	650,474
		1,323,513	950,721

The notes on pages 66 to 104 form an integral part of the financial statements.

BALANCE SHEET

December 31, 2000

		2000	1999
	Notes	Rmb'000	Rmb'000
NON-CURRENT ASSETS			
Fixed assets	12	5,095,680	5,148,878
Interests in subsidiaries	13	3,549,568	3,211,124
Interest in a jointly-controlled entity	14	64,910	65,000
Interests in associates	15	126,500	208,000
Expressway operating rights	16	182,578	189,512
Long term investments	17	30,000	30,000
Long term receivables	18	6,450	3,870
		9,055,686	8,856,384
CURRENT ASSETS			
Short term investments	17	180,294	801,766
Inventories		454	810
Trade receivables	19	19,202	4,749
Other receivables	20	190,234	36,900
Cash, cash equivalents and time deposits	21	1,340,260	1,247,973
		1,730,444	2,092,198
CURRENT LIABILITIES			
Trade payables	22	13,118	7,315
Profits tax payable		23,020	42,780
Other taxes payable		4,353	4,425
Other payables and accruals	23	528,122	432,827
Interest-bearing bank and other borrowings	24	1,320,376	1,010,956
		1,888,989	1,498,303

		2000	1999
	Notes	Rmb'000	Rmb'000
NET CURRENT ASSETS/(LIABILITIES)		(158,545)	593,895
TOTAL ASSETS LESS CURRENT LIABILITIES		8,897,141	9,450,279
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	25	288,526	973,534
Deferred tax	29	21,655	3,346
NET ASSETS		8,586,960	8,473,399
CAPITAL AND RESERVES			
Issued capital	30	4,343,115	4,343,115
Reserves	31	4,243,845	4,130,284
		8,586,960	8,473,399

Geng Xiaoping

Director

Fang Yunti

Director

The notes on pages 66 to 104 form an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2000

1. CORPORATE INFORMATION

Zhejiang Expressway Co., Ltd. (the “Company”) was established on March 1, 1997. The H shares of the Company (“H Shares”) were subsequently listed on the Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) on May 15, 1997.

All of the H Shares of the Company were admitted to the Official List of the United Kingdom Listing Authority (the “Official List”). Dealings on the London Stock Exchange Limited commenced on May 5, 2000.

On July 18, 2000, approved by Ministry of Foreign Trade and Economic Co-operation of the PRC, the Company has changed its status into a foreign-invested joint stock company with limited liability.

The registered office of the Company is 19/F, Zhejiang World Trade Centre, 15 Shuguang Road, Hangzhou, Zhejiang Province, the PRC. During the year, the Group was involved in the following principal activities:

- (a) The investment in, design, construction, operation, maintenance and management of high grade roads; and
- (b) The development and operation of certain ancillary services such as technical consultation, automobile servicing and fuel facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“HKSSAP”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, modified with respect to the measurement of investments in securities, as further explained below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended December 31, 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal respectively. All significant intercompany transactions and balances are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than those considered temporary in nature, deemed necessary by the directors.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures (Continued)

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term investments and are stated at cost less any provisions for diminutions in values, other than those considered temporary in nature, deemed necessary by the directors.

Associates

An associate is an enterprise, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than those considered temporary in nature, deemed necessary by the directors.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for diminutions in values other than those considered temporary in nature, deemed necessary by the directors.

Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associates and jointly-controlled entities represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. On disposal of subsidiaries, associates or jointly-controlled entities, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price, costs transferred from construction in progress and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the tangible fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the tangible fixed assets, the expenditure is capitalised as an additional cost of the tangible fixed assets.

Depreciation of expressways and bridges is provided by using the sinking fund method whereby the aggregate annual depreciation amounts, compounded at average rates ranging from 6.11% to 8.77% per annum, up to the expiry of the underlying 30-year expressway concession period, will be equal to the total cost of the expressways and bridges.

Amortisation of land is provided on a straight-line basis to write off the cost of the land use rights over the underlying 30-year expressway concession period.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

Depreciation of fixed assets, other than expressways, bridges and land, is provided on a straight-line basis to write off the cost of the assets, less their estimated residual values, being 3% of the cost, over their estimated useful lives. The principal annual rates used for this purpose are as follows:

	Estimated useful life	Annual depreciation rate
Toll stations and ancillary facilities	30 years	3.2%
Communications and signalling equipment	10 years	9.7%
Motor vehicles	8 years	12%
Machinery and equipment	5-8 years	12-19.4%

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

Construction in progress

Construction in progress represents costs incurred in the construction of expressways and bridges. Costs comprise direct costs of construction as well as interest charges and certain exchange differences related to funds borrowed during the periods of construction, installation and testing. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expressway operating rights

Expressway operating rights represent the rights to operate the expressways and are stated at cost less accumulated amortisation.

Amortisation is provided on a straight-line basis over the periods of expressway operating rights granted to the Company and its subsidiaries (i.e. 30 years).

Long term investments

Long term investments are non-trading investments in listed and unlisted securities intended to be held on a long term basis.

Held-to-maturity securities are stated at cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount, less any provision for permanent diminutions considered necessary by the directors, on an individual basis. The provision is recognised as an expense immediately. The profit or loss on disposal of a held-to-maturity security is accounted for in the period in which the disposal occurs and is the difference between the net sales proceeds and the carrying amount of the security.

Unlisted equity securities are stated at cost, less any provisions for permanent diminutions considered necessary by the directors, on an individual basis. The provision is recognised as an expense immediately. The profit or loss on disposal of an unlisted security is accounted for in the period in which the disposal occurs and is the difference between the net sales proceeds and the carrying amount of the security.

Short term investments

Short term investments are investments in securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement for the period in which they arise.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) toll revenue, net of any applicable revenue taxes, when received;
- (b) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (c) on the rendering of services, based on the percentage of completion basis, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;
- (d) rental income, on a time proportion basis over the lease terms;
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (f) dividends, when the shareholders' right to receive payment is established.

Tax

PRC income tax is provided at rates applicable to enterprises in the PRC on income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, based on existing PRC income tax legislation, practices and interpretations thereof.

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

The financial records of the Company and its subsidiaries are maintained and the financial statements are stated in Renminbi ("Rmb").

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement unless such exchange differences relate to funds borrowed specifically for the financing of construction of expressways and bridges, in which case they are capitalised to the extent that they can be regarded as an adjustment to interest costs.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the construction of expressways, tunnels and bridges are capitalised as part of the cost of such assets when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

The amount of borrowing costs capitalised is determined by reference to the actual borrowing costs incurred on funds borrowed specifically for the construction of expressways, tunnels and bridges during the period, less any investment income arising from the temporary investment of those borrowings.

Capitalisation of borrowing costs on funds borrowed specifically for the construction of completed expressway sections ceases when the construction of such expressway sections is completed and the section completed is capable of commencing toll operations.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence.

Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

3. TURNOVER AND REVENUE

Turnover mainly represents toll income from the operation of expressways, the value of advertising services rendered, and the value of road maintenance services rendered, net of relevant revenue taxes.

An analysis of turnover and revenue is as follows:

	2000	1999
	Rmb'000	Rmb'000
Toll income	1,219,672	1,087,672
Advertising income	15,878	5,859
Road maintenance income	5,130	6,971
Others	15,582	9,918
	1,256,262	1,110,420
Less: Revenue taxes	(67,658)	(59,922)
Turnover	1,188,604	1,050,498
Dividend income from unlisted equity investments	—	107
Income on short term investments in securities	153,566	77,577
Interest income	73,195	79,579
Rental income	7,098	4,893
Trailer income	6,821	4,309
Others	2,208	1,063
Other revenue	242,888	167,528
Revenue	1,431,492	1,218,026

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

3. TURNOVER AND REVENUE (Continued)

The Company and its subsidiaries are subject to the following types of revenue taxes:

- Business Tax ("BT"), levied at 5% on toll income and 3%-5% on other services income;
- City Development Tax, levied at 1% to 7% of BT;
- Education Supplementary Tax, levied at 3.5% to 4% of BT; and
- Culture & Education Fees, levied at 3% on advertising income.

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2000	1999
	Rmb'000	Rmb'000
Depreciation	142,080	140,127
Operating lease rentals on land and buildings	930	526
Auditors' remuneration	2,267	1,842
Staff costs:		
Wages and salaries	51,593	48,865
Pension contributions	4,358	3,052
Amortization of deferred costs	—	5,102
Amortization of expressway operating rights	8,700	8,700
Loss on disposal of fixed assets	5,595	3,028
Reduction of recoverable amount of fixed assets	42,239	—
Change in fair values of long term		
unlisted equity investments	5,783	—
Rental income	(7,098)	(4,893)
Exchange losses	35	182
Dividend income from unlisted		
equity investments	—	(107)
Interest income	(73,195)	(79,579)
Income on short term investments in securities	(152,633)	(77,577)

5. FINANCE COSTS

	2000	1999
	Rmb'000	Rmb'000
Interest on bank loans and other loans		
wholly repayable within five years	184,969	117,446
Interest on other loans	39,349	70,319
Total finance costs	224,318	187,765
Interest capitalised	(27,235)	(14,843)
	197,083	172,922

6. TAX

No Hong Kong profits tax has been provided as the Group had no taxable profits in Hong Kong during the year.

The Group was subject to the Corporate Income Tax (the "CIT") levied at a rate of 33% of taxable income based on income for financial reporting purposes prepared in accordance with the laws and regulations in the PRC.

According to an approval from Zhejiang Provincial Local Tax Bureau dated February 12, 2001 and December 11, 2000, respectively, Shangsang Co and Advertising Co were qualified for the exceptions under the category of "New enterprise providing employment opportunities to redundant workers" as defined in the relevant national tax rules, and therefore was entitled to an exemption from CIT for three years starting from January 1, 1998 and January 1, 1999, respectively.

Pursuant to a directive issued by Zhejiang Provincial People's Government in 1997, the Company was entitled to a refund from the Zhejiang Finance Bureau, of an amount equal to 18% of its taxable income in respect of the CIT paid to the taxation bureau.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

6. TAX (Continued)

On January 11, 2000, the State Council issued a directive, in respect of correcting the finance refund policies adopted by local governments with effect from January 1, 2000.

However, a further directive was subsequently released by the Ministry of Finance dated October 13, 2000, according to which listed companies can continue to enjoy the "33% pay first, 18% refund later" policy until December 31, 2001. Such beneficial treatment was not granted to subsidiaries, associates or jointly-controlled entities of listed companies.

In this regard, the tax refunded and refundable represents the financial subsidies received and receivable by the Company in respect of the year.

	2000 Rmb'000	1999 Rmb'000
Group:		
Tax charged	185,307	166,839
Overprovision in prior year	(1,474)	(10,930)
Tax refunded/refundable	(50,840)	(82,966)
	132,993	72,943
Deferred - note 29	39,755	(2,312)
Share of tax attributable to associates	6,074	7,443
Share of deferred tax attributable to an associate	6,302	—
Share of deferred tax attributable to a jointly-controlled entity	1,267	—
Overprovision in an associate in prior year	—	(6,264)
Tax charge for the year	186,391	71,810

There was no material unprovided deferred tax in respect of the year (1999: Nil).

7. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is Rmb504,441,000 (1999: Rmb336,731,000).

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 5161 of the Companies Ordinance is as follows:

	2000 Rmb'000	1999 Rmb'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	1,440	1,286
Bonuses paid and payable	477	—
	1,917	1,286

The amount disclosed above include remuneration of HK\$145,000 payable to each of the two independent non-executive directors (1999: HK\$120,000), and Rmb 5,000 payable to another independent non-executive directors (1999: Nil). There were no other emoluments payable to the independent non-executive directors during the year (1999: Nil).

The remuneration of the directors fell within the following band:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	11	9

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (1999: five) directors, details of whose remuneration are set out in note 8 above.

10. DIVIDENDS

	Company	
	2000	1999
	Rmb'000	Rmb'000
Interim - Rmb0.02 (approximately HK0.0187) per share (1999: Rmb0.015 (approximately HK\$0.014) per share)	86,862	65,147
Proposed final - Rmb0.07 (approximately HK0.065) per share (1999: Rmb0.04 (approximately HK\$0.037) per share)	304,018	173,725
	390,880	238,872

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of Rmb636,001,000 (1999: Rmb548,311,000) and the 4,343,114,500 shares (1999: 4,343,114,500 shares) in issue during the year.

Diluted earnings per share for the years ended December 31, 2000 and 1999 have not been calculated as no diluting event existed during these years.

12. FIXED ASSETS

			Toll stations	Communi- cations				
		Expressways	and	and		Machinery		
		and	ancillary	signalling	Motor	and	Construction	
	Land	bridges	facilities	equipment	vehicles	equipment	in progress	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Group								
Cost:								
At January 1, 2000	527,628	8,128,994	206,907	8,485	33,328	177,934	1,817,058	10,900,334
Reclassification	—	—	(4,566)	1,649	4,899	(1,982)	—	—
Additions	—	28,009	11,119	—	18,782	9,953	1,183,090	1,250,953
Transfers	—	2,916,589	7,505	—	—	21,605	(2,946,802)	(1,103)
Reduction of recoverable amount	—	(44,160)	—	—	—	—	—	(44,160)
Disposals	—	—	(8,204)	(253)	(4,001)	(2,348)	—	(14,806)
At December 31, 2000	527,628	11,029,432	212,761	9,881	53,008	205,162	53,346	12,091,218
Accumulated depreciation:								
At January 1, 2000	35,834	194,971	11,987	1,220	8,226	26,226	—	278,464
Reclassification	—	—	(2,272)	760	2,337	(825)	—	—
Provided during the year	17,570	84,710	9,217	3,650	4,768	22,165	—	142,080
Reduction of recoverable amount	—	(1,921)	—	—	—	—	—	(1,921)
Disposals	—	—	(5,431)	(86)	(2,201)	(1,493)	—	(9,211)
At December 31, 2000	53,404	277,760	13,501	5,544	13,130	46,073	—	409,412
Net book value:								
At December 31, 2000	474,224	10,751,672	199,260	4,337	39,878	159,089	53,346	11,681,806
At December 31, 1999	491,794	7,934,023	194,920	7,265	25,102	151,708	1,817,058	10,621,870

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

12. FIXED ASSETS (Continued)

	Land	Expressways and bridges	Toll stations and ancillary facilities	Communi- cations and signalling equipment	Motor vehicles	Machinery and equipment	Construction in progress	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Company								
Cost:								
At January 1, 2000	350,384	4,712,616	95,365	8,472	22,118	173,133	2,402	5,364,490
Reclassification	—	—	(4,566)	1,649	4,899	(1,982)	—	—
Additions	—	—	2,890	—	4,855	5,944	38,775	52,464
Transfers	—	—	3,011	—	—	—	(4,114)	(1,103)
Disposals	—	—	(853)	(253)	(3,340)	(2,297)	—	(6,743)
At December 31, 2000	350,384	4,712,616	95,847	9,868	28,532	174,798	37,063	5,409,108
Accumulated depreciation:								
At January 1, 2000	29,662	147,551	6,662	1,218	6,591	23,928	—	215,612
Reclassification	—	—	(2,272)	760	2,337	(825)	—	—
Provided during the year	11,668	59,121	4,699	3,646	3,642	18,712	—	101,488
Disposals	—	—	(44)	(86)	(2,074)	(1,468)	—	(3,672)
At December 31, 2000	41,330	206,672	9,045	5,538	10,496	40,347	—	313,428
Net book value:								
At December 31, 2000	309,054	4,505,944	86,802	4,330	18,036	134,451	37,063	5,095,680
At December 31, 1999	320,722	4,565,065	88,703	7,254	15,527	149,205	2,402	5,148,878

All fixed assets are located in the PRC.

13. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	Rmb'000	Rmb'000
Unlisted shares, at cost	3,555,304	3,196,754
Due from subsidiaries	4,099	28,175
Due to subsidiaries	(9,835)	(13,805)
	3,549,568	3,211,124

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

Particulars of the Company's subsidiaries, all of which are directly held, are as follows:

Names of subsidiaries	Date and place of registration	Registered capital	Percentage of equity attributable to the Company	
				Principal activities
Zhejiang Yuhang Expressway Co., Ltd. ("Yuhang Co")	Note 1	75,223,000	51%	Construction and management of the Yuhang Section of the Shanghai- Hangzhou Expressway
Zhejiang Jiaxing Expressway Co., Ltd. ("Jiaxing Co")	Note 2	1,859,200,000	84.19%	Construction and management of the Jiaxing Section of the Shanghai-Hangzhou Expressway

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

13. INTERESTS IN SUBSIDIARIES (Continued)

Names of subsidiaries	Date and place of registration	Registered capital	Percentage of equity attributable to the Company	Principal activities
Zhejiang Gaotong Stone Development Co., Ltd. ("Gaotong Co")	Note 3	5,000,000	80%	Processing and sales of stones and stone related products
Zhejiang Shangsang Expressway Co., Ltd. ("Shangsang Co")	Note 4	2,400,000,000	61%	Investing, construction and operating the Shangsang Expressway
Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co")	Note 5	1,000,000	70%	Advertising

Note 1. Yuhang Co was established on June 7, 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on November 28, 1996.

Note 2. Jiaying Co was established on June 30, 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on November 29, 1996.

Note 3. Gaotong Co was established on November 3, 1997 in the PRC as a limited liability company.

Note 4. Shangsang Co was established on January 1, 1998 in the PRC as a limited liability company.

Note 5. Advertising Co was established on June 1, 1998 in the PRC as a limited liability company.

14. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Unlisted shares, at cost	—	—	65,000	65,000
Share of net assets				
other than goodwill	57,216	65,000	—	—
Amount due to				
a jointly-controlled entity	(90)	—	(90)	—
	57,126	65,000	64,910	65,000

Particulars of the jointly-controlled entity, which is directly held by the Company, are as follows:

Name	Business structure	Place of registration and operations	Percentage of				Principal activities
			Ownership interest	Voting power	Profit sharing		
Hangzhou Shida Expressway Co., Ltd. ("Shida Co")	Corporate	the PRC	50%	50%	50%		Development, operation and management of Shiqiao-Dajing Road ("Shida Road")

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

15. INTERESTS IN ASSOCIATES

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Unlisted shares, at cost	—	—	126,500	208,000
Share of net assets other than goodwill	167,316	231,439	—	—
	167,316	231,439	126,500	208,000

The Group's share of post-acquisition accumulated reserves of the associates at December 31, 2000 was Rmb40,816,000 (1999: Rmb23,439,000).

Particulars of the associates, which are directly held by the Company, are as follows:

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co")	Corporate	the PRC	50%	50%	Constructing and operating of gas stations and the sale of petroleum products
JoinHands Technology Co., Ltd ("JoinHands Technology")	Corporate	the PRC	30%	—	Development and application of computer technologies

The financial statements of the above associates are coterminous with those of the Group. The consolidated financial statements have been adjusted for material transactions between the associates and the Group companies.

16. EXPRESSWAY OPERATING RIGHTS

	Group Rmb'000	Company Rmb'000
Cost:		
At January 1, and December 31, 2000	261,000	208,000
Amortisation:		
At January 1, 2000	20,255	18,488
Provided during the year	8,700	6,934
At December 31, 2000	28,955	25,422
Net book value:		
At December 31, 2000	232,045	182,578
At December 31, 1999	240,745	189,512

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

17. INVESTMENTS

Long term investments

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Held-to-maturity securities	30,000	30,000	30,000	30,000
Unlisted equity investments, at fair value	2,867	8,650	—	—
	32,867	38,650	30,000	30,000

Short term investments

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Marketable securities, at market value				
— PRC	377,965	1,083,394	180,294	801,766
	377,965	1,083,394	180,294	801,766

The market value of the Group's short term investments at the date of approval of these financial statements was approximately Rmb393,704,000 (1999: Rmb1,082,974,000).

18. LONG TERM RECEIVABLES

	Group and Company	
	2000	1999
	Rmb'000	Rmb'000
Interest receivable in respect of the held-to-maturity securities	6,450	3,870
	6,450	3,870

The interest receivable will be settled upon the expiring of the held-to-maturity securities.

19. TRADE RECEIVABLES

	Group and Company	
	2000	1999
	Rmb'000	Rmb'000
Trade receivables	19,202	4,749

The aging analysis of trade receivables as at December 31, 2000 and 1999 are as follows:

	Group and Company	
	2000	1999
	Rmb'000	Rmb'000
Within 1 year	18,162	1,917
1 to 2 years	208	2,832
2 to 3 years	832	—
	19,202	4,749

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

20. OTHER RECEIVABLES

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Prepayments	45,214	77,680	3,637	1,832
Other debtors	238,817	129,598	174,037	11,735
Profits tax refundable	12,560	58,971	12,560	23,333
	296,591	266,249	190,234	36,900

Other debtors include a trust deposit of Rmb150,000,000 with Huaxia Bank, Hangzhou Branch (1999: Nil).

21. CASH, CASH EQUIVALENTS AND TIME DEPOSITS

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cash and bank balances	320,304	300,247	161,078	179,547
Time deposits	1,394,030	1,068,426	1,179,182	1,068,426
	1,714,334	1,368,673	1,340,260	1,247,973

22. TRADE PAYABLES

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade payables	204,559	226,895	13,118	7,315

22. TRADE PAYABLES (Continued)

The aging analysis of trade payables as at December 31, 2000 and 1999 are as follows:

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Within 1 year	200,761	190,908	12,113	6,823
1 to 2 years	3,798	35,987	1,005	492
	204,559	226,895	13,118	7,315

23. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2000	1999	2000	1999
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Accruals		89,943	130,653	42,769	99,859
Other payables		126,448	94,824	84,222	65,047
Due to related parties	27	92,304	88,449	92,304	88,449
Due to the holding company	28	4,809	36,647	4,809	5,747
Proposed final dividend	10	304,018	173,725	304,018	173,725
		617,522	524,298	528,122	432,827

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Note	Group		Company	
		2000	1999	2000	1999
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Current portion of bank and other borrowings	25	1,831,817	1,106,425	1,320,376	1,010,956
		1,831,817	1,106,425	1,320,376	1,010,956

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

25. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Bank loans:				
Secured	—	30,000	—	—
Unsecured	1,230,000	1,140,000	800,000	1,090,000
	1,230,000	1,170,000	800,000	1,090,000
Other loans:				
Unsecured	2,016,598	1,989,897	808,902	894,490
	3,246,598	3,159,897	1,608,902	1,984,490
Bank loans repayable:				
Within one year	970,000	910,000	540,000	830,000
In the second year	160,000	100,000	160,000	100,000
In the third to fifth years, inclusive	100,000	160,000	100,000	160,000
Beyond five years	—	—	—	—
	1,230,000	1,170,000	800,000	1,090,000
Other loans repayable:				
Within one year	860,817	196,425	780,376	180,956
In the second year	80,646	138,282	9,487	72,302
In the third to fifth years, inclusive	407,682	643,038	—	252,767
Beyond five years	666,453	1,012,152	19,039	388,465
	2,016,598	1,989,897	808,902	894,490
Portion classified as current liabilities - note 24	(1,831,817)	(1,106,425)	(1,320,376)	(1,010,956)
Long term portion	1,414,781	2,053,472	288,526	973,534

The bank loans are unsecured and bear interest at rates ranging from 5.022% to 5.94% per annum.

Other loans are unsecured and bear interest at rates ranging from 3% to 8.66% per annum.

26. LONG TERM BONDS

	Group	
	2000	1999
	Rmb'000	Rmb'000
Long term bonds	200,000	—

The balance is unsecured, bears interest at rate of 3.78% per annum and is repayable in 3 years.

27. AMOUNTS DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

28. AMOUNT DUE TO THE HOLDING COMPANY

The amount due to the holding company is unsecured, interest-free and has no fixed terms of repayment.

29. DEFERRED TAX

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at beginning of year	3,346	5,658	3,346	5,658
Charge/(credit) for the year - note 6	39,755	(2,312)	18,309	(2,312)
At December 31	43,101	3,346	21,655	3,346

The deferred tax of the Group and the Company arose from differences in accounting profit of these financial statements prepared under HKSSAP, and the taxable income based on income for financial reporting purposes prepared in accordance with the laws and regulations in the PRC.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

30. SHARE CAPITAL

	2000	1999		
	Number	Number	2000	1999
	of shares	of shares	Rmb'000	Rmb'000
Registered, issued and fully paid:				
Domestic shares				
of Rmb1.00 each	2,909,260,000	2,909,260,000	2,909,260	2,909,260
H Shares of				
Rmb1.00 each	1,433,854,500	1,433,854,500	1,433,855	1,433,855
	4,343,114,500	4,343,114,500	4,343,115	4,343,115

The domestic shares are not currently listed on any stock exchange.

The H Shares have been listed on the Hong Kong Stock Exchange since May 15, 1997, and were further admitted to the Official List on May 5, 2000. Dealings on the London Stock Exchange Limited commenced on the same day.

All the domestic shares and H Shares rank pari passu with each other as to dividends and voting rights.

31. RESERVES

	Share premium account Rmb'000	Capital/ (goodwill) reserve Rmb'000	Statutory surplus reserve Rmb'000	Public welfare fund Rmb'000	Retained profits Rmb'000	Total Rmb'000
Group						
At January 1, 1999	3,645,082	(317,247)	80,606	40,303	347,311	3,796,055
Goodwill arising on acquisition of additional interests in a subsidiary	—	(14,769)	—	—	—	(14,769)
Net profit for the year	—	—	—	—	548,311	548,311
Transfer from/(to) reserves	—	—	102,384	42,553	(144,937)	—
Dividends - note 10	—	—	—	—	(238,872)	(238,872)
At December 31, 1999 and beginning of year	3,645,082	(332,016)	182,990	82,856	511,813	4,090,725
Goodwill arising on acquisition of additional interests in a subsidiary	—	(18,315)	—	—	—	(18,315)
Goodwill arising on acquisition of an associate	—	(2,529)	—	—	—	(2,529)
Net profit for the year	—	—	—	—	636,001	636,001
Transferred from/(to) reserves	—	—	102,041	45,146	(147,187)	—
Dividends - note 10	—	—	—	—	(390,880)	(390,880)
At December 31, 2000	3,645,082	(352,860)	285,031	128,002	609,747	4,315,002

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

31. RESERVES (Continued)

	Share premium account Rmb'000	Capital/ (goodwill) reserve Rmb'000	Statutory surplus reserve Rmb'000	Public welfare fund Rmb'000	Retained profits Rmb'000	Total Rmb'000
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Company						
Balance at January 1, 1999	3,645,082	—	63,595	31,797	291,951	4,032,425
Net profit for the year	—	—	—	—	336,731	336,731
Transferred from/(to) reserves	—	—	52,316	26,159	(78,475)	—
Dividends - note 10	—	—	—	—	(238,872)	(238,872)
<hr/>						
At December 31, 1999						
and beginning of year	3,645,082	—	115,911	57,956	311,335	4,130,284
Net profit for the year	—	—	—	—	504,441	504,441
Transferred from/(to) reserves	—	—	57,063	28,531	(85,594)	—
Dividends - note 10	—	—	—	—	(390,880)	(390,880)
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At December 31, 2000	3,645,082	—	172,974	86,487	339,302	4,243,845

In accordance with the Company Law of the PRC and the respective articles of association of the Company, its subsidiaries, associates and jointly-controlled entity (collectively the "Entities"), the Entities are required to allocate 10% of their profit after taxation, as determined in accordance with the PRC accounting standards and regulations applicable to the Entities, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the Entities. Subject to certain restrictions set out in the Company Law of the PRC and the Entities' articles of association, part of the SSR may be converted to increase the Entities' share capital.

In addition, Shangsang Co and Advertising Co were required by the relevant tax authorities to transfer the CIT waived for 1999 to their respective SSR account in 2000. The transfer has been incorporated in these financial statements.

31. RESERVES (Continued)

In accordance with the Company Law of the PRC, the Entities are required to transfer 5% to 10% of their profit after taxation, as determined in accordance with PRC accounting standards and regulations applicable to the Entities, to the statutory public welfare fund (the “PWF”), which is a non-distributable reserve other than in the event of the liquidation of the Entities. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as properties of the Entities.

The directors of the Company have proposed to transfer Rmb57,063,000 and Rmb28,531,000 to the SSR and the PWF, respectively. This represents 15% of the Company’s profit after taxation of Rmb570,629,000 determined in accordance with the PRC accounting standards. The transfer to the PWF is subject to shareholders’ approval at the forthcoming annual general meeting.

According to the relevant regulations in the PRC, the amount of profit available for distribution is the lower of the amount determined under the PRC accounting standards and the amount determined in accordance with HKSSAP and accounting principles generally accepted in Hong Kong.

As at December 31, 2000, the Company had reserves of approximately Rmb339,302,000 available for distribution by way of cash or in kind.

As at December 31, 2000, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,633,159,000 standing to the credit of the Company’s share premium account prepared in accordance with the PRC accounting standards was available for distribution by way of capitalisation issues.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

32. NOTES TO THE CASH FLOW STATEMENT

- (a) Reconciliation of profit from operating activities to net cash inflow from operating activities:

	2000	1999
	Rmb'000	Rmb'000
Profit from operating activities	1,042,768	856,915
Depreciation	142,080	140,127
Amortisation of deferred costs	—	5,102
Amortisation of expressway operating rights	8,700	8,700
Interest income	(73,195)	(79,579)
Loss on disposal of fixed assets	5,595	3,028
Reduction of recoverable amount of fixed assets	42,239	—
Change in fair values of long term unlisted investments	5,783	—
Decrease in inventories	331	802
Decrease/(increase) in trade receivables	(14,453)	6,811
Decrease/(increase) in other debtors	(103,279)	44,342
Increase in long term receivables	(2,580)	(2,580)
Decrease in trade payables	(12,027)	(4,126)
Increase/(decrease) in amount due to the holding company	(31,838)	33,202
Decrease in amounts due from related parties, net	—	119
Increase/(decrease) in other taxes payable	5,268	(6,687)
Increase in other payables	31,624	35,252
Increase/(decrease) in accruals	(6,803)	6,400
Increase in balance with an associate	90	—
Net cash inflow from operating activities	1,040,303	1,047,828

32. NOTES TO THE CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year:

	Long term Bonds Rmb'000	Bank and other loans Rmb'000	Minority interests Rmb'000
Balance at January 1, 1999	—	2,266,774	1,245,782
Cash inflow from financing	—	893,123	217,769
Arising from dilution of minority interests	—	—	(93,710)
Dividends paid to minority interests	—	—	(6,840)
Profit attributable to minority interests	—	—	86,431
Balance at December 31, 1999 and January 1, 2000	—	3,159,897	1,449,432
Cash inflow from financing	200,000	86,701	176,381
Arising from dilution of minority interests	—	—	(154,485)
Dividends paid to minority interests	—	—	(33,324)
Profit attributable to minority interests	—	—	57,360
Balance at December 31, 2000	200,000	3,246,598	1,495,364

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

33. COMMITMENTS

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
<hr/>				
Contracted, but not provided for:				
- Construction of expressways	622,684	776,119	356,012	—
- Proposed investments in				
Shangsan Co	485,000	—	485,000	189,750
- Others	1,886	8,397	1,886	—
Authorised, but not contracted for:				
- Construction of expressways	2,500,980	2,467,163	898,182	462,021
	3,610,550	3,251,679	1,741,080	651,771
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34. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS

	Profit after taxation		Net assets as at December 31	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
As reported in statutory accounts	642,023	615,742	8,881,679	8,694,253
HKSSAP adjustments:				
(a) Goodwill	35,885	33,016	(251,622)	(267,395)
(b) Provision for deficit arising on the disposal of staff quarters	—	—	(15,300)	(15,300)
(c) Interest on H shares subscription monies, net of deferred tax	(2,484)	(6,135)	4,310	6,794
(d) Depreciation provided, net of deferred tax	(26,241)	67	(14,733)	6,592
(e) Difference in share premium during establishment	—	—	11,923	11,923
(f) Profits tax refundable	12,560	(7,230)	8,873	(3,687)
(g) Restatement of short term investments in securities at market value, net of deferred tax	38,868	(19,133)	36,967	—
(h) Recognition of tax exemption	17,805	17,194	6,964	—
(i) General provision on trade receivables and other debts	5,548	—	3,450	—
(j) Reduction of recoverable amount of fixed assets, net of deferred tax	(28,300)	—	(14,433)	—
(k) Others	(2,303)	1,221	39	660
As restated in the financial statements	693,361	634,742	8,658,117	8,433,840

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

35. ULTIMATE HOLDING COMPANY

In the opinion of the directors of the Company, the ultimate holding company of the Company is Zhejiang Provincial High Class Highway Investment Company Limited ("Provincial Investment Co"), a state-owned enterprise established in the PRC.

36. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions carried out in the ordinary course of business between the Company and certain government bodies in the year.

Under the reorganisation agreement, Provincial Investment Co gave a number of undertakings to the Company, including a non-competition undertaking, a tax indemnity, and an indemnity against losses incurred, which were not expressly transferred to the Company pursuant to the reorganisation and general indemnity provisions against any breach of representation warranty and undertakings contained in the agreement.

The World Bank provided financing for the construction of the Hangzhou-Ningbo Expressway through the Ministry of Finance and the Zhejiang Provincial Expressway Executive Commission (the "Executive Commission"), which was responsible for the control of the construction and the management of the Hangzhou-Ningbo Expressway. The repayment responsibility for the financing provided for the Hangzhou-Ningbo Expressway, which amounted to US\$97,733,910 as at December 31, 2000, was assumed by the Company.

Pursuant to a supplemental agreement dated April 18, 1997, the Company, Provincial Investment Co, and the Executive Commission have agreed that the Company will take over the repayment responsibilities under the reorganisation agreement in respect of the World Bank financing. An appropriate agreement was entered into between the Company and the Executive Commission, pursuant to which the Company will be charged the same rate of interest as that charged to the Executive Commission.

36. RELATED PARTY TRANSACTIONS (Continued)

A contract between the Company and the Executive Commission was reached dated March 24, 1997 whereby the Executive Commission will enter into a number of contracts relating to Contract No. 8 of the Hangzhou-Ningbo Expressway on behalf of the Company, for the purpose of upgrading the Operating Systems (as defined in the section "Operation of the Expressway" of the prospectus dated May 5, 1997) of the Hangzhou-Ningbo Expressway. The Company has to take the benefit of these contracts and assume the repayment obligations for any drawdown on the World Bank funding in respect of Contract No. 8. Accordingly, the Company has included fixed assets of Rmb108,524,000, liabilities of Rmb89,346,000 and the repayment obligation on the World Bank funding of US\$2,317,000 (equivalent to Rmb19,178,000 approximately) as at December 31, 2000, respectively, in these financial statements.

37. SUBSEQUENT EVENTS

As of January 10, 2001, the board of directors announced that the Company intended to apply to the China Securities Regulatory Commission and the Shanghai Stock Exchange of the PRC for the issue and placement of A Shares (the "A Share Issue"). The new placement will be completed in the first half of 2001 and the number of A Shares to be issued will not be more than 300,000,000.

The net proceeds from the A Share Issue anticipated by the directors of the Company will amount to not less than Rmb1 billion and will be used for the following purposes:

- (1) approximately Rmb1,285 million will be used for funding the construction to widen the Shenshi to Guzhu Section of the Shanghai-Hangzhou-Ningbo Expressway;
- (2) the balance of the net proceeds will be used for funding the acquisition of an additional 18.4% equity interests in Shangsang Co from Huajian Transportation Economic Development Center, a state-owned enterprise established in the PRC, at an estimated cash consideration of Rmb485 million. The share transfer proposal was dually signed on February 2, 2001; and
- (3) if the net proceeds from the A Share Issue are not sufficient for funding the above projects/transaction, internal resources and/or bank loans will be used.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

December 31, 2000

38. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on March 5, 2001.

CORPORATE INFORMATION

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Geng Xiaoping
Fang Yunti
Zhang Jingzhong
Xuan Daoguang

Non-executive Directors

Xia Linzhang
Zhang Chunming

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Hu Hung Lick, Henry
Tung Chee Chen
Zhang Junsheng

Supervisors

Xiao Hua
Ni Cifang
Lu Feng
Sun Xiaoxia
Zheng Qihua

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Company secretary

Zhang Jingzhong

Authorised representatives

Geng Xiaoping
Zhang Jingzhong

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Paying agent for London listing

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Principal bankers

Bank of China, Zhejiang Branch
Industrial and Commercial Bank of China,
Zhejiang Branch
Agriculture Bank of China, Zhejiang Branch
Shanghai Pudong Development Bank,
Hangzhou Branch

H Shares listing information

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London Stock Exchange plc
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