



浙江沪杭甬高速公路股份有限公司
ZHEJIANG EXPRESSWAY CO., LTD.



Pursue Excellence, Enhance Value.

2002 | Annual Report

PURSUE EXCELLENCE, ENHANCE VALUE.

“Pursue Excellence, Enhance Value” has always been the Group’s operating philosophy. Whether it is for our toll road operations or other ancillary businesses, we adhere to such a motto and will never cease to improve the management of our core businesses and our corporate governance. We aim to excel in every business that we are in, so as to enhance shareholder value and to contribute our best to our customers, business partners, employees and the society.

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DEFINITION OF TERMS

A Shares	the domestic ordinary shares of Rmb1.00 each in the share capital of the Company proposed to be offered to the public in the PRC by the Company
ADR(s)	American Depository Receipt(s)
ADS(s)	American Depository Share(s)
Advertising Co	Zhejiang Expressway Advertising Co., Ltd., a 70% owned subsidiary of the Company
Audit Committee	the audit committee of 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
Communications Investment Group	Zhejiang Communications Investment Group Co., Ltd. (浙江省交通投資集團有限公司), a sole State-owned enterprise established on December 29, 2001
Directors	the directors 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 primarily listed on The Stock Exchange of Hong Kong Limited 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., a 99.993% owned subsidiary of the Company
JoinHands Technology	JoinHands Technology Co., Ltd., a 27.582% owned associate of the Company
Listing Rules	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
Period	the period from January 1 to December 31, 2002
Petroleum Co	Zhejiang Expressway Petroleum Development Co., Ltd., a 50% owned associate of the Company
PRC	the People's Republic of China
Rmb	Renminbi, the lawful currency of the PRC
Shangsan Co	Zhejiang Shangsan Expressway Co., Ltd., a 71.625% owned subsidiary of the Company
Shareholders	shareholders 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

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 operations of gas stations and billboard 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 I roads in Zhejiang Province.

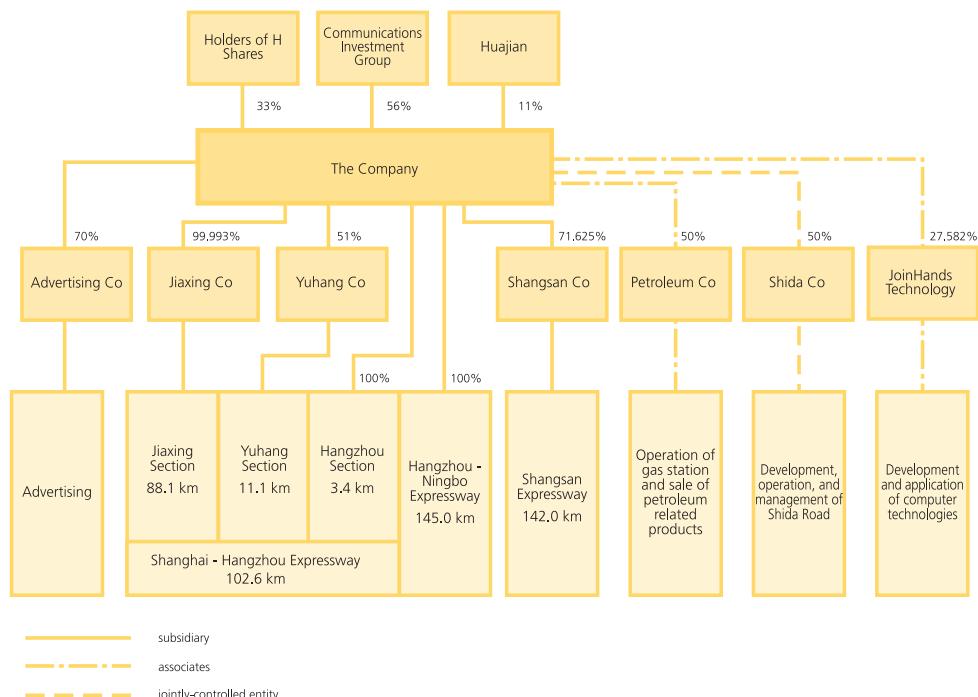
The H Shares of the Company, which represent approximately 33% of the issued share capital of the Company, were listed on the Hong Kong Stock Exchange in May 1997, and subsequently obtained a secondary listing on the London Stock Exchange in May 2000.

On February 14, 2002, a Level I American Depository Receipt (the "ADR") program sponsored by the Company in respect of its H Shares, with the Bank of New York as depositary, was established in the United States and became effective.

From January 24 to February 17, 2003, the Company issued Rmb 1 billion of corporate bonds to institutional and public investors in the PRC for the financing of its expressway widening projects.

The Company intends to grasp any opportunities in project investments and acquisitions, with a view to achieving the Group's vision of becoming a leading company investing in and operating infrastructure businesses, with an emphasis on expressways, in the PRC by 2010.

Set out below is the corporate and business structure of the Group.



MAJOR CORPORATE EVENTS

JANUARY 18, 2002

The Company further acquired a 9.9% interest in the capital of Jiaxing Co.

FEBRUARY 14, 2002

The United States Securities and Exchange Commission declared the registration statement in respect of the Depositary Shares evidenced by the American Depository Receipts representing H Shares of the Company effective.

MARCH 13, 2002

Mr. Geng Xiaoping resigned from the post of General Manager of the Company while continued to serve as Chairman of the Company. Mr. Fang Yunti was appointed as the new General Manager of the Company.

MARCH 14, 2002

The Company announced its annual results for the year ended December 31, 2001 in Hong Kong.

MAY 15, 2002

The fifth anniversary of the Company's listing on The Hong Kong Stock Exchange

MAY 17, 2002

The Company organized the annual joint meeting of the overseas listed companies in the PRC.

AUGUST 19, 2002

The Company further acquired a 6.625% and a 2.0% interest in the capital of Shangsan Co.

AUGUST 20, 2002

The Company announced its interim results for the six months ended June 30, 2002 in Hong Kong.

JANUARY 24, 2003

The Company issued Rmb1 billion of corporate bonds to institutional and public investors in the PRC during the period from January 24 to February 17, 2003.

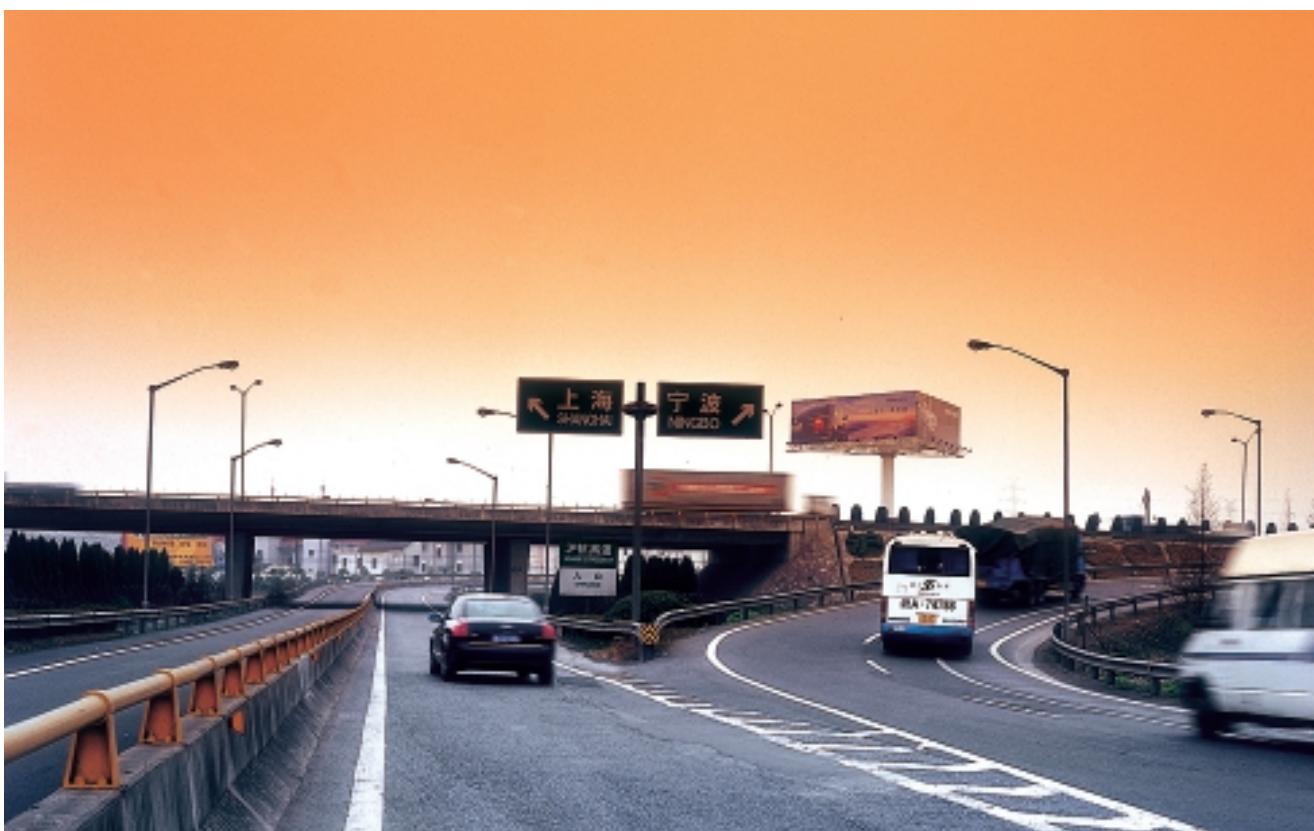
FEBRUARY 11, 2003

A new session of the Board and Supervisory Committee was elected at the extraordinary general meeting of the shareholders of the Company for a term of three years effective on March 1, 2003.

PARTICULARS OF MAJOR ROAD PROJECTS

Project	Percentage of Ownership as at February 28, 2003	Length in Kilometers	Number of Lanes	Number of Toll Stations	Number of Service Areas	Start of Operation	Years of Operation
Shanghai-Hangzhou Expressway							
– Jiaxing Section	99.993%	88.1	4	6	1	1998	26
– Yuhang Section	51%	11.1	4	2	0	1995 – 1998	26
– Hangzhou Section	100%	3.4	4	0	0	1995	26
Hangzhou-Ningbo Expressway	100%	145.0	4	12	2	1992 – 1996	25
Shangsan Expressway	71.625%	142.0	4	11	3	2000	28

Detailed locations of these projects are shown on the map provided in the center divide.



FINANCIAL AND OPERATING HIGHLIGHTS

RESULTS

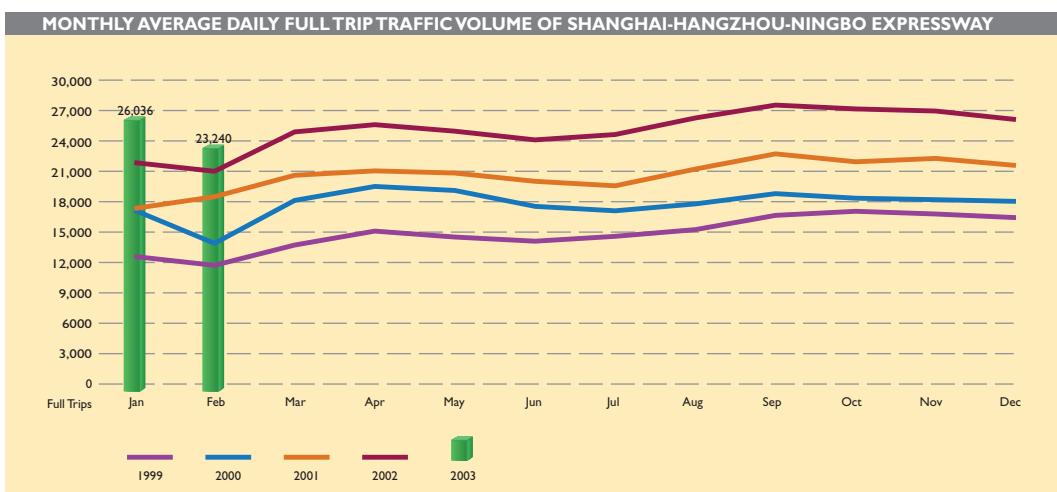
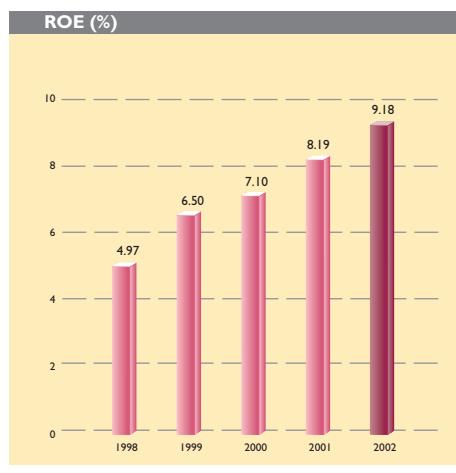
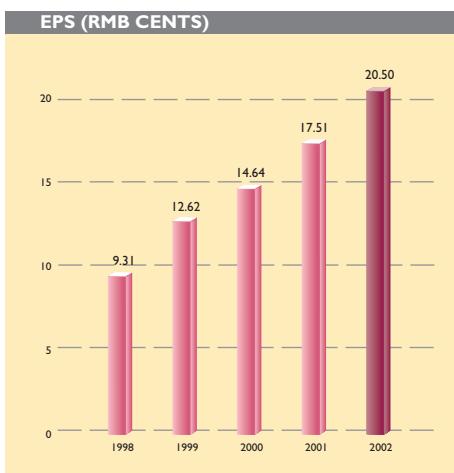
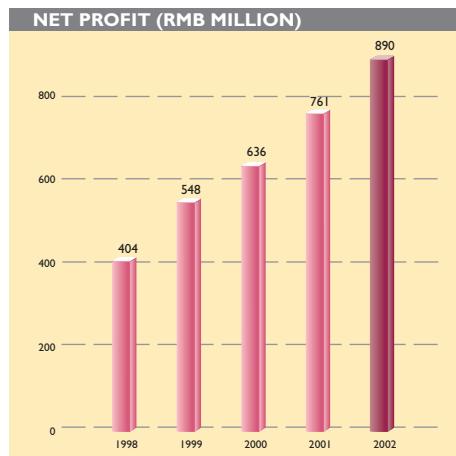
	Year ended December 31				2002 Rmb'000
	1998 Rmb'000	1999 Rmb'000	2000 Rmb'000	2001 Rmb'000	
Turnover	655,069	1,050,498	1,188,604	1,722,517	2,168,078
Profit Before Tax	547,100	706,552	879,752	1,235,540	1,394,471
Tax	(73,795)	(71,810)	(186,391)	(363,970)	(400,952)
Minority Interests	(68,914)	(86,431)	(57,360)	(110,957)	(103,067)
Net Profit From Ordinary Activities Attributable To Shareholders	404,391	548,311	636,001	760,613	890,452
Earnings Per Share (EPS)	9.31 cents	12.62 cents	14.64 cents	17.51 cents	20.50 cents

RETURN ON EQUITY (ROE)

	1998	1999	2000	2001	2002
ROE	4.97%	6.50%	7.10%	8.19%	9.18%

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

	1999	2000	2001	2002	2003
January	12,559	17,125	17,290	21,804	26,036
February	11,688	13,853	18,450	20,952	23,240
March	13,686	18,082	20,557	24,830	
April	15,061	19,458	20,993	25,541	
May	14,474	19,061	20,776	24,900	
June	14,066	17,496	19,962	24,044	
July	14,546	17,058	19,520	24,573	
August	15,204	17,738	21,172	26,203	
September	16,610	18,750	22,666	27,471	
October	17,012	18,300	21,887	27,094	
November	16,744	18,155	22,219	26,884	
December	16,386	17,990	21,525	26,048	



CHAIRMAN'S STATEMENT

PRACTICING GOOD CORPORATE GOVERNANCE, PURSUING GROWTH IN SHAREHOLDERS' VALUE.

The Company achieved continued growth in operating results in 2002, its fifth consecutive year of growth since 1997. In the eleventh annual poll of Asia's best-managed companies conducted by Asiamoney magazine, we were for the fifth time being voted by global fund managers as one of the top 10 best-managed companies among our Chinese peers. During the period, our share price had not only maintained upwards momentum since our secondary listing on the London Stock Exchange in May 2000, but also surpassed our issuing price at IPO in Hong Kong.





A favorable operating environment, focused management and good corporate governance notwithstanding, I believe our

corporate culture which we have been actively promoting is also indispensable in our ability to achieve continued and steady growth. We hold the view that a good corporate culture is crucial for a company to maintain long-term steady business performance.

Through the promotion and demonstration by the management, as well as the acceptance and practice by all of our employees, the Company has gradually crystallized a corporate culture that embodies "harmony, openness, integrity and entrepreneurship" as its core values. The corporate culture reflects the spirit of keeping abreast with times, as well as accentuating the positive. It has permeated various aspects of our operations, including corporate governance, strategic development, operating management, information disclosure and investor relations.

Good practices in corporate governance have already become an important part of the Company's corporate culture. For example:



- We promote equal rights for shareholders. When connected transactions are up for approval, shareholders with interests involved forfeit their voting rights at the general meetings of shareholders.
- The Board holds the interests of all shareholders as its utmost consideration, and leads the Company to continued success in business operations. Other than adhering to the responsibility in enhancing shareholder value, the Company pays due respect to the legally rights of its stakeholders, including its customers, employees, banks and other creditors, suppliers and communities at large, and works actively in coordination with them to achieve continued and healthy development of the Company.
- The Supervisory Committee, responsible to all shareholders, supervises the legality and compliance of

the Company's financial activities, as well as the Company's directors, general managers and other senior management in carrying out their duties, with an aim to protect the legal interests of the Company and its shareholders.

- The Board comprises executive directors and non-executive directors, including independent non-executive directors. There are more non-executive directors than executive directors, and independent non-executive directors are in the majority among the non-executive directors. The views of independent non-executive directors have significant influence on the decisions made by the board. Furthermore, diversity in experiences and expertise is also being maintained in the board.
- The positions of Chairman and General Manager are being held by different directors who are separately responsible for the tasks of the board and of the business operations, respectively, thus assuring a balance in the responsibilities of the Chairman and the General Manager, as well as a clear division of duties.

On strategic development, the Company has been exceedingly prudent without being overly conservative. We maintained our focus on the core business operation of expressways, and continued to expand on expressway-related operation, while broadening our scope to other fields of infrastructure in order to capture potential business opportunities.

“Pursue Excellence, Enhance Value” has always been our business philosophy. Customers are the sources of our value. In meeting their needs, we are also creating value for our shareholders and the society. On the other hand, employees are the creators of value. With such an understanding, the management of the Company, working with a team spirit with the entire staffs, handled businesses of the Company as if they were their own businesses, and always put the overall interests of the Company, customers and shareholders first. When faced with difficulties and challenges, they turn to innovation for creative solutions to overcome them. Our employees labored





“ Having invested in Zhejiang Expressway for many years, we are pleased to see a company with superb management and a clear set of strategies for its business development. This, coupled with its high standards of corporate governance and high regard for shareholders' interest, has won our great confidence in the Company. Since its listing, the Company has maintained continued business growth for five years, providing its shareholders excellent investment return. ”

— Ms. Zhang Yang, Huajian Transportation Economic Development Center (one of the Company's shareholders)

day and night to ensure the safe and smooth operation of expressways. They responded enthusiastically to the Company's call for proposals in contribution to its management and business development. The internal Corporate Journal published monthly has become an important platform for sharing information, exchanging working experiences and communicating sentiments among the employees. Our personnel policies and clear-cut performance evaluation policies, in which the hiring, promotion and remuneration of all employees are determined individually on merits, have also become an important part of our corporate culture.

On the subject of information disclosure, in addition to making truthful, accurate, complete and timely disclosure in accordance with regulatory requirements, the Company also releases any and all information that could have substantial impact on the decision-making of shareholders and other stakeholders following the principles of accountability and integrity, while making an effort to assure equal access to such information by all shareholders of the Company.

With regard to investor relations, the management takes a hands-on approach, utilizing every opportunity in communicating with investors, to give them a clear and comprehensive understanding on the business environment, operating strategies and growth prospects of the Company.

Having a good corporate culture is an important guarantee for the stability and continued steady development of a company. Corporate culture is not something that can be seen or touched, but its manifestation is real and powerful. I sincerely hope that all of our employees can continue to exemplify the spirit of Zhejiang Expressway's corporate culture, and bring our endeavors to a new high.

Geng Xiaoping

Chairman

March 4, 2003

MANAGEMENT DISCUSSION & ANALYSIS

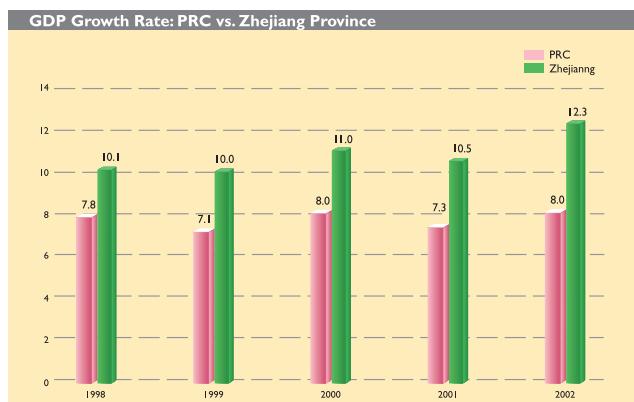
BUSINESS REVIEW

The past year has been a year of unrelenting growth for the Group. Turnover for the Group was approximately Rmb2,168 million, representing an increase of 25.9% over 2001, while net profit attributable to shareholders was approximately Rmb890 million, representing an increase of 17.1% over 2001.



THE OPERATING ENVIRONMENT

Seizing the opportunities presented by an increase in domestic demand and an expanded overseas market following China's accession to the WTO in late 2001, China's economy continued to power ahead with a better-than-expected GDP growth rate of 8.0% for the year 2002.



Source: Zhejiang Bureau of Statistics

Once again, leading the pack of provinces and municipalities situated along the east coast of the PRC in economic performances, Zhejiang GDP grew by approximately 12.3% in 2002, the province's highest growth rate in recent years, and 4.3% higher than the national average.

Economic Performances of Selected Provinces and Municipality in 2002

	GDP Total		Export Total	
	Rmb billion	% growth	Rmb billion	% growth
Anhui Province	356.9	+8.9	2.5	+7.5
Fujian Province	468.2	+10.5	17.4	+24.8
Guangdong Province	1,167.4	+10.8	118.5	+24.2
Jiangsu Province	1,063.6	+11.6	38.5	+33.3
Shandong Province	1,055.2	+11.6	21.1	+16.5
Shanghai Municipality	540.9	+10.9	32.1	+16.0
Sichuan Province	487.5	+10.6	2.7	+71.3
Zhejiang Province	767.0	+12.3	29.4	+28.0

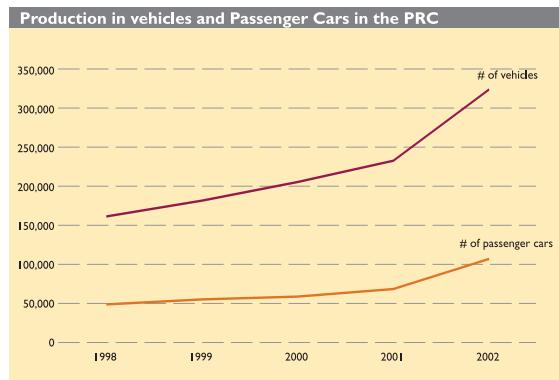
Source: National Bureau of Statistics of China

Zhejiang Province's robust economic foundation is demonstrated by the fact that twenty-four of its counties have been included among "Top 100 Counties by Economic Strength" among a total of 2,861 counties nationwide according to a national research institute, making it the province having the most number of such counties among all provinces or municipalities in China:

Number of Top 100 Counties by Economic Strength	
Province / Municipality / Autonomous Region	No. of Counties Ranked Among "Top 100"
Fujian	8
Guangdong	15
Hebei	3
Henan	2
Hubei	2
Hunan	1
Jiangsu	17
Liaoning	5
Shandong	20
Shanghai	1
Sichuan	1
Xinjiang	1
Zhejiang	24
Total	100

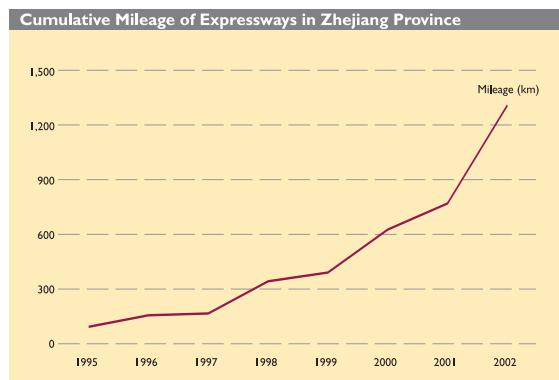
Source: *Media reports*

Both production and sales of passenger cars soared to new heights amid a continued build-up in optimism towards the general economy and personal wealth, coupled with increasing availability of auto financing and more new passenger car models coming into the market than ever. During the year, sales in passenger cars reached 1,058,000 nation-wide, representing an increase of 50% over 2001, the highest growth rate since 1993. Much of the increase in demand came from the private sector, as approximately 60% of the sales went to private individuals.



Source: *China Statistical Year Book and media reports*

As traffic in cities within Zhejiang Province is becoming increasingly congested due to the rapid increase of passenger cars, especially during rush hours, driving from city to city was made much easier by the end of the year, thanks to the substantially expanded expressway system. Following the completion and opening to traffic of an additional 537km of expressways by the end of 2002, the total mileage of expressways operational in Zhejiang Province has now reached 1,307km, linking every major city within the province to the provincial capital, Hangzhou.



Source: *Media reports*

The combination of the above-mentioned factors, among others, has created a generally favorable operating environment for the Group's business in 2002.



“Our operations department, as a service-providing department, is involved in a lot of aspects of work. The objective of operational work is to provide satisfactory services to our customers and to earn more income for the Company. This objective calls for carrying out our operational work with an emphasis on road safety and smooth traffic, comfortable travel conditions and quality service.”

— Ms Zhang Xiuhua, Operations Department of the Company

ANALYSIS OF BUSINESS OPERATIONS

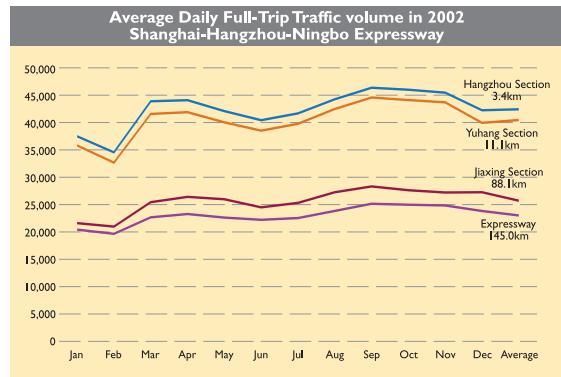
During the year, the Group's business operations continued to focus on the two major expressways: the 248km Shanghai-Hangzhou-Ningbo Expressway and the 142km Shangsan Expressway, with toll income contributing to approximately 95.5% of the Group's total income, details of which are as follows:

	2002 Rmb'000	2001 Rmb'000	% change
Toll income	2,184,197	1,756,265	+24.4
Shanghai-Hangzhou-Ningbo			
Expressway	1,745,931	1,438,191	+21.4
Shangsan Expressway	438,266	318,074	+37.8
Other income			
Advertising	27,742	22,462	+23.5
Road Maintenance	1,704	4,649	-63.3
Service Areas	73,043	34,465	+111.9
	2,286,686	1,817,841	+25.8
Revenue taxes	(118,608)	(95,324)	+24.4
Turnover	2,168,078	1,722,517	+25.9

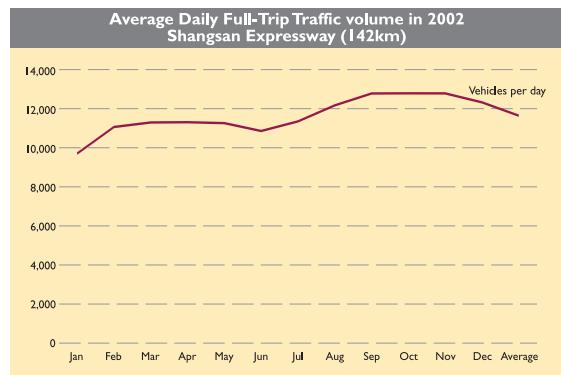
Toll Road Operations

Since the Hangzhou-Ningbo section was completed and opened to traffic in 1996 and the entire expressway became fully operational in 1998, the Shanghai-Hangzhou-Ningbo Expressway has been undergoing robust growth in both traffic volume and toll income, which had continued in 2002. Daily average full-trip traffic volume was 25,048, representing an increase of 21.6% over 2001, while toll income for the Period was approximately Rmb1,746 million, representing an increase

of 21.4% over 2001 and 79.9% of the Group's total toll income (2001: 81.9%).



Fully completed and opened to traffic in 2000, the Shangsan Expressway continued to operate at a high rate of growth in traffic volume, benefiting from both a lower basis of comparison and an increasingly enhanced expressway network within the province. During the Period, daily average full-trip traffic volume was 11,634, representing an increase of 39.8% over 2001, while toll income for the Period was approximately Rmb438 million, representing an increase of 37.8% over 2001 and 20.1% of the Group's total toll income (2001: 18.1%).



Shida Road, a 9.45km interlink owned and operated by Shida Co, enjoyed a surge in traffic volume and toll income. The surge was mainly the result of Shida Road being the only link between the northern section of the newly completed Hangzhou City Ring Road and the Shanghai-Hangzhou-Ningbo Expressway. With traffic volume growth at 72% and toll income growth at 46.8%, the jointly-controlled entity recorded its first-ever net profit for the year of approximately Rmb1.4 million (2001: - Rmb5.0 million).

Operational Management

Since mid-2001, the Company adopted a new vehicle classification standard that was aimed at correcting some larger vehicles from being classified as smaller vehicles. The continued efforts in implementing the new classification standard during the year resulted in toll income consistently growing at a higher rate than traffic volume for both expressways during the first half of the year.



Following the successful launch of pre-paid IC card system in October 1999 and a subsequent upgrade in October 2000, the system was expanded to cover the Shangsan Expressway in 2002. The system, designed to reduce cash transactions for toll collection, contributed to total sales of Rmb81.7 million for the year, representing an increase of 253% over 2001.

Zhejiang Expressway Company Limited

Measures were taken during the Period to discourage over-loaded trucks from getting onto the expressways operated by the Group, as it had become apparent that the damage that such trucks did to the road surface in monetary terms costs more than the toll charges that they paid. In addition, they also slowed down traffic flow on the expressways due to their slower travel speeds.

Working in coordination with Advertising Co, the Company issued updated travel directories on the expressways under the Group's operation, in an effort to offer convenience to its expressway travelers. The Company also publicized the expressways to travelers in surrounding areas who might not be familiar with the Group's expressways.

Further measures were taken by the Company to reduce human errors in classifying vehicles on the one hand, and to improve the quality of services provided to expressway users on the other hand, through installing more monitoring and display facilities at toll stations, along the expressways and within service areas.

Road Maintenance

Commenced in the second half of 2002, the major road surface-overlaying project on the Shanghai-Hangzhou-Ningbo Expressway covered a length of approximately 93km. Including sizable repairs and bridge-head differential-settlement treatments along the affected sections, the combined cost was



approximately Rmb156.0 million, in addition to the cost of Rmb33.1 million attributable to routine maintenance works.

Through careful coordination and strict site supervision, such as limiting construction works to night time in order to reduce the risk of accidents posed to expressway travelers, the Group's maintenance works did not significantly impact normal traffic flow on the expressways. Traffic volume on the Shanghai-Hangzhou-Ningbo Expressway continued to grow unimpeded, while routine maintenance cost for the Company was slightly reduced as compared to 2001 as a result of the road surface-overlaying project.

Another section of Shanghai-Hangzhou-Ningbo Expressway, totaling approximately 84km, will undergo road surface-overlay in 2003 at a cost of approximately Rmb141.4 million.

Quality Control

Since the adoption of internationally recognized quality standards early in 2001 for operations directly affecting the Company's customers, the quality control system was renewed and further expanded to cover virtually all aspects of internal management in 2002. Major projects undertaken during the year, such as the expressway widening projects and the road surface-overlaying projects, all passed their respective quality tests, with no major breaches in quality control or complaints recorded.

With regular internal auditing and annual external auditing on the execution of the system, the Company is confident that it is able to maintain and even improve the quality of services that it provides to its customers in a measurable manner.

Other Businesses

Service Area Operations

After the opening of two more service areas at full capacity along the Shangsan Expressway at the beginning of 2002, there are currently five service areas in operation under the Group. However, the development of the Company's service area operations still fell behind the increasing demand for such services.



The Company took measures to relieve congestion and queuing for service within the service areas, through expanding the service areas on the one hand, and separating vehicles coming in for gasoline fill-up from vehicles seeking other services such as restaurants and resting areas on the other hand. These measures have been proven to be effective.

Revenue from service areas was further enhanced with a newly implemented contract-out policy, through an open bidding process, for some of the businesses available at these service areas. The policy has significantly increased returns generated by the facilities concerned, contributing to a total revenue of approximately Rmb73.0 million for the five service areas, an increase of approximately 112% over 2001 when only three service areas were in operation.



Advertising Business

The Company further expanded its roadside billboard advertising business from the Shanghai-Hangzhou-Ningbo Expressway to the Shangsan Expressway. The business is operated by Advertising Co. Although turnover grew substantially by 23.6% to reach Rmb27.7 million for the subsidiary, net profit grew slightly by 7.0% to Rmb7.8 million, mainly due to increased costs at the initial phase of business expansion to the Shangsan Expressway, as well as increased market competition from areas surrounding the expressway.

Petroleum Co

Growing demand, as well as increasing competition in the petroleum retail market, presented both opportunities and challenges for Petroleum Co. Continued growth in retail sales contributed to a net profit for the Period of approximately Rmb16.3 million for Petroleum Co (2001:- Rmb10.4 million).



JoinHands Technology

Having expanded into the new field of design and consulting services for logistics centers, JoinHands Technology made further investments in project research and development during the year. Relying mainly upon its production and sale of POS equipment, as well as the application of two-dimensional coding

technology in the tobacco and power industries, JoinHands Technology recorded a net profit for the Period of Rmb6.8 million, a slight decrease by 1.4% as compared to 2001 due to heavier investment in research and development.

Project Investments

Acquisitions

In addition to the acquisition of a 12.7% equity interest in Jiaxing Co in December 2001 and January 2002 and a 2.0% equity interest in Shangsan Co in December 2001, for a total consideration of Rmb444.6 million in cash, the Company further entered into acquisition agreements in August 2002 to purchase from Communications Investment Group and Tiantai County Transport Development Company a 6.625% equity interest and a 2.0% equity interest, respectively, in Shangsan Co for a consideration of Rmb187.6 million and Rmb57.6 million in cash, respectively. Details of the acquisitions were disclosed in the Company's announcement dated August 20, 2002.

Widening Project

In response to the rapid expansion of the regional economy and the fast growth of expressway traffic, and in view of the decline of the average travel speed and level of service along the Shanghai-Hangzhou-Ningbo Expressway in recent years, initiatives have been undertaken to widen the expressway from its current four lanes to eight lanes ("Widening Project").

Involving a total distance of 223 km and at an estimated cost of approximately Rmb4,780 million, the overall Widening Project is expected to be completed by the end of 2007.

The initial phase of the Widening Project, from Hongken to Guzhu, pertains to approximately 44km in length. Construction of the project commenced in October 2000 and is progressing ahead of schedule with completion expected by the end of 2003. At a construction cost of approximately Rmb647 million as of the latest budget, the section is expected to be widened to eight lanes instead of six as originally planned, with emergency parking areas provided at intervals of 500 meters. A committee

of specialists and experts has approved the change in plans, with final approval by relevant authorities to be obtained later this year.

The next phase of the Widening Project, from Dajing to Fengjing, pertaining to approximately 95km and budgeted at approximately Rmb2,508 million, is being designed for widening to a standard eight-lane expressway. Construction works are expected to commence in the fourth quarter of 2003, with completion targeted by the end of 2006.



The last phase of the Widening Project, from Guzhu to Dazhujia, pertaining to approximately 84km, is budgeted at approximately Rmb1,625 million. Construction works are expected to commence in mid-2004, to be completed by the end of 2007.

Construction works will take place off the shoulders of the expressways, such that traffic flow on the traveled lanes will not be stopped. Measures have been taken so as not to significantly slow down normal traffic flow.

Among the total funding needs of approximately Rmb4.78 billion for the Widening Project, approximately Rmb2 billion will be financed by the Group's internal resources, Rmb1 billion to Rmb3 billion from the issuance of corporate bonds, and

the remaining balance from domestic commercial bank borrowings.

The increase in equity interests and carrying capacity in existing expressways are general reflections of the Company's growth strategy, which is to remain focused on expressway operations while continuing to seek potential investment opportunities among infrastructure projects for future expansion.

Internal Control

Following the establishment of an internal audit department in mid-2001, the Company further revised and enhanced its internal control mechanisms during the year through a combination of its own management experience and adaptation of the latest applicable rules, regulations and guidelines announced by regulatory authorities from time to time on this issue.

The newly established internal control measures cover, among other aspects, operations management and financial controls, with a special emphasis on financial controls over various aspects of the Company's operations, investment and funding activities.



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

Human Resources

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

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

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

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

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



Investor Relations

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

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

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



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

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

FINANCIAL ANALYSIS

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

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

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

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

BORROWINGS AND CAPITAL STRUCTURE

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

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

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

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

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

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

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



COMMITMENTS AND UTILIZATION OF CAPITAL EXPENDITURE

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

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

	Group Rmb'000	Company Rmb'000
Expressway Widening Project		
From Hongken to Guzhu	349,542	349,542
From Dajing to Fengjing	2,508,190	2,508,190
From Guzhu to Dazhujia	1,625,410	1,625,410
Acquisition of additional 18.4% equity		
interest in Shangsan Co	485,000	485,000
Renovation of Sanjiang Service Area	14,000	14,000
Remaining construction works		
of the Shangsan Expressway	460,529	—
Construction works under Contract No. 11		
of the Shanghai-Hangzhou Expressway	10,719	10,719
Total	5,453,390	4,992,861

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

CONTINGENT LIABILITIES

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

GUARANTEES AND PLEDGES OF ASSETS

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

FOREIGN EXCHANGE EXPOSURE

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

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

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



EMPLOYEES' BASIC MEDICAL INSURANCE SCHEME

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

OUTLOOK FOR 2003

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

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

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

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

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

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

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

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



FREQUENTLY ASKED QUESTIONS

What was the reason for the substantial increase in operating expenses in 2002?

- Apart from routine maintenance works on the expressways, a major road surface-overlaying project was carried out on the Shanghai-Hangzhou-Ningbo Expressway during the second half of 2002, covering approximately 93 kilometers. Including sizeable repairs and bridgehead differential-settlement treatments along the affected sections, the additional cost of the project was approximately Rmb156 million.
- In addition to increased revenue contributions, expanded service area operations where five service areas were fully operational in 2002 compared with three in 2001

have also led to an increase in relevant expenditures from approximately Rmb19.2 million in 2001 to approximately Rmb42.2 million in 2002.

Will there be more surface-overlaying works on the Shanghai-Hangzhou-Ningbo Expressway to be carried out in 2003 and 2004? If so, where are they and what are the related costs?

- Yes, there will be another two parts of Shanghai-Hangzhou-Ningbo Expressway, aggregating 84 kilometers and 71 kilometers, undergoing major road surface-overlaying in 2003 and 2004, with estimated costs of approximately Rmb141 million and Rmb119 million, respectively.



“Zhejiang Expressway is one of the best expressway companies we cover in China. We trust the management and we are happy with its very transparent operations.”

— Mr. Henry Wu, UBS Warburg Asia Limited

- The project will mainly be covering the Jiaxing Section as well as the section from Shaoxing to Ningbo of the Shanghai-Hangzhou-Ningbo Expressway.

The Company had successfully issued Rmb1 billion corporate bonds in early 2003. What is the state of the plan to issue domestic A Shares initiated in 2001?

- The Company has put aside its plan for issuing domestic A Shares in 2002. While the Company intends to keep all options open, there are currently no plans to raise capital by means of an A shares issue.

After the completion and opening to traffic of the initial phase of the Widening Project by the end of 2003, when will the remaining sections of the Shanghai-Hangzhou-Ningbo Expressway undergo widening? What are the costs and sources of funding for the remaining works?

- The next phase of the Widening Project will commence in the fourth quarter of 2003, with completion targeted by the end of 2006. Beginning from Dajing and ending at Fengjing, the project pertains to approximately 95 km, and will cost approximately Rmb2,508 million.
- The last phase of the Widening Project will commence in mid-2004 and to be completed by the end of 2007. Beginning from Guzhu and ending at Dazhujia, the last phase pertains to approximately 84km, and will cost approximately Rmb1,625 million.

- The Company intends to finance the Widening Project through issuing corporate bonds and commercial bank borrowings, etc., in addition to its own financial resources.

The Company elected a new session of the Board, and appointed a new team of senior management early in 2003. Will there be any changes or adjustments to the development strategies of the Company?

- There will be finer adjustments made in the development strategies of the Company in response to the changing environment, but the Company's long-term aspiration remains the same, which is to become a leading company in investing in and operation of infrastructure businesses, with an emphasis on expressways, in the PRC by 2010.

What is the long-term dividend payout policy that the Company will maintain?

- Under normal circumstances, the Company will continue to be paying both interim and final dividends, with the annual dividend payout ratio maintaining within the range of 60% to 70% of the net profit attributable to shareholders.

CORPORATE GOVERNANCE

SHAREHOLDERS AND GENERAL MEETINGS

The Company protects the interests of Shareholders. The Shareholders, being the owners of the Company, are entitled to the rights provided by the laws and administrative regulations, and shall assume corresponding obligations. All the Shareholders are treated equally and are encouraged to actively participate in corporate governance of the Company. Shareholders have priority and rights to decision-making in respect of significant matters of the Company. The general meeting is the power organ of the Company, which performs its duties in accordance with the laws. Shareholders who have interests in connected transactions shall abstain from voting at the general meeting approving such connected transactions.





“Zhejiang Expressway is one of the best managed companies of great renown in China yielding outstanding results.”

— Dr. Henry Hu Hung Lick, former independent non-executive director of the Company, currently President of Hong Kong Shue Yan College

Three general meetings were held by the Company in 2002, including an annual general meeting and two extraordinary general meetings. Among these meetings, payment of an interim dividend and issue of corporate bonds of Rmb 1 billion in the PRC were approved at two of the extraordinary general meetings respectively.

BOARD OF DIRECTORS

The Board of Directors of the Company represents the interests of all the Shareholders, and continues to lead the Company to success in operation. In addition to the obligation of enhancing shareholder value, the Board is also accountable to the community where the Company's clients, staff, suppliers and businesses are located.

The Board of Directors of the Company is composed of nine Directors, four of them are Executive Directors, whilst the remaining five are Non-executive Directors. Among the five Non-executive Directors, three of them are Independent Non-executive Directors, representing one-third of the Board of Directors.

Six meetings were held by the Board of Directors of the Company in 2002.

SUPERVISORY COMMITTEE

The Supervisory Committee is responsible to all the Shareholders. It supervises the financial state of affairs of the Company as well as the compliance of the Directors, general managers and other senior officers of the Company in performing their duties, and protects the legal interests of the Company and Shareholders.

The Supervisory Committee of the Company comprises five supervisors, among whom one acts as shareholders' representative, one as staff's representative and the other three are independent supervisors.

Two meetings were held by the Supervisory Committee of the Company in 2002 in order to review the financial statements of the Company. The Supervisory Committee was present at all meetings of the Board of Directors, and carried out a site visit to Shanghai-Hangzhou-Ningbo Expressway and Shangsan Expressway and management offices along the expressways.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PROFILES

DIRECTORS

EXECUTIVE DIRECTORS



Mr. GENG Xiaoping, born in 1948, is the Chairman of the Company. Mr. Geng graduated from the East China College of Political Science and 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 as Deputy Director of the Zhejiang Provincial Expressway Executive Commission where he was responsible for the business operation and administration of the expressway system in Zhejiang Province. Mr. Geng was the General Manager and Chairman of the Company from March 1997 to March 2002. Since December 2001, he has been appointed as a director and General Manager of the Communications Investment Group. He resigned from the office of the General Manager of the Company in March 2002.



Mr. FANG Yunti, born in 1950, is a senior engineer, an Executive Director and the General Manager of the Company responsible for the overall management of the Company. Mr. Fang graduated from Qing Hua University in 1976 with a major in automotive engineering. 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. During the period from 1991 to 1996, he was the Deputy Chief and Chief of the Operating Administrative and Technical Equipment Divisions of the Zhejiang Provincial Expressway Executive Commission, where his responsibilities included operation management and equipment management in relation to the Shanghai-Hangzhou-Ningbo Expressway. Mr. Fang was an Executive Director and the Deputy General Manager of the Company from March 1997 to March 2002. Since March 2002, he has been an Executive Director and the General Manager of the Company.

Mr. ZHANG Jingzhong, born in 1963, is a senior lawyer, an Executive Director and Deputy General Manager of the Company. Mr. Zhang graduated from Zhejiang University (previously known as Hangzhou University) in July 1984 with 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 to practise securities law. In January 1994, Mr. Zhang became a Senior Partner at T&C Law Firm in Hangzhou. Mr. Zhang has been an Executive Director of the Company since April 1997, and was the Secretary to the Board from April 1997 to June 2001. He has been the Deputy General Manager of the Company since March 2002.



Mr. XUAN Daoguang, born in 1944, is a senior engineer, an Executive Director and Deputy General Manager of the Company. Mr. Xuan graduated from Tong Ji University in 1960 with a degree in engineering, specialising in the construction and design of bridges and tunnels. Mr. Xuan has 43 years of experience in engineering maintenance and has held positions such as Section Head and Head of the Road Administrative Division of Jinhua City and Head of the Engineering Maintenance Department of the Zhejiang Provincial Expressway Executive Commission. Mr. Xuan has been an Executive Director of the Company since March 1997. He has been the Deputy General Manager of the Company since March 2000.



NON-EXECUTIVE DIRECTORS



Ms. ZHANG Luyun, born in 1961, is a director and Deputy General Manager of the Communications Investment Group. Ms. Zhang graduated from Zhejiang University, majoring in administration and management. From 1985 to 1997, she served as the Secretary, Deputy Chief and Chief in the Office of

Hangzhou City Government. In 1997, she was the Deputy President of Hangzhou Broadcasting and TV College and received the title of the Assistant Researcher in college-teaching. She joined the Communications Investment Group in December 2001 and has been a director and Deputy General Manager of the Communications Investment Group since then.



Ms. ZHANG Yang, born in 1964, is the general assistant manager and the manager of the Securities Department of Huajian Transportation Economic Development Center. In 1987, she graduated from Lanzhou University with a bachelor's degree in economics. In 2001, she completed the postgraduate

studies in economics management in the Central Party School. From 1987 to 1994, she worked for the Ministry of Aviation. Ms. Zhang is currently a non-executive director of Shenzhen Expressway Company Limited and Sichuan Expressway Company Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS



Mr. TUNG Chee Chen, born in 1942, is the Chairman of Orient Overseas (International) Limited, an independent non-executive Director and the Chairman of the Audit Committee and the Nomination and Remuneration Committee of the Company. Mr. Tung was educated at the University of Liverpool, England,

where he received his bachelor's degree in science. He later obtained 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 of the Company since March 1997.

Mr. ZHANG Junsheng, born in 1936, is a professor, an independent non-executive Director and a member of the Audit Committee of the Company. Mr. Zhang graduated from Zhejiang University in 1958, and was a lecturer, an associate professor, and an advising professor at Zhejiang University.



He was also a professor concurrently at, amongst other universities, Zhongshan University. In 1980, he became the Deputy General Secretary of Zhejiang University. In 1983, Mr. Zhang served as the Deputy General Secretary in 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 position 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. Mr. Zhang has been an independent non-executive Director of the Company since March 2000.

Mr. ZHANG Liping, born in 1958, is an executive director and the general manager of Pacific Concord Holdings Limited. He obtained a master's degree in international affairs and international laws from St. John's University. After joining Merrill Lynch & Co., Inc. in 1989, he engaged in the business of investment banking and was a director of the investment banking division of Merrill Lynch Co. & Inc.. From 1996 he took the post of chairman, director and general manager of Seapower Corporate Finance Limited and was an executive director in Seapower Holdings Ltd. In 1998, he moved to Dresdner Kleinwort Benson and assumed the post of chairman, director, and general manager of the Greater China region. He was also a member of the Asia Executive Committee of Dresdner Kleinwort Benson. He is currently an independent non-executive director of Anhui Expressway Co., Ltd.



SUPERVISORS

SUPERVISOR REPRESENTING SHAREHOLDERS



Mr. MA Kehua, born in 1952, is a senior economist, 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. I 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 in 1993 became the Deputy Division Chief and Division Chief of Zhejiang Jinwen Railway Executive Commission responsible for material supply. Mr. Ma took up the post of Deputy General Secretary of Zhejiang Construction and Investment Company in March 1999, and is currently the Assistant General Manager of the Communications Investment Group.

SUPERVISOR REPRESENTING EMPLOYEES



Mr. Fang Zhexing, born in 1965, is a senior engineer, the Director of the internal audit department and the manager of the human resources department of the Company. He is also the chairman of Hangzhou Shida Expressway Co., Ltd. Mr. Fang graduated from Zhejiang University in engineering where he received a master's degree. From 1986 to 1988 he

was the assistant engineer in the project management office of the Electric Power and Water Conservancy Bureau in Taizhou. From 1991 until 1997, he was the engineer in the project management office of Zhejiang Provincial Expressway Executive Commission, where he participated in the project management of Shanghai-Hangzhou-Ningbo Expressway. Since March 1997, he has been the deputy manager and later the manager of the planning and development department and the manager of the project-development department of the Company.

INDEPENDENT SUPERVISORS

Mr. ZHENG Qihua, born in 1963, is a senior accountant and an independent non-executive member of the Supervisory Committee. He is a guest professor at the Zhejiang Finance and Economics Institute. Mr. Zheng was among the first batch of Chinese registered accountants to obtain qualifications required for practising accountancy involving securities in 1992. He has working and training experience in Hong Kong and Singapore, and he worked with the Listing Division of the China Securities Regulatory Commission during 1997 and 1998. He is currently the Deputy General Manager of Zhejiang Pan-China Certified Public Accountants.



Mr. SUN Xiaoxia, born in 1963, is a professor and an independent non-executive member of the Supervisory Committee. Mr. Sun graduated from China Academy of Social Sciences with a doctor's degree in law. He worked as Assistant Lecturer, Lecturer, Assistant Professor, Professor and Tutor for graduate students at Hangzhou University, School of Law. Mr. Sun is currently the Deputy Dean of the School of Law and the Dean of the Department of Law, Zhejiang University. In addition, Mr. Sun is a lawyer with Zhejiang Zheda Law Firm, a standing member of China Jurisprudence Research Society, a standing member of China WTO Legal 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. JIANG Shaozhong, born in 1946, is a professor. Mr. Jiang graduated from the Management Department of Zhejiang University with a master's degree. From 1982 he worked in the Management Department of Zhejiang University as Lecturer, Assistant Professor, Professor, Dean of research office and Deputy Dean of the Department.

From 1984 to 1985 he was a visiting scholar in Stanford University. From 1991 to 1998 he was the Deputy General Economist, the Chief of the Financial Division, the Chief of the Teaching Division and the Deputy Manager of the Management Department of Zhejiang University. He is currently the Deputy General Accountant of Zhejiang University.



OTHER SENIOR MANAGEMENT MEMBERS



Mr. JIANG Wenyao, born in 1966, an engineer, and is the Deputy General Manager of the Company. Mr. Jiang graduated from Zhejiang University, majoring in industrial automation and manufacturing mechanics, and obtained a Master degree in engineering. From March, 1991 to February, 1997, he was with the

Zhejiang Provincial Expressway Executive Commission, and worked in its Engineering Division, and Planning and Finance Division. He joined the Company since March, 1997, and has served as Deputy Manager of the General Department, Manager of the Equipment Department, Manager of the Operation Department, Assistant of the General Manager and Secretary of the Board.



Ms. HUANG Qiuxia, born in 1956, an economist, and is the Deputy General Manager of the Company. Ms. Huang graduated from Hangzhou Technology University in 1988. From 1976 to 1991, she was the Deputy Chief of Labor Division of Hangzhou Clock and Watch Factory. She joined the Zhejiang Provincial

Expressway Executive Commission in August, 1991, and involved in matters related to labor wages, personnel, external affairs and etc. During the period from March, 1997 to February, 2003, she has been the Deputy Manager and Manager of General Department of the Company.

Mr. PAN Jiaxiang, born in 1951, an engineer, and is the Deputy General Manager of the Company. Mr. Pan graduated from Hangzhou University, majoring in economic management. From 1987 to 1992, he was the Deputy Director of the Office of Shangyu City People's Government, and at the same time served as the Director of the Executive Commission of the Shanghai-Hangzhou-Ningbo Expressway (Shangyu Section). From January, 1993 to April, 1996, he was the Director and the Secretary of Party Committee of Shangyu City Communications Bureau. He has worked in the Company since April, 1997, and served as Deputy Manager of Maintenance Department, Assistant of the General Manager and Director and Chief Supervisory Engineer of Widening Project Office, and General Manager of Shangsan Co.



Mr. WU Junyi, born in 1969, a master in accounting, and is the Chief Financial Officer of the Company. Mr. Wu graduated from Xi'an Communications University in 1996. From 1996 to 1997, he was with the China Investment Bank, Hangzhou Branch. He joined the Company in May, 1997, and has served as Manager of Securities Investment Department and Manager of Planning and Finance Department.



REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended December 31, 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Group comprise the design, construction, operation and management of high grade roads, as well as the development and provision of certain ancillary services, such as technical consultation, advertising, automobile

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

SEGMENT INFORMATION

During the year, the entire turnover and contribution to profit from operating activities of the Group were derived from the Zhejiang Province in the People's Republic of China (the "PRC"). Accordingly, a further analysis of the turnover and contribution to profit from operating activities by geographical area is not



presented. However, an analysis of the Group's turnover and contribution to profit from operating activities by principal activity for the year ended December 31, 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

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

An interim dividend of Rmb0.04 per share (approximately HK\$0.038) was paid on October 31, 2002. The Directors recommend the payment of a final dividend of Rmb0.09 per share (approximately HK\$0.084) in respect of the year, to shareholders on the register of members on April 3, 2003. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.



SUMMARY FINANCIAL INFORMATION

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

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

Notes:

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

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers and suppliers contributed less than 30% of the total toll revenue and purchases, respectively, of the Group during the year. Accordingly, a corresponding analysis of major customers and suppliers is not presented.

CONNECTED TRANSACTIONS

Details of the connected transactions of the Group (the "Connected Transactions") carried out during the year for which The Hong Kong Stock Exchange has granted a waiver from compliance with Chapter 14 of the Listing Rules pursuant to its letter of March 10, 2000 are disclosed in the second paragraph of note 41 to the financial statements.

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

- (i) carried out in accordance with the terms of the agreements governing each respective transaction in question;
- (ii) entered into in the usual and ordinary course of business of the Company; and
- (iii) entered into on normal commercial terms and are fair and reasonable so far as the shareholders of the Company are concerned.

Ernst & Young, the auditors of the Company (as required by the Stock Exchange in its letter of March 10, 2000) have also reviewed the said transactions and have confirmed that the independent non-executive Directors have given their approval of these transactions and that they were carried out by the Company in accordance with the terms of the agreements governing each respective transaction during the year ended December 31, 2002.

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

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

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

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group are set out in note 14 to the financial statements.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company and the Group as at December 31, 2002 are set out in note 37 to the financial statements.

RESERVES

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

DISTRIBUTABLE RESERVES

As at December 31, 2002, before the proposed final dividend, the Company's reserves available for distribution by way of cash or in kind, as determined based on the lower of the amount determined under PRC accounting standards and the amount determined under generally accepted accounting principles in Hong Kong, amounted to Rmb500,667,000. In addition, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,638,229,000 standing to the credit of the Company's share premium account as prepared in accordance with the PRC accounting standards was available for distribution by way of capitalisation issues.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2002, 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 (the "SDI Ordinance"):

Name	Number of shares	Percentage
Zhejiang Communications Investment Group Co., Ltd.	2,432,500,000 (domestic shares)	56.01
Huajian Transportation Economic Development Center	476,760,000 (domestic shares)	10.98
HKSCC Nominees Limited	1,409,650,499 (H shares)	32.46

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

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.

TRUST DEPOSITS

As at December 31, 2002, other than the deposits of HK\$2,037,111 (equivalent to Rmb2,161,579 approximately) and Rmb10,433,084 placed in non-bank financial institutions in Hong Kong and the PRC respectively, the Group did not have any trust deposits, nor any time deposits with any non-bank financial institution in the PRC. Nearly all of the Group's deposits have been placed with commercial banks in the PRC and the Group has not encountered any difficulty in the withdrawal of funds.



DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Geng Xiaoping
Mr. Fang Yunti
Mr. Zhang Jingzhong
Mr. Xuan Daoguang

Non-executive Directors

Ms. Zhang Luyun (appointed on March 1, 2003)
Ms. Zhang Yang (appointed on March 13, 2002)
Ms. Zhang Chunming (term expired on February 28, 2003)
Mr. Xia Linzhang (resigned on March 13, 2002)

Independent Non-executive Directors

Mr. Tung Chee Chen
Mr. Zhang Junsheng
Dr. Hu Hung Lick, Henry
(term expired on February 28, 2003)
Mr. Zhang Liping (appointed on March 1, 2003)

CHANGE IN DIRECTORS AND SENIOR MANAGEMENT

Pursuant to an extraordinary general meeting held on February 11, 2003, the term of office for the existing Directors is three years, with effect from March 1, 2003. At the same meeting, Mr. Geng Xiaoping was elected as the Chairman of the Company, Mr. Tung Chee Chen was appointed as the Chairman of the Audit Committee and the Nomination and Remunerations Committee, and Mr. Fang Yunti was appointed as the General Manager of the Company.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and supervisors ("Supervisors") of the Company has entered into a service agreement with the Company, with effect from March 1, 2003, for a 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 terminable 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, its holding company or any of its subsidiaries and fellow subsidiaries 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, 2002, 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 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, its holding company or any of its subsidiaries, jointly-controlled entity, associates and fellow subsidiaries a party to any arrangement enabling any Directors or Supervisors or their spouses or children under the age of 18 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.

PENSION SCHEME

As required by the State regulations of the PRC, the Group participates in a defined contribution pension scheme organised

by local social security authorities. Under the 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 local social security authorities at rates ranging from 20% to 22.5% of the average basic salaries of the employees 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 Group is not entitled to a refund of any contributions that it has previously made. Hence, no forfeited contribution was used by the Group 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 Rmb6,534,000 (2001: Rmb6,900,000).

MEDICAL INSURANCE SCHEME

Medical expenses for employees of the Group were accounted for as part of the benefits provided by the Group in 2002 and the years before in accordance with relevant accounting rules and internal policies. Following the promulgation of employees' basic medical schemes by local governments in Zhejiang Province starting from the second half of 2002, the Group is expected to enroll in these compulsory schemes in 2003. Judging from arrangements of the schemes, the Directors do not anticipate any significant impact of its participation in the scheme on the Group's financial standing, specifically its consolidated income statement and consolidated balance sheet.

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.

TAXATION OF THE UNITED KINGDOM

An individual holder of H shares who is a resident and domiciled in the United Kingdom (the "UK") will, in general, be liable to UK income tax on dividends received from the Company. Where such an individual receives dividends from the Company without withholding of taxes, the amount included as income for the purpose of computing his or her UK tax liability is the gross amount of the dividend and this is taxed at the appropriate marginal rate (currently 10% in the case of a basic rate for a lower rate taxpayer and 32.5% in the case of a higher rate taxpayer). Where tax is withheld from the dividend, credit will be given against UK income tax for any tax withheld from the dividend up to the amount of the UK income tax liability. The Company would assume responsibility for withholding tax at source within the PRC if such a withholding is required. The current UK-Chinese Double Taxation Agreement provides that the maximum withholding tax on dividends from Chinese resident companies paid to UK residents is 10% of the gross dividend.

UK resident holders of H Shares who are individuals but not domiciled within the UK will only be liable to income tax on a dividend from the Company to the extent that the dividend is remitted to the UK.

A holder of H Shares which is a UK tax resident company will, in general, be liable to UK corporation tax on dividends received from the Company, with double tax relief available for withholding tax suffered. In certain cases (not to be discussed here), a holder of H Shares which is a UK tax resident company may be entitled to relief for "underlying" tax paid by the Company or its subsidiaries.



ACCOMMODATION BENEFITS FOR EMPLOYEES

According to relevant rules and regulations in the PRC, the Group and its employees are all required to make contributions to an accommodation fund to local social security authorities, 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 organised by local social security authorities.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 41 to the financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

Due to the non-availability of certain Directors, no full board meeting of the Directors was held by the Company during the year as opposed to the recommendation of no less than one such meeting every six months in paragraph 1 of the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code"). Except for the above, the Directors are of the opinion that the Company complied with the Code throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company has an audit committee, which was established in accordance with the requirement of the Code, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive Directors and the two non-executive Directors.

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

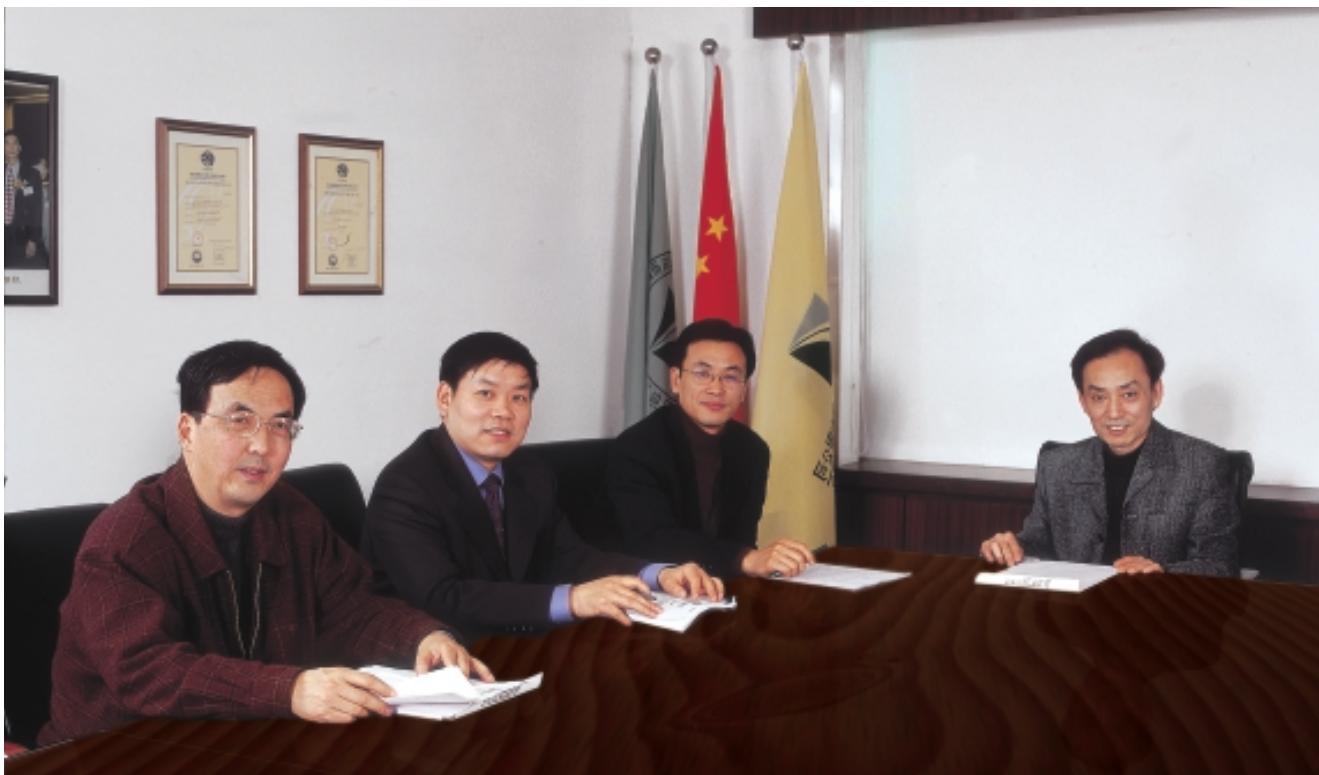
Geng Xiaoping

Chairman

Hangzhou, Zhejiang Province, the PRC

March 4, 2003

REPORT OF THE SUPERVISORY COMMITTEE



Dear shareholders:

In compliance with the Company Law of the PRC, the Company's Articles of Association and the Regulations of the Supervisory Committee, the Supervisory Committee earnestly discharged its supervisory duties. Main tasks undertaken by the Supervisory Committee during 2002 were to understand and supervise the legality and appropriateness of activities of the Directors, General Manager and other senior management of the Company in their business decision-making and daily management processes, through a combination of site inspections, attendance of meetings of the Board, as well as participating in major corporate events. The Supervisory Committee carefully examined the financial standing of the Company discussed and reviewed the financial statements and dividend distribution proposals to be submitted by the Board to the annual general meeting of the Shareholders.

The Supervisory Committee concluded that the Directors, General Manager and other senior management of the Company achieved continued growth in results in 2002, and laid a strong foundation for further development of the Company by broadening its financing channels through the establishment of a level I ADR program and the issuance of domestic corporate bonds.

The Supervisory Committee reviewed the financial statements of the Company for 2002 prepared by the Board for submission to the general meeting of the shareholders, and concluded that the statements accurately reflected the Company's operating results and asset position in 2002, and conformed to relevant laws, regulations and the Company's Articles of Association. Dividend payout ratio for 2002 was further increased compared to 2001, providing satisfactory returns in cash to the shareholders.

In the course of the Company's business operations, the members of the Board, General Manager and other senior management of the Company observed their fiduciary duties and worked diligently while exercising their rights or discharging their duties. There were no incidents of abuse of power or infringement of the interests of shareholders and employees.

The term of the second session of the Supervisory Committee expired on February 28, 2003. At the extraordinary general meeting of the shareholders held on February 11, 2003, four of the five members of the third session of the Supervisory Committee were elected: Mr. Zheng Qihua (re-elected), Mr. Sun Xiaoxia (re-elected) and Mr. Jiang Shaozhong (newly elected) as independent supervisors, and I myself was re-elected

as representative for shareholders. In addition, Mr. Fang Zhexing was elected by the staff as the supervisor representing employees. The term of the third session of the Supervisory Committee is for a period of three years, starting from March 1, 2003.

Finally, on behalf of the supervisory committee, I would like to thank Mr. Ni Ciyun and Mr. Lu Fan, who no longer serve as supervisors of the Company.

By the order of the Supervisory Committee

Ma Kehua

Chairman of the Supervisory Committee

March 3, 2003

REPORT OF THE INTERNATIONAL AUDITORS



安永會計師事務所

To the members

Zhejiang Expressway Co., Ltd.

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

We have audited the financial statements on pages 45 to 79 which have been prepared in accordance with accounting principles generally accepted in Hong Kong. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2002 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 4, 2003

CONSOLIDATED INCOME STATEMENT

	Notes	YEAR ENDED 2002 Rmb'000	DECEMBER 31 2001 Rmb'000
TURNOVER	5	2,168,078	1,722,517
Operating costs		(561,918)	(392,535)
Gross profit		1,606,160	1,329,982
Other revenue	5	66,457	216,690
Administrative expenses		(95,209)	(88,487)
Other operating expenses		(33,109)	(18,236)
PROFIT FROM OPERATING ACTIVITIES	6	1,544,299	1,439,949
Finance costs	7	(163,224)	(215,346)
Share of profits of associates		11,719	12,396
Share of profit/(loss) of a jointly-controlled entity		1,677	(1,459)
PROFIT BEFORE TAX		1,394,471	1,235,540
Tax	8	(400,952)	(363,970)
PROFIT BEFORE MINORITY INTERESTS		993,519	871,570
Minority interests		(103,067)	(110,957)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	9	890,452	760,613
DIVIDENDS	12		
Interim		(173,724)	(130,293)
Proposed final		(390,880)	(304,018)
		(564,604)	(434,311)
EARNINGS PER SHARE	13	20.50 cents	17.51 cents

CONSOLIDATED BALANCE SHEET

	Notes	DECEMBER 31	
		2002 Rmb'000	2001 Rmb'000
NON-CURRENT ASSETS			
Fixed assets	14	12,014,986	12,031,012
Interest in a jointly-controlled entity	16	54,464	54,082
Interests in associates	17	159,829	156,909
Expressway operating rights	18	214,645	223,345
Long term investments	19	2,867	32,867
Long term receivables	20	—	9,030
Goodwill	21	106,798	19,810
		12,553,589	12,527,055
CURRENT ASSETS			
Short term investments	19	858,114	1,012,186
Inventories		2,022	1,274
Trade receivables	22	14,367	54,219
Other receivables	23	128,672	63,778
Cash and cash equivalents and time deposits	24	949,070	819,026
		1,952,245	1,950,483
CURRENT LIABILITIES			
Trade payables	25	207,166	240,818
Profits tax payable		109,289	95,229
Other taxes payable		15,724	23,219
Other payables and accruals	26	214,955	157,326
Interest-bearing bank and other loans	27	1,681,553	1,620,778
Long-term bonds repayable within one year	28	200,000	—
		2,428,687	2,137,370
NET CURRENT LIABILITIES			
		(476,442)	(186,887)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		12,077,147	12,340,168
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	29	1,156,647	1,208,231
Long term bonds	30	—	200,000
Other long term liabilities		—	8,694
Deferred tax	33	240,920	131,533
		1,397,567	1,548,458
MINORITY INTERESTS			
		977,789	1,502,629
		9,701,791	9,289,081
CAPITAL AND RESERVES			
Issued capital	34	4,343,115	4,343,115
Reserves	35	4,967,796	4,641,948
Proposed final dividend	12	390,880	304,018
		9,701,791	9,289,081

Geng Xiaoping

Director

Fang Yunti

Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	Note	YEAR ENDED DECEMBER 31	2002	2001
			Rmb'000	Rmb'000
TOTAL EQUITY				
Balance at beginning of year			9,289,081	8,962,135
Share premium shared from an associate	35		—	644
Net profit from ordinary activities attributable to shareholders			890,452	760,613
Dividends paid on ordinary shares			(477,742)	(434,311)
Balance at end of year			9,701,791	9,289,081

CONSOLIDATED CASH FLOW STATEMENT

	Notes	YEAR ENDED 2002 Rmb'000	DECEMBER 31 2001 Rmb'000 (Restated)
NET CASH INFLOW FROM OPERATING ACTIVITIES	36(a)	1,536,309	1,077,957
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		14,483	59,869
Additions to fixed assets		(29,574)	(29,471)
Additions to construction in progress		(286,935)	(441,630)
Acquisition of additional interests in existing subsidiaries		(689,813)	(93,368)
Winding up of a subsidiary	36(b)	(145)	—
Dividends from an associate		8,339	6,620
Proceeds from disposal of fixed assets		2,641	1,400
Exchange gains, net		1,121	53,172
Decrease/(increase) in time deposits		(203,679)	311,721
Decrease/(increase) in investments		82,812	(646,780)
Net cash flow used in investing activities		(1,100,750)	(778,467)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on ordinary shares		(477,742)	(434,311)
Dividends paid to minority interests		(40,643)	(31,177)
New bank and other loans		4,070,361	3,113,850
Repayment of bank and other loans		(4,061,170)	(3,531,439)
Net cash used in financing activities		(509,194)	(883,077)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(73,635)	(583,587)
Cash and cash equivalents at beginning of year		739,926	1,323,513
CASH AND CASH EQUIVALENTS AT END OF YEAR		666,291	739,926
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		489,863	434,771
Time deposits with original maturity of less than three months when acquired		176,428	305,155
		666,291	739,926

BALANCE SHEET

	Notes	DECEMBER 31 2002 Rmb'000	2001 Rmb'000
NON-CURRENT ASSETS			
Fixed assets	14	5,208,083	5,202,986
Interests in subsidiaries	15	4,127,294	3,617,048
Interest in a jointly-controlled entity	16	64,055	64,359
Interests in associates	17	126,500	126,500
Expressway operating rights	18	168,710	175,644
Long term investments	19	—	30,000
Long term receivables	20	—	9,030
		9,694,642	9,225,567
CURRENT ASSETS			
Short term investments	19	569,787	715,876
Inventories		844	610
Trade receivables	22	7,891	54,196
Other receivables	23	43,024	58,640
Cash and cash equivalents and time deposits	24	357,959	333,420
		979,505	1,162,742
CURRENT LIABILITIES			
Trade payables	25	162,641	84,269
Profits tax payable		32,849	50,429
Other taxes payable		6,752	10,225
Other payables and accruals	26	121,862	89,288
Interest-bearing bank and other loans	27	895,000	990,500
		1,219,104	1,224,711
NET CURRENT LIABILITIES			
		(239,599)	(61,969)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		9,455,043	9,163,598
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	29	330,000	100,000
Deferred tax	33	117,320	62,261
		447,320	162,261
		9,007,723	9,001,337
CAPITAL AND RESERVES			
Issued capital	34	4,343,115	4,343,115
Reserves	35	4,273,728	4,354,204
Proposed final dividend	12	390,880	304,018
		9,007,723	9,001,337

Geng Xiaoping

Director

Fang Yunti

Director

NOTES TO FINANCIAL STATEMENTS

I. CORPORATE INFORMATION

Zhejiang Expressway Co., Ltd. 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 "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 in the H Shares on the London Stock Exchange commenced on May 5, 2000.

On July, 18 2000, with the approval of the Ministry of Foreign Trade and Economic Co-operation of the People's Republic of China (the "PRC"), the Company changed its business registration into a Sino-foreign joint stock limited company.

On February 27, 2001, the trading of the H Shares of the Company on the Berlin Stock Exchange commenced following a secondary listing on the Unofficial Regulated Market of the exchange.

On February 14, 2002, the United States Securities and Exchange Commission, following the approval by the board of directors and the China Securities Regulatory Commission, declared the registration statement in respect of the ADSs evidenced by the ADRs representing the deposited H Shares of the Company effective.

The registered office of the Company is located at 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 design, construction, operation, maintenance and management of high grade roads; and
- (b) the development and provision of certain ancillary services such as technical consultation, advertising, automobile servicing and fuel facilities.

In the opinion of the Directors, the ultimate holding company of the Company is Zhejiang Communications Investment Group Co., Ltd. (the "Communications Investment Group"), a State-owned enterprise established in the PRC.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs have been adopted for the first time in the preparation of the current year's consolidated financial statements:

SSAP 1 (Revised)	:	“Presentation of financial statements”
SSAP 11 (Revised)	:	“Foreign currency translation”
SSAP 15 (Revised)	:	“Cash flow statements”
SSAP 33	:	“Discontinuing operations”
SSAP 34	:	“Employee benefits”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in the financial statements of these SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 47 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP is that the profit and loss accounts of overseas subsidiaries are translated at the weighted average exchange rate for the year, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. Since the Company does not have overseas subsidiaries, the adoption of the SSAP has no material impact on the financial statements.

SSAP 15 (Revised) prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, instead of the five headings previously required. The format of the cash flow statement set out on page 48 of the financial statements and the notes thereto have been revised in accordance with the new requirements.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. The adoption of the SSAP has no impact on the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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.

BASIS OF CONSOLIDATION

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended December 31, 2002. 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 whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Investments in subsidiaries are stated at cost less any impairment losses.

JOINTLY-CONTROLLED ENTITIES

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

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 impairment losses.

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 assets and are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSOCIATES

An associate is a company, 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 impairment losses.

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 treated as long term assets and are stated at cost less any impairment losses.

GOODWILL

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of ten years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to January 1, 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. Upon SSAP 30 becoming effective, the Group adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to January 1, 2001, to remain eliminated against consolidated reserves.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FIXED ASSETS AND DEPRECIATION

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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 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 fixed asset, the expenditure is capitalised as an additional cost of that fixed asset.

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.

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	12.1%
Machinery and equipment	5 - 8 years	12.1 - 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.

CONSTRUCTION IN PROGRESS

Construction in progress represents costs incurred in the construction of expressways and bridges, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds, during the period of construction, installation and testing. Construction in progress is reclassified as fixed assets when completed and ready for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF ASSETS

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment losses is accounted for in accordance with the relevant accounting policy for that revalued asset.

EXPRESSWAY OPERATING RIGHTS

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

Amortisation is provided on a straight-line basis over the periods of the expressway operating rights granted to the Company and its subsidiaries.

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 impairment losses on an individual investment 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 impairment losses on an individual investment 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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) from 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) from the rendering of services, based on the percentage of completion basis, provided that the revenue 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 has been 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCY TRANSACTIONS

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 the 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 those 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 with 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 expressway sections ceases when the construction of such expressway sections is substantially completed and the expressways are capable of commencing toll operations.

OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor 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 estimated costs expected to be incurred to completion and disposal.

DIVIDENDS

Interim and final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format. During the year, the entire turnover and contribution to profit from operating activities of the Group were derived from the 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.

BUSINESS SEGMENTS

The Group's operating businesses are organised and managed separately, according to the nature of services provided, with each segment representing a strategic business unit that serves different markets:

- Toll operation represents the design, construction, operation and management of high grade roads and the collection of the expressway tolls.
- Advertising business represents the design and rental of advertising billboards along the expressways.
- Road maintenance represents the maintenance of expressways and roads, including the cleaning of the road surface, minor repairs to the lanes, the cleaning of the gutters and sewers, grass mowing, afforestation and the maintenance of buildings, equipment and facilities provided to third parties.
- Ancillary businesses mainly represent the sale of food, restaurant servicing, automobile servicing, as well as oil stations.

4. SEGMENT INFORMATION (Continued)

GROUP	Tolls		Advertising		Road maintenance		Ancillary businesses		Consolidated	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Segment revenue:										
Turnover	2,069,060	1,663,362	26,217	21,190	1,670	4,617	71,131	33,348	2,168,078	1,722,517
Other revenue	57,623	209,319	2,955	72	2,374	3,511	3,505	3,788	66,457	216,690
Total revenue	2,126,683	1,872,681	29,172	21,262	4,044	8,128	74,636	37,136	2,234,535	1,939,207
Segment results	1,518,584	1,425,341	11,941	11,084	(683)	(976)	14,457	4,500	1,544,299	1,439,949
Finance costs									(163,224)	(215,346)
Share of profits of associates	—	—	—	—	—	—	11,719	12,396	11,719	12,396
Share of profit/(loss) of a jointly-controlled entity	1,677	(1,459)	—	—	—	—	—	—	1,677	(1,459)
Profit before tax									1,394,471	1,235,540
Tax									(400,952)	(363,970)
Profit before minority interests									993,519	871,570
Minority interests									(103,067)	(110,957)
Net profit from ordinary activities attributable to shareholders									890,452	760,613
Segment assets	14,039,204	14,089,709	25,717	24,947	45,960	42,225	73,862	89,856	14,184,743	14,246,737
Interests in associates	—	—	—	—	—	—	159,829	156,909	159,829	156,909
Interest in a jointly-controlled entity	54,464	54,082	—	—	—	—	—	—	54,464	54,082
Goodwill	106,798	19,810	—	—	—	—	—	—	106,798	19,810
Total assets	14,200,466	14,163,601	25,717	24,947	45,960	42,225	233,691	246,765	14,505,334	14,477,538
Segment liabilities	3,537,924	3,514,937	4,590	5,416	10,615	6,132	32,205	27,810	3,585,334	3,554,295
Deferred tax	240,920	131,533	—	—	—	—	—	—	240,920	131,533
Total liabilities	3,778,844	3,646,470	4,590	5,416	10,615	6,132	32,205	27,810	3,826,254	3,685,828
Other segment information:										
Capital expenditure	200,014	546,401	7,884	7,975	2,336	1,190	1,455	187	211,689	555,753
Depreciation and amortisation	239,282	208,142	2,240	1,692	3,832	4,398	2,706	1,093	248,060	215,325
Write-off of bad debts	794	7,500	—	—	—	—	—	—	794	7,500

5. 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:

	2002 Rmb'000	2001 Rmb'000
Toll income	2,184,197	1,756,265
Advertising income	27,742	22,462
Road maintenance income	1,704	4,649
Others	73,043	34,465
	2,286,686	1,817,841
Less: Revenue taxes	(118,608)	(95,324)
Turnover	2,168,078	1,722,517
Income on investments	18,448	105,522
Interest income	17,063	41,503
Rental income	14,457	6,726
Trailer income	10,192	8,278
Exchange gains, net	1,121	53,172
Others	5,176	1,489
Other revenue	66,457	216,690
	2,234,535	1,939,207

The Company and its subsidiaries are subject to the Business Tax, levied at 5% on toll income and 3% to 5% on other services income. In addition, the subsidiaries are subject to the following types of revenue taxes and surcharge:

- City Development Tax, levied at 1% to 7% of Business Tax;
- Education Supplementary Tax, levied at 3.5% to 4% of Business Tax; and
- Culture and Education Fees, levied at 3% on advertising income.

6. PROFIT FROM OPERATING ACTIVITIES

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

	2002 Rmb'000	2001 Rmb'000
Depreciation	223,748	205,582
Operating lease rentals on land and buildings	902	1,364
Auditors' remuneration	1,975	3,709
Staff costs:		
Wages and salaries	86,733	75,773
Pension contributions	6,534	6,900
Amortisation of expressway operating rights*	8,700	8,700
Amortisation of goodwill**	15,612	1,043
Write-off of bad debts	794	7,500
Loss on winding up of a subsidiary	205	—
Loss on disposal of fixed assets	1,040	4,313
Unrealised gain on revaluation of short term listed investments	9,571	12,559
Net rental income	(14,457)	(6,726)
Exchange gains, net	(1,121)	(53,172)
Interest income	(17,063)	(41,503)
Income on investments	(18,448)	(105,522)

* The amortisation of expressway operating rights for the year is included in administrative expenses on the face of the income statement.

** The amortisation of goodwill for the year is included in other operating expenses on the face of the income statement.

7. FINANCE COSTS

	2002 Rmb'000	2001 Rmb'000
Interest on bank loans and other loans		
wholly repayable within five years	137,420	188,400
Interest on other loans	26,279	29,645
Total interest	163,699	218,045
Less: interest capitalised	(475)	(2,699)
	163,224	215,346

8. 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 Corporate Income Tax ("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.

	Note	2002 Rmb'000	2001 Rmb'000
Group:			
Tax charged	33	367,997	327,718
Tax refunded/refundable		(79,133)	(68,791)
Deferred		288,864	258,927
		109,387	88,432
Share of tax attributable to associates		5,004	17,528
Share of deferred tax attributable to an associate		(3,294)	(1,951)
Share of deferred tax attributable to a jointly-controlled entity		991	1,034
Tax charge for the year		400,952	363,970

During the year, according to an approval from the Zhejiang Provincial Local Tax Bureau, Zhejiang Shangsan Expressway Co., Ltd. ("Shangsan Co"), one of the Company's subsidiaries, was entitled to a 50% CIT exemption for the year ended December 31, 2001 amounted to Rmb16,749,000 under the category of "Enterprise providing employment opportunities to redundant city and country workers" as defined in the relevant national tax rules. In addition, according to a notice issued by the Jiaxing Finance Bureau (the "JFB"), one of the Company's subsidiaries, Zhejiang Jiaxing Expressway Co., Ltd. ("Jiaxing Co"), received from the JFB an amount of Rmb71,290,000, representing a refund in relation to the CIT of Jiaxing Co for the period from the fourth quarter of 2000 to December 2001.

Pursuant to a directive issued by the 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 Zhejiang Tax Bureau. According to a directive from the Ministry of Finance on October 13, 2000, the Company was entitled to the tax refund until December 31, 2001. As Huajian Transportation Economic Development Center ("Huajian"), a state-owned enterprise under the China Merchants Group, became a substantial shareholder of the Company, the CIT that the Company paid has been divided into the national portion and the Zhejiang portion. The national portion of the total CIT paid, being Huajian's portion of the total domestic shares (i.e. 16.39%) according to relevant regulations issued by the Ministry of Finance, is no longer entitled to the 18% refund granted by the Zhejiang Provincial People's Government.

Nevertheless, according to a notice issued by the State Council on December 31, 2001, with effect from January 1, 2002, CIT payments are divided into two portions on a 50/50 basis - the national portion and the local portion. Since the CIT in relation to the fourth quarter of 2001 was paid in 2002, the Company was only entitled to the 9% refund from the Zhejiang Finance Bureau in respect of the CIT for the fourth quarter of 2001. The CIT refund of Rmb8,906,000 recognised in year 2001 became not recoverable and has been recorded as tax charge for 2002.

There was no material unprovided deferred tax in respect of the year (2001: Nil).

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended December 31, 2002 dealt with in the financial statements of the Company was Rmb484,128,000 (2001: Rmb544,670,000).

10. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 Rmb'000	2001 Rmb'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	1,784	1,641
Bonuses paid and payable	608	552
Pension scheme contributions	9	9
	2,401	2,202

Salaries, allowances and benefits in kind include HK\$152,000 (2001: HK\$150,000), HK\$150,000 (2001: HK\$150,000) and Rmb36,000 (2001: Rmb20,000) payable to the three independent non-executive directors respectively. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

The remuneration of the directors and supervisors fell within the following band:

	Number of directors and supervisors	
	2002	2001
Nil to HK\$1,000,000	10	9

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

11. FIVE HIGHEST PAID EMPLOYEES

	2002 Rmb'000	2001 Rmb'000
Salaries, allowances and benefits in kind	1,614	1,394
Bonuses paid and payable	662	598
Pension scheme contributions	11	11
	2,287	2,003

The five highest paid employees during the year included four (2001: four) directors, details of whose remuneration are set out in note 10 above, as well as a non-director employee, whose remuneration for the year was less than HK\$1,000,000.

12. DIVIDENDS

	2002 Rmb	2001 Rmb	2002 Rmb'000	2001 Rmb'000
	Per ordinary share			
Interim	0.04	0.03	173,724	130,293
Proposed final	0.09	0.07	390,880	304,018
	0.13	0.10	564,604	434,311

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. 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 Rmb890,452,000 (2001: Rmb760,613,000) and the 4,343,114,500 shares (2001: 4,343,114,500 shares) in issue during the year.

Diluted earnings per share for the years ended December 31, 2002 and 2001 have not been calculated as no diluting event existed during these years.

14. FIXED ASSETS

	Expressways and bridges Land Rmb'000	Toll stations and ancillary facilities Rmb'000	Communi- cations and signalling equipment Rmb'000	Motor vehicles Rmb'000	Machinery and Construction equipment in progress Rmb'000		Total Rmb'000	
GROUP								
COST:								
At beginning of year:	527,628	11,182,630	371,598	139,788	77,931	93,362	296,967	12,689,904
Winding up of a subsidiary	—	—	—	—	—	(350)	—	(350)
Additions	4,182	3,113	35,435	6,808	3,687	6,011	152,453	211,689
Transfers	—	19,370	6,202	56,110	14,304	5,767	(101,753)	—
Write-off	—	(44,160)	—	—	—	—	—	(44,160)
Disposals	—	—	(3,691)	(30)	(170)	(403)	(243)	(4,537)
At December 31, 2002	531,810	11,160,953	409,544	202,676	95,752	104,387	347,424	12,852,546
ACCUMULATED DEPRECIATION AND IMPAIRMENT:								
At beginning of year	70,929	462,634	26,305	36,438	32,789	29,797	—	658,892
Winding up of a subsidiary	—	—	—	—	—	(64)	—	(64)
Provided during the year	17,604	142,570	13,487	25,854	11,915	12,318	—	223,748
Write-off	—	(44,160)	—	—	—	—	—	(44,160)
Disposals	—	—	(471)	(11)	(165)	(209)	—	(856)
At December 31, 2002	88,533	561,044	39,321	62,281	44,539	41,842	—	837,560
NET BOOK VALUE:								
At December 31, 2002	443,277	10,599,909	370,223	140,395	51,213	62,545	347,424	12,014,986
At December 31, 2001	456,699	10,719,996	345,293	103,350	45,142	63,565	296,967	12,031,012
COMPANY								
COST:								
At January 1, 2002	350,384	4,712,616	110,017	119,477	51,575	53,648	223,102	5,620,819
Additions	—	—	35,956	1,318	2,784	1,888	75,739	117,685
Transfers	—	—	1,021	—	—	—	(1,021)	—
Disposals	—	—	—	(30)	(170)	(126)	(69)	(395)
At December 31, 2002	350,384	4,712,616	146,994	120,765	54,189	55,410	297,751	5,738,109
ACCUMULATED DEPRECIATION:								
At January 1, 2002	52,998	270,658	12,523	34,870	27,352	19,432	—	417,833
Provided during the year	11,667	68,090	4,830	14,600	6,000	7,284	—	112,471
Disposals	—	—	—	(6)	(165)	(107)	—	(278)
At December 31, 2002	64,665	338,748	17,353	49,464	33,187	26,609	—	530,026
NET BOOK VALUE:								
At December 31, 2002	285,719	4,373,868	129,641	71,301	21,002	28,801	297,751	5,208,083
At December 31, 2001	297,386	4,441,958	97,494	84,607	24,223	34,216	223,102	5,202,986

The fixed assets are mainly located in the PRC.

The Group's land included above are held under long-term lease.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2002 Rmb'000	2001 Rmb'000
Unlisted shares, at cost	4,338,486	3,648,673
Due from subsidiaries	4,587	2,375
Due to subsidiaries	(215,779)	(34,000)
	4,127,294	3,617,048

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

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 Rmb	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	99.993	Construction and management of the Jiaxing Section of the Shanghai-Hangzhou Expressway
Zhejiang Shangsan Expressway Co., Ltd. ("Shangsan Co")	Note 3	2,400,000,000	71.625	Construction and management of the Shangsan Expressway
Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co")	Note 4	1,000,000	70	Advertising
Zhejiang Gaotong Stone Development Co., Ltd. ("Gaotong Co")	Note 5	5,000,000	80	Manufacturing, designing and selling of stone and quarry materials

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: Jiaxing 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: Shangsan Co was established on January 1, 1998 in the PRC as a limited liability company.

Note 4: Advertising Co was established on June 1, 1998 in the PRC as a limited liability company.

Note 5: Gaotong Co was liquidated during the year.

All of the Company's subsidiaries are operating in the PRC.

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Unlisted shares, at cost	—	—	65,000	65,000
Share of net assets other than goodwill	55,409	54,723	—	—
Amount due to a jointly-controlled entity	(945)	(641)	(945)	(641)
	54,464	54,082	64,055	64,359

The amount due to a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

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

Name	Business structure	Place of registration and operations	Ownership interest	Voting power	Profit sharing	Principal activities
Hangzhou Shida Expressway Co., Ltd.	Corporate	The PRC	50	50	50	Construction and operation of Shiqiao-Dajing Road

17. INTERESTS IN ASSOCIATES

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Unlisted shares, at cost	—	—	126,500	126,500
Share of net assets other than goodwill	159,829	158,159	—	—
Amount due to an associate	—	(1,250)	—	—
	159,829	156,909	126,500	126,500

The amount due to an associate is unsecured, interest-free and has no fixed terms of repayment.

The Group's share of the post-acquisition accumulated reserves of the associates as at December 31, 2002 was Rmb33,329,000 (2001: Rmb31,659,000).

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
			2002	2001	
Zhejiang Expressway Petroleum Development Co., Ltd.	Corporate	The PRC	50	50	Construction and operation of gas stations and the sale of petroleum products
JoinHands Technology Co., Ltd.	Corporate	The PRC	27.58	27.58	Providing logistic management and anti-counterfeiting systems in the PRC

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 Group companies.

18. EXPRESSWAY OPERATING RIGHTS

	Group Rmb'000	Company Rmb'000
Cost:		
At January 1, 2002 and December 31, 2002	261,000	208,000
Accumulated amortisation:		
At January 1, 2002	37,655	32,356
Provided during the year	8,700	6,934
At December 31, 2002	46,355	39,290
Net book value:		
At December 31, 2002	214,645	168,710
At December 31, 2001	223,345	175,644

19. INVESTMENTS

LONG TERM INVESTMENTS

	Group 2002 Rmb'000	2001 Rmb'000	Company 2002 Rmb'000	2001 Rmb'000
Held-to-maturity securities, at amortised cost	—	30,000	—	30,000
Unlisted equity investments, at cost	3,644	8,650	—	—
	3,644	38,650	—	30,000
Provisions for impairment of unlisted equity investments	(777)	(5,783)	—	—
	2,867	32,867	—	30,000

SHORT TERM INVESTMENTS

	Group 2002 Rmb'000	2001 Rmb'000	Company 2002 Rmb'000	2001 Rmb'000
Listed in the PRC, at amortised cost				
- Held-to-maturity securities	30,000	—	30,000	—
Listed in the PRC, at market value				
- Government bonds	726,764	733,724	504,104	562,848
- Convertible bonds	—	160,614	—	101,078
- Close-end equity funds	51,754	97,810	18,169	51,950
- Open-end equity funds	—	20,038	—	—
- Enterprise bonds	10,000	—	—	—
- Equity interests	39,596	—	17,514	—
	828,114	1,012,186	539,787	715,876
	858,114	1,012,186	569,787	715,876

The market values of the Group's and the Company's short term investments at the date of approval of these financial statements were approximately Rmb841,662,000 and Rmb547,191,000, respectively.

20. LONG TERM RECEIVABLES

	Group and Company 2002 Rmb'000	2001 Rmb'000
Interest receivable in respect of the held-to-maturity securities	—	9,030

21. GOODWILL

The amounts of the goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group Rmb'000
Cost:	
At January 1, 2002	20,853
Acquisition of additional interests in subsidiaries during the year	102,600
At December 31, 2002	123,453
Accumulated amortisation:	
At January 1, 2002	1,043
Provided during the year	15,612
At December 31, 2002	16,655
Net book value:	
At December 31, 2002	106,798
At December 31, 2001	19,810

The Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to January 1, 2001 to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries, was Rmb352,860,000 as at December 31, 2002. The amount of goodwill is stated at cost which arose in prior years.

22. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group 2002 Rmb'000	2001 Rmb'000	Company 2002 Rmb'000	2001 Rmb'000
Within 1 year	11,720	44,918	5,244	44,895
1 to 2 years	2,647	9,301	2,647	9,301
	14,367	54,219	7,891	54,196

23. OTHER RECEIVABLES

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Prepayments	1,830	30,808	294	30,028
Deposits and other debtors	126,842	10,225	42,730	5,867
Profits tax refundable	—	22,745	—	22,745
	128,672	63,778	43,024	58,640

24. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Cash and bank balance	562,463	434,771	182,830	137,556
Time deposits with original maturity of less than three months when acquired	103,828	305,155	43,742	137,824
Time deposits with original maturity over three months when acquired	282,779	79,100	131,387	58,040
	949,070	819,026	357,959	333,420

25. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Within 1 year	200,181	113,793	158,859	82,711
1 to 2 years	4,863	126,796	2,778	1,550
2 to 3 years	1,901	229	1,004	8
Over 3 years	221	—	—	—
	207,166	240,818	162,641	84,269

26. OTHER PAYABLES AND ACCRUALS

Notes	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Accruals	58,510	42,566	12,735	10,814
Other liabilities	141,695	100,010	96,976	66,323
Amounts due to related parties	31	12,151	12,151	12,151
Amount due to the holding company	32	2,599	—	—
	214,955	157,326	121,862	89,288

27. INTEREST-BEARING BANK AND OTHER LOANS

Note	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Current portion of bank and other loans 29	1,681,553	1,620,778	895,000	990,500

28. LONG-TERM BONDS PAYABLE WITHIN ONE YEAR

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Long term bonds	200,000	—	—	—

The bonds are unsecured, bearing interest at 3.78% per annum and are payable in 2003 upon maturity.

29. INTEREST-BEARING BANK AND OTHER LOANS

Note	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Bank loans, unsecured	1,875,000	1,655,500	1,075,000	1,090,500
Bank loans, secured	—	—	150,000	—
Other loans, unsecured	963,200	1,173,509	—	—
	2,838,200	2,829,009	1,225,000	1,090,500
Bank loans repayable:				
Within one year	1,545,000	1,510,500	895,000	990,500
In the second year	—	130,000	—	100,000
In the third to fifth years, inclusive	330,000	15,000	330,000	—
	1,875,000	1,655,500	1,225,000	1,090,500
Other loans repayable:				
Within one year	136,553	110,278	—	—
In the second year	82,441	76,524	—	—
In the third to fifth years, inclusive	268,623	420,968	—	—
Beyond five years	475,583	565,739	—	—
	963,200	1,173,509	—	—
	2,838,200	2,829,009	1,225,000	1,090,500
Portion classified as current liabilities 27	(1,681,553)	(1,620,778)	(895,000)	(990,500)
Long term portion	1,156,647	1,208,231	330,000	100,000

Except for the Company's bank loans of Rmb 150,000,000 which are guaranteed by its subsidiary, the other bank loans are unsecured and bear interest at rates ranging from 4.536% to 4.941% per annum.

The other loans are unsecured and bearing interest at rates ranging from 3.000% to 5.522% per annum.

30. LONG TERM BONDS

	Notes	Group	
		2002 Rmb'000	2001 Rmb'000
Long term bonds		200,000	200,000
Classified as current liabilities	28	(200,000)	—
		—	200,000

The bonds are unsecured, bearing interest at 3.78% per annum and are repayable in 2003 upon maturity.

31. AMOUNTS DUE TO RELATED PARTIES

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

32. AMOUNT DUE TO THE HOLDING COMPANY

The amount due to the holding company (i.e. the Communications Investment Group) is unsecured, interest-free and has no fixed terms of repayment.

33. DEFERRED TAX

Note	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
At January 1	131,533	43,101	62,261	21,655
Charge for the year	8 109,387	88,432	55,059	40,606
At December 31	240,920	131,533	117,320	62,261

The deferred tax of the Group and the Company arose from differences in accounting profit of these financial statements prepared under the SSAPs, and the taxable income calculated in accordance with the tax laws and regulations in the PRC.

The principal components of the Group's and the Company's provision for deferred tax is as follows:

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Revaluation on marketable securities	3,158	4,144	4,249	3,789
Depreciation allowances	238,318	140,021	113,071	58,472
Fixed assets write-off	(556)	(12,632)	—	—
	240,920	131,533	117,320	62,261

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

34. SHARE CAPITAL

	2002 Number of shares	2001 Number of shares	2002 Rmb'000	2001 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 Stock Exchange since May 15, 1997, and were admitted to the Official List on May 5, 2000. Dealings in the H Shares on the London Stock Exchange commenced on the same day.

On February 27, 2001, the trading of the H Shares of the Company commenced on the Berlin Stock Exchange following a secondary listing on the Unofficial Regulated Market of the exchange.

On February 14, 2002, the United States Securities and Exchange Commission, following the approval by the board of directors and the China Securities Regulatory Commission, declared the registration statement in respect of the ADSs evidenced by ADRs representing the deposited H Shares of the Company effective.

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

35. RESERVES

	Share premium account Rmb'000	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, 2001	3,645,082	(352,860)	285,031	128,002	609,747	4,315,002
Share premium shared from an associate	644	—	—	—	—	644
Interim dividend - note 12	—	—	—	—	(130,293)	(130,293)
Net profit for the year	—	—	—	—	760,613	760,613
Transfer from/(to) reserves	—	—	130,267	62,762	(193,029)	—
Proposed final dividend - note 12	—	—	—	—	(304,018)	(304,018)
At December 31, 2001 and beginning of year	3,645,726	(352,860)	415,298	190,764	743,020	4,641,948
Interim dividend - note 12	—	—	—	—	(173,724)	(173,724)
Net profit for the year	—	—	—	—	890,452	890,452
Transfer from/(to) reserves	—	—	118,517	62,747	(181,264)	—
Proposed final dividend - note 12	—	—	—	—	(390,880)	(390,880)
At December 31, 2002	3,645,726	(352,860)	533,815	253,511	887,604	4,967,796
Reserves retained by:						
Company and subsidiaries	3,645,082	(350,331)	524,041	246,993	878,273	4,944,058
Jointly-controlled entity	—	—	—	—	(9,591)	(9,591)
Associates	644	(2,529)	9,774	6,518	18,922	33,329
At December 31, 2002	3,645,726	(352,860)	533,815	253,511	887,604	4,967,796
Company and subsidiaries	3,645,082	(350,331)	407,078	185,008	733,729	4,620,566
Jointly-controlled entity	—	—	—	—	(10,277)	(10,277)
Associates	644	(2,529)	8,220	5,756	19,568	31,659
At December 31, 2001	3,645,726	(352,860)	415,298	190,764	743,020	4,641,948
COMPANY						
At January 1, 2001	3,645,082	—	172,974	86,487	339,302	4,243,845
Interim dividend - note 12	—	—	—	—	(130,293)	(130,293)
Net profit for the year	—	—	—	—	544,670	544,670
Transfer from/(to) reserves	—	—	79,434	39,717	(119,151)	—
Proposed final dividend - note 12	—	—	—	—	(304,018)	(304,018)
At December 31, 2001 and beginning of year	3,645,082	—	252,408	126,204	330,510	4,354,204
Interim dividend - note 12	—	—	—	—	(173,724)	(173,724)
Net profit for the year	—	—	—	—	484,128	484,128
Transfer from/(to) reserves	—	—	93,498	46,749	(140,247)	—
Proposed final dividend - note 12	—	—	—	—	(390,880)	(390,880)
At December 31, 2002	3,645,082	—	345,906	172,953	109,787	4,273,728

35. RESERVES (Continued)

In accordance with the Company Law of the PRC and the companies' articles of association, the Company, its subsidiaries, its associates and its jointly-controlled entity (collectively, the "Entities") are required to allocate 10% of their profit after tax, 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 respective articles of association of the Entities, part of the SSR may be converted to increase the Entities' share capital.

In accordance with the Company Law of the PRC, the Entities are required to transfer 5% to 10% of their profit after tax, as determined in accordance with the 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 the properties of the Entities.

The Directors of the Company have proposed to transfer Rmb93,498,000 (2001: Rmb79,434,000) and Rmb46,749,000 (2001: Rmb39,717,000) to the SSR and the PWF, respectively. These represent 10% (2001: 10%) and 5% (2001: 5%), respectively, of the Company's profit after tax of Rmb934,980,000 (2001: Rmb794,343,000) determined in accordance with the PRC accounting standards.

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 under the SSAPs.

As at December 31, 2002, before the proposed final dividend, the Company had reserves of approximately Rmb500,667,000 (2001: Rmb634,528,000) available for distribution by way of cash or in kind.

As at December 31, 2002, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,638,229,000 (2001: Rmb3,638,229,000) standing to the credit of the Company's share premium account was available for distribution by way of capitalisation issues.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 Rmb'000	2001 Rmb'000
Profit before tax	1,394,471	1,235,540
Share of results of a jointly-controlled entity	(1,677)	1,459
Share of results of associates	(11,719)	(12,396)
Depreciation	223,748	205,582
Amortisation of expressway operating rights	8,700	8,700
Amortisation of goodwill	15,612	1,043
Write-off of bad debts	794	7,500
Interest income	(17,063)	(41,503)
Interest expense	163,224	215,346
Unrealised gain on revaluation of short term listed investments	9,571	12,559
Exchange gains, net	(1,121)	(53,172)
Loss on disposal of fixed assets	1,040	4,313
Loss on winding up of a subsidiary	205	—
Increase in inventories	(966)	(556)
Decrease/(increase) in trade receivables	39,058	(35,017)
Decrease/(increase) in deposits and other debtors	(15,526)	164,981
Increase/(decrease) in trade payables	101,643	(874)
Decrease in an amount due to the holding company	—	(2,210)
Decrease in amounts due to related parties	—	(80,153)
Increase/(decrease) in other taxes payable	(7,495)	6,216
Increase/(decrease) in other liabilities	43,264	(26,438)
Increase in accruals	9,998	3,018
Increase/(decrease) in an amount due to an associate	(1,250)	1,250
Increase in an amount due to a jointly-controlled entity	304	551
Interest paid	(166,447)	(260,878)
Profits tax paid	(252,059)	(276,904)
Net cash inflow from operating activities	1,536,309	1,077,957

(b) Winding up of a subsidiary

	2002 Rmb'000	2001 Rmb'000
Net assets disposed of:		
Fixed assets	286	—
Cash and bank balances	145	—
Inventories	218	—
Other receivables	1,186	—
Other payables	(1,579)	—
Minority interests	(51)	—
Loss on winding up of a subsidiary	205	—

As detailed in note 15, the Company's subsidiary, Gaotong Co, was liquidated during the year. This gave rise to the cash outflow of Rmb 145,000 during the year.

Gaotong Co had no significant impact in respect of the cash flows for operating activities, investing activities and financing activities. It had no significant impact on the Group's consolidated turnover or profit after tax for the year.

37. COMMITMENTS

(a) On March 4, 2003, the Board approved an expense for road surface-overlaying project in the amount of Rmb 141,400,000 for the year ending December 31, 2003.

(b) Capital Commitments

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Contracted, but not provided for:				
- Construction of expressways	177,730	344,127	63,775	188,041
- Purchase of machinery	37,423	35,446	10,719	—
- Proposed investments in Shangsan Co	485,000	542,600	485,000	542,600
- Proposed investments in Jiaxing Co	—	386,992	—	386,992
- Construction of new buildings	14,000	—	14,000	—
- Purchase of an office	—	5,720	—	5,720
	714,153	1,314,885	573,494	1,123,353
Authorised, but not contracted for:				
- Construction of expressways	4,739,237	1,274,740	4,419,367	945,592
	5,453,390	2,589,625	4,992,861	2,068,945

38. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Guarantees provided in favor of the holders of the corporate bonds issued by a subsidiary	—	—	216,254	208,694
Guarantees provided to banks in connection with facilities granted to:				
- A subsidiary	—	—	650,000	565,000
- A jointly-controlled entity	30,000	30,000	30,000	30,000
	30,000	30,000	896,254	803,694

39. OPERATING LEASE ARRANGEMENTS

The Group and the Company lease their oil stations and cables under operating lease arrangements, with leases negotiated for terms ranging from five to twenty five years.

As at December 31, 2002, the Group and the Company had total future minimum lease rental receivables under non-cancelable operating leases falling due as follows:

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Within one year	8,159	3,590	5,660	1,090
In the second to fifth years, inclusive	25,674	13,850	19,424	5,099
Beyond five years	33,397	34,881	33,397	34,881
	67,230	52,321	58,481	41,070

40. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS

	Net profit before as at December 31		Net assets as at December 31	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
As reported in statutory accounts	1,070,902	928,132	9,601,256	9,218,047
HK SSAP adjustments:				
(a) Goodwill	30,995	37,170	(179,290)	(214,452)
(b) Provision for deficit arising on the disposal of staff quarters	—	4,626	—	—
(c) Interest on subscription monies, net of deferred tax	—	760	—	—
(d) Depreciation provided, net of deferred tax	(70,811)	(77,039)	(137,004)	(74,656)
(e) Difference in share premium account during establishment	—	—	11,923	11,923
(f) Profits tax refundable	(22,745)	10,186	(3,686)	19,059
(g) Restatement of short term investments in securities at market value, net of deferred tax	(1,971)	(20,224)	16,440	18,287
(h) General provision on trade receivables and other debts	(1,439)	(738)	922	2,187
(i) Impairment loss, net of deferred tax	(12,076)	(1,307)	284	6,443
(j) CIT payment which was waived in prior years	—	(10,064)	—	—
(k) Proposed final dividend	—	—	390,880	304,018
(l) Others	664	68	66	(1,775)
As restated in the financial statements	993,519	871,570	9,701,791	9,289,081

41. RELATED PARTY TRANSACTIONS

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

Under the reorganisation agreement, Zhejiang Provincial High Class Highway Investment Company Limited 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.

Under the agreement dated August 19, 2002, the Company purchased a 6.625% equity interest in Shangsan Co from the Communications Investment Group, the ultimate holding company of the Company, for a consideration of Rmb187.62 million.

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

In 2002, the Group entered into several rental agreements with Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co"), an associate of the Company. Pursuant to the aforementioned agreements, the Group leased six oil stations to Petroleum Co. In 2002, the Group recorded a total rental income of Rmb6,550,000 from Petroleum Co.

42. POST BALANCE SHEET EVENTS

On January 20, 2003, the Company obtained the final approval from the State Development Planning Commission of the PRC to issue Rmb1 billion of 10-year 4.29% corporate bonds (the "Bonds") to institutional and public investors in the PRC. The Bonds were offered for subscription by public investors in the PRC during the period from January 24, 2003 to February 17, 2003 and were fully subscribed. The Bonds issued are unconditionally and irrevocably guaranteed by the Zhejiang branch of China Construction Bank on a joint-liability basis with the Company.

The Company intends to use the proceeds from the issue of the Bonds to fund the construction work to widen certain sections of the Shanghai-Hangzhou-Ningbo Expressway. Up to the date of this report, net proceeds from the issue of the Bonds amounting to Rmb991,000,000 have been received by the Company.

43. COMPARATIVE AMOUNTS

As further explained in note 2, due to the adoption of certain new and revised SSAPs during the current year, the presentation of the financial statements and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March 4, 2003.

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Geng Xiaoping
Fang Yunti
Zhang Jingzhong
Xuan Daoguang

NON-EXECUTIVE DIRECTORS

Zhang Luyun
Zhang Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tung Chee Chen
Zhang Junsheng
Zhang Liping

SUPERVISORS

Ma Kehua
Fang Zhexing
Sun Xiaoxia
Zheng Qihua
Jiang Shaozhong

COMPANY SECRETARY

Zhang Jingzhong

AUTHORISED REPRESENTATIVES

Geng Xiaoping
Zhang Jingzhong

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FINANCIAL ADVISOR & CORPORATE BROKER IN THE UNITED KINGDOM

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

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Hong Kong

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H SHARES LISTING INFORMATION

The Stock Exchange of Hong Kong Limited

Code: 0576

London Stock Exchange plc

Code: ZHEH

ADRS INFORMATION

US Exchange: OTC
Symbol: ZHEXY
CUSIP: 98951A100
ADR: H Shares 1:30

LOCATION MAP OF EXPRESSWAYS OPERATED BY THE GROUP

