

深圳高速公路股份有限公司
SHENZHEN EXPRESSWAY COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 548)

2005 Interim Results Announcement

The board of directors of Shenzhen Expressway Company Limited (the "Company") is pleased to announce the unaudited results of the Company, its subsidiaries and jointly controlled entities (collectively "the Group") for the six months ended 30 June 2005 (the "Period"), prepared in accordance with accounting principles generally accepted in Hong Kong, together with comparative figures for the corresponding period in 2004, as follows:

Condensed consolidated income statement

		Unaudited	
		Six months ended	
		30 June	
	<i>Note</i>	2005	2004
		<i>RMB'000</i>	<i>RMB'000</i>
			<i>(Restated)</i>
Turnover	3	399,499	320,627
Other gains	4	38,602	51,909
Taxes on turnover	3	(19,129)	(16,581)
Depreciation and amortisation		(70,207)	(61,859)
Employee benefit expenses		(28,556)	(19,173)
Road maintenance expenses		(4,123)	(2,940)
Other operating expenses		(30,421)	(19,139)
Operating profit		285,665	252,844
Finance costs		(21,349)	(6,937)
Share of profit/(loss) of associates		2,271	(221)
Profit before income tax		266,587	245,686
Income tax expenses	5	(43,846)	(35,821)
Profit for the period		<u>222,741</u>	<u>209,865</u>
Attributable to:			
Equity holders of the Company		218,445	206,131
Minority interest		4,296	3,734
		<u>222,741</u>	<u>209,865</u>
Earnings per share for profit attributable to the equity holders of the Company during the period - Basic	6	<u>RMB0.10</u>	<u>RMB0.09</u>
Dividends		<u>—</u>	<u>—</u>

Condensed consolidated balance sheet

	As at 30 June 2005 RMB'000 (Unaudited)	As at 31 December 2004 RMB'000 (Restated)
ASSETS		
Non-current assets		
Property, plant and equipment	4,076,960	4,130,363
Construction in progress	489,300	286,584
Land use rights	377,648	386,468
Intangible assets	6,815	6,815
Interest in associates	2,975,689	870,698
Deferred income tax assets	8,116	9,473
Loan to a jointly controlled entity	<u>106,055</u>	<u>112,017</u>
	8,040,583	5,802,418
Current assets		
Inventories	6,895	7,367
Amount due from a jointly controlled entity	1,859	1,904
Current portion of long-term receivables	379,473	372,946
Other receivables, prepayments and deposits	71,517	33,960
Restricted cash	515,993	55,988
Cash and cash equivalents	<u>624,188</u>	<u>1,241,838</u>
	1,599,925	1,714,003
Total assets	<u>9,640,508</u>	<u>7,516,421</u>
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	2,180,700	2,180,700
Reserves	3,247,868	3,247,852
Proposed final dividend	—	239,877
Retained earnings	<u>565,739</u>	<u>347,294</u>
	5,994,307	6,015,723
Minority interest	<u>45,996</u>	<u>41,700</u>
Total equity	<u>6,040,303</u>	<u>6,057,423</u>
LIABILITIES		
Non-current liabilities		
Long-term liabilities	1,052,295	142,911
Deferred income tax liabilities	63,608	59,767
Government grants	<u>356,929</u>	<u>372,764</u>
	1,472,832	575,442
Current liabilities		
Other payables and accrued expenses	783,302	283,443
Current income tax liabilities	20,989	17,031
Current portion of long-term liabilities	103,082	3,082
Borrowings	<u>1,220,000</u>	<u>580,000</u>
	2,127,373	883,556

	As at 30 June 2005	As at 31 December 2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Restated)</i>
Total liabilities	<u>3,600,205</u>	<u>1,458,998</u>
Total equity and liabilities	<u>9,640,508</u>	<u>7,516,421</u>
Net current (liabilities)/assets	<u>(527,448)</u>	<u>830,447</u>
Total assets less current liabilities	<u>7,513,135</u>	<u>6,632,865</u>

Note:

1 **Basis of preparation and presentation and accounting policies**

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. This basis of accounting differs in certain respects from that used in the preparation of the Group’s statutory accounts in the PRC. The PRC statutory accounts of the Group have been prepared in accordance with accounting principles and financial regulations applicable to the Group in the PRC (“PRC GAAP”). Appropriate restatements have been made to the PRC statutory accounts to conform with the accounting principles generally accepted in Hong Kong (“HK GAAP”). Differences arising from the restatements are not incorporated in the Group’s accounting records.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively “HKFRS”) which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information (August 2005). The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

As at 30 June 2005, the Group reported net current liabilities of approximately RMB527,448,000. However, the Group has unutilised available banking facilities of approximately RMB 6.405 billion at 30 June 2005, which will meet the need for loans and fund commitment. As such, the consolidated interim financial report has been prepared by the directors of the Company on a going concern basis.

2 **Changes in accounting policies**

In 2005, the Group adopted the new / revised standards of HKFRS below, which are relevant to its operations, including HKASs 1, 2, 7, 8, 10, 12, 16, 17, 18, 19, 20, 21, 23, 24, 27, 28, 31, 32, 33, 36, 37, 38, 39 and HKFRS 2 and 3. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 20, 21, 23, 24, 27, 28, 33 and 37 did not result in substantial changes to the Group’s accounting policies.

Full details on the Group’s changes in accounting policies for the Period following the adoption of new/revised HKASs 17, 31, 32, 36, 38 and 39 have been set out in the 2005 Interim Report.

The effect on adoption of new / revised HKASs 17, 31, 32, 38, 39 and HKFRS 3 are summarised as follows:

- (i) The adoption of revised HKAS 17 resulted in a decrease in opening retained earnings at 1 January 2004 by RMB55,559,000.

<i>(RMB'000)</i>	As at		
	30 June 2005	31 December 2004	
Decrease in property, plant and equipment	457,841	465,092	
Increase in land use rights	377,648	386,468	
Decrease in deferred income tax liabilities	10,952	10,717	
Decrease in minority interest	8,368	8,366	
Decrease in retained earnings	60,873	59,541	
	For the year ended 31 December 2004	For the six months ended 30 June 2005	
<i>(RMB'000)</i>		30 June 2005	30 June 2004
Increase in depreciation and amortisation	4,721	1,569	3,068
Decrease in income tax expenses	708	235	460
Decrease in basic earnings per share (RMB per share)	0.002	0.0006	0.001

The jointly controlled entities of the Group adopted HKAS 17 for the preparation of their financial information for the six months ended 30 June 2005 under HK GAAP. The effect of adopting HKAS 17 in relation to the classification and amortisation of the land use rights of the jointly controlled entities, to the extent which is attributable to the Group, has been included in the effect of applying proportionate consolidation under HKAS 31 adopted by the Company in the accounting for its interests in the jointly controlled entities as presented below.

- (ii) The adoption of HKAS 31 resulted in:

<i>(RMB'000)</i>	As at		
	30 June 2005	31 December 2004	
Decrease in interests in jointly controlled entities	1,193,693	1,224,720	
Increase in other non-current assets	1,413,078	1,436,488	
Increase in current assets	30,513	44,573	
Increase in long-term liabilities	16,254	15,541	
Increase in current liabilities	233,644	240,800	
	For the year ended 31 December 2004	For the six months ended 30 June 2005	
<i>(RMB'000)</i>		30 June 2005	30 June 2004
Decrease in share of profits of jointly controlled entities	99,893	62,057	44,468
Increase in turnover and other gains	201,019	115,927	91,606
Increase in expenses	101,126	53,870	47,138

There was no impact on basic earnings per share from the adoption of HKAS 31 and there has been no impact on opening retained earnings at 1 January 2004.

(iii) The adoption of HKFRS 3 and HKAS 38 resulted in:

<i>(RMB'000)</i>	As at 30 June 2005
Increase in intangible assets - amortisation of goodwill	256
Increase in interest in associates	1,545
Increase in retained earnings	1,801
<i>(RMB'000)</i>	For the six months ended 30 June 2005
Decrease in depreciation and amortisation	256
Increase in share of profit of associates	1,545
Increase in basic earnings per share (RMB per share)	0.001

There has been no impact on opening retained earnings at 1 January 2004 on the adoption of HKFRS 3.

(iv) The adoption of HKAS 39 resulted in:

<i>(RMB'000)</i>	As at	
	30 June 2005	31 December 2004
Decrease in loan to a jointly controlled entity	8,388	11,342
Decrease in retained earnings	8,388	11,342
<i>(RMB'000)</i>	For the six months ended 30 June 2005	
Increase in other gains		2,954
Increase in basic earnings per share (RMB per share)		0.001

This represents the impact for the measurement of the loan to a jointly controlled entity at amortised cost using the effective interest rate method under HKAS 39. As a transitional provision, the amount of resulting adjustment has been recognised in the opening retained earnings at 1 January 2005.

3 Turnover and taxes on turnover

<i>(RMB'000)</i>	Six months ended 30 June	
	2005	2004
		<i>(Restated)</i>
Income from toll roads	<u>399,499</u>	<u>320,627</u>

The toll income of the Group for the Period is contributed from the toll income of Jihe West, Yanba Expressway (A & B) and Meiguan Expressway and Jihe East, and the proportionate toll income of Shuiguan Expressway, Changsha Ring Road and Geputan Bridge based on respective equity interests. No segment information is presented as all turnover of the Group is toll income earned in the PRC.

Taxes on toll income comprise:

- PRC Business Tax at 5% of toll income. Pursuant to the relevant tax regulations, effective from 1 June 2005, PRC Business Tax is charged at 3% of toll income derived from expressways;
- City Development Tax at 1% of the PRC Business Tax; and
- Education Supplementary Tax at 3% of the PRC Business Tax.

4 **Other gains**

<i>(RMB'000)</i>	Six months ended 30 June	
	2005	2004 <i>(Restated)</i>
Interest income from bank deposits	4,815	7,293
Interest income from discounting of long-term receivables	6,527	17,890
Interest income for loan to a jointly controlled entity	2,954	—
Income from construction management services	1,611	1,385
Government subsidy income	15,835	19,625
Advertising income	4,943	2,410
Others	1,917	3,306
	<u>38,602</u>	<u>51,909</u>

5 **Income tax expenses**

<i>(RMB'000)</i>	Six months ended 30 June	
	2005	2004 <i>(Restated)</i>
Current income tax		
-PRC enterprise income tax	38,648	30,501
Deferred income tax	5,198	5,320
	<u>43,846</u>	<u>35,821</u>

Share of associates' taxation for the six months ended 30 June 2005 of RMB2,633,000 (2004: Nil) has been included in share of profits of associates in the income statement.

The Company is subject to PRC enterprise income tax of 15% (2004: 15%), the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone. Taxation on other group companies has been calculated on the estimated assessable profit for the Period at the rates of taxation prevailing in the areas in which they operate, usually at a rate from 15% to 33%.

6 **Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the number of ordinary shares in issue during the period.

	For the six	
	months ended	
	30 June 2005	30 June 2004 <i>(Restated)</i>
Profit attributable to equity holders of the Company (RMB'000)	218,445	206,131
Number of ordinary shares in issue (thousands)	2,180,700	2,180,700
Basic earnings per share (RMB per share)	0.10	0.09

No fully diluted earnings per share is presented as the Company has no dilutive potential shares.

7 Reconciliation of financial statements

The Group has prepared a separate set of unaudited internal financial report for the six months ended 30 June 2005 in accordance with PRC GAAP. The major differences between the financial reports prepared under PRC GAAP and HK GAAP are summarised as follows:

<i>(RMB'000)</i>	Profit attributable to equity holders of the Company for the six months ended 30 June 2005 <i>(Unaudited)</i>	Capital and reserves attributable to the Company's equity holders as at 30 June 2005 <i>(Unaudited)</i>
As per PRC statutory accounts	207,548	5,990,789
Impact of HK GAAP adjustments:		
Depreciation of property, plant and equipment	35	17,052
Interest adjustments on discounting long-term receivables	6,527	(6,527)
Adjustment on a loan to a jointly controlled entity at amortised cost	2,954	(8,388)
Reversal of amortisation of equity investment differences under PRC GAAP	256	256
Adjustment on interest in associates based on fair value of the net assets acquired	1,125	1,125
Net amount of adjustments	10,897	3,518
As restated after HK GAAP adjustments	218,445	5,994,307

INTERIM RESULTS AND DIVIDENDS

In accordance with the HK GAAP, during the Period, the Group achieved a turnover of RMB399,499,000, an increase of 24.60% as compared to the corresponding period of the previous year. Profit attributable to shareholders of the Company for the Period amounted to RMB218,445,000, representing an increase of 5.97% as compared to the corresponding period of the previous year. Earnings per share of the Group for the Period was RMB0.10.

The board of directors of the Company does not recommend the payment of any interim dividend for the Period (2004: nil), nor does it recommend any transfer to capital reserves.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half-year of 2005, the Group continued with its market-oriented business strategies to attract greater traffic flow, leveraging the market opportunity resulted from road users' ever-increasing expectations for accessibility and quality of highways. The Group also continued to embark on the strategy of investing in the Pearl River Delta and other economically developed regions in China while taking Shenzhen as the base. As a result, the Group achieved favourable results both in expanding its market share and creating new income bases.

1. Analysis of Operating Results

The source of growth in the Group's toll revenue mainly came from the increase in traffic flow on the toll highways, stemming from the continued economic growth and proliferating number of automobiles in China. Due to the slight increase in the proportion of passenger cars among tolled vehicles of the Group as compared to the corresponding period of the previous year and the mild decrease in the toll coefficient for Category 5 vehicles in Guangdong Province since 1 June 2005, the average toll revenue per vehicle for the Group's toll roads slightly dropped by 2.49% as compared to the corresponding period of the previous year. As a result, the Group's toll revenue growth rate was slightly lower than the traffic growth rate for the reporting period.

In accordance with the “Notice Concerning Policy regarding Business Tax on Toll Fee Income of Expressway Operation Enterprise by the Ministry of Finance and the State Administration of Taxation” jointly promulgated by the Ministry of Finance and the State Administration of Taxation, starting from 1 June 2005, the Business Tax on the Group’s toll revenue derived from expressways has been reduced to 3%(before adjustment: 5%), and hence during the reporting period, the rate of increase in Business Tax and surcharges was lower than the rate of increase on revenue.

Due to the growth in traffic volume of each toll highway and the increase in new project activities during the reporting period, the Group recorded total operating expenses with an increase of 29.28% as compared to the corresponding period of the previous year, among which: in line with the growth of traffic flow, depreciation charges increased by 13.50% as compared to the corresponding period of the previous year to RMB 70,207,000; employee benefit expenses increased by 48.93% to RMB 28,556,000, mainly due to increases in toll stations and toll collection staff as a result of traffic growth, and the provision of incentive cash bonus under the share appreciation rights scheme of RMB 4,412,000 during the reporting period; road maintenance expenses increased by 40.24% to RMB 4,123,000 as compared to the corresponding period of the previous year, mainly due to the growth of traffic volume and aging of roads, which led to more resources on maintenance to ensure good road conditions and traffic environment; other operating expenses increased by 58.95% to RMB30,421,000, mainly due to the increase in settlement service charges for the new inter-road network toll collection system of the Guangdong Province during the period and the increase in business expenses on new projects as compared to the corresponding period of the previous year.

During the reporting period, the Group recorded an operating profit of RMB 285,665,000, representing an increase of 12.98% as compared to the corresponding period of the previous year. Operating profit margin from toll highway operations and operating profit margin before depreciation were 74.98% and 91.20% respectively, representing decreases of 1.13% and 2.62% respectively as compared to the corresponding period of the previous year. Such decreases were mainly attributable to the increases in employee benefit expenses and new project development expenses as well as the new service charges for the new inter-road network toll collection system of the Guangdong Province during the period.

During the reporting period, the Group shared profit of associates of RMB 2,271,000, including the share of profits/losses of Yangmao Company, Guangyun Company, Jiangzhong Company, Consulting Company and Qinglian Company.

During the reporting period, the Group’s finance costs amounted to RMB21,349,000, representing an increase of 207.77% as compared to the corresponding period of the previous year. Such increase was mainly attributable to the increased scale of borrowings as compared to previous year. At the end of the reporting period, the Group had additional loans of RMB 1,653,459,000.

2. **Business Review**

(1) ***Operating Performance***

Driven by rapid economic growth in the Pearl River Delta region as well as the gradual implementation of both CEPA and the Pan Pearl River Delta Economic Zone, the growth of the Group’s toll highway business has been fuelled by sharp increases in automobile ownership,

trade and commerce, cargo transportation and people's traveling. During the first half of 2005, the Group's operation and investment in toll highway inherited the growth momentum from 2004 and achieved rapid increases in both traffic flow and toll revenue, scoring average growth rates of 28% and 25% respectively.

Details of the operations of the Group's toll highways during the reporting period are as follows:

Major Toll Road/ interest proportion of the Company	Contribution to revenue	Average daily mixed traffic volume (number of vehicles)			Average daily revenue (RMB)		
		January to June 2005	January to June 2004	Change (%)	January to June 2005	January to June 2004	Change (%)
Meiguan Expressway/ 95%	35.2%	73,217	58,254	25.7	777,746	645,146	20.55
Jihe West/100%	32.2%	43,532	32,375	34.5	711,204	541,184	31.42
Jihe East/55%	18.9%	54,218	40,468	34.0	758,736	575,452	31.85
Yanba A and B/100%	4.5%	10,241	8,664	18.2	100,167	80,807	23.96
Shuiguan Expressway/ 40%	7.4%	44,626	36,032	23.9	407,032	353,748	15.06

Trade and commerce and people's travelling between Hong Kong, Shenzhen and Dongguan are the driving forces for traffic growth on Meiguan Expressway. During the reporting period, traffic volume on Meiguan Expressway sustained rapid and stable growth. Average daily mixed traffic volume increased by 25.7%. During the reporting period, the opening of the South China Logistics Exit on Meiguan Expressway has effectively smoothed the traffic flow of South China International Logistic Center and its surrounding areas, thereby alleviating congestion on the peripheral driveways and resulting in increased traffic volume.

Passenger vehicles travelling between the city centre of Shenzhen and other nearby districts accounted for the largest share of traffic on Jihe Expressway, one of the outer-ring roads of Shenzhen. Meanwhile, expedited construction of logistics parks and trade centres in the surrounding areas of Jihe Expressway has further fuelled the rapid traffic growth on the expressway. During the reporting period, average daily mixed traffic volume of Jihe Expressway increased by 34%.

Given the rapid development of the Longgang Industrial Zone and the fast-growing population and logistics activities in the satellite counties and towns surrounding Shenzhen, traffic volume on Shuiguan Expressway has increased rapidly. Shuiguan Extension was completed and opened to traffic in July 2005, connecting Shuiguan Expressway with the two largest warehousing areas in Shenzhen city centre, i.e. Qingshuihe and Sungang. Shuiguan Extension will guide traffic on highways such as Shuiguan Expressway to the city centre through the Longjing Interchange. This will not only foster the development of the Shida Industrial Zone and the Baolong Industrial Zone and facilitate the formation and growth of the Pinghu Logistics Zone, but will also be conducive to the growth of traffic volume on Shuiguan Expressway. With the approval from the relevant authorities, the toll coefficients for Category 1 to 5 vehicles on Shuiguan Extension will be 1, 1.5, 2, 3 and 3.5 respectively, and the toll rate for Category 1 vehicle is fixed at RMB0.6/km.

Currently, Yanba Expressway's under-par performance in toll revenue in the short term was attributable to the absence of a holistic road network in the eastern part of Shenzhen. During the reporting period, the strong marketing efforts carried out by the Company, together with

increasingly active construction works in that area, provided more traffic flow for Yanba Expressway. As Shenzhen and Huizhou will intensify the development of the eastern area and as the road network continues to improve, traffic volume on Yanba Expressway is expected to further increase.

According to the “Notice Concerning Adjustment of the Toll Rate of Vehicles on Expressway” jointly issued by the Guangdong Provincial Price Bureau and the Guangdong Provincial Communications, the toll rates of expressways in Guangdong Province were adjusted, effective 1 June 2005. Of the adjustments, the toll coefficient for Category 5 vehicles of Meiguan Expressway and Jihe Expressway has been lowered from 6 to 5; that of Yanba Expressway, Shuiguan Expressway, Yangmao Expressway and Guangwu Expressway have been lowered from 4 to 3.5; and the toll coefficients for Category 1 to 4 vehicles have remained the same. According to the Company’s estimation, assuming unchanged traffic volumes, such adjustments may lead to a slight decrease of approximately 1% in toll revenues of the Group. But since the lowered toll rates will attract more traffic flow, overall speaking such toll rate adjustments did not significantly impact the Company’s operation.

(2) *Project Acquisitions*

Guangwu Expressway

On 8 December 2004, the Company entered into an agreement with GDRB Company to acquire a 30% equity interest in Guangyun Company (which operates Guangwu Expressway) at a consideration of RMB 179,180,000. In accordance with the Listing Rules of the HKEX, the transaction constituted a connected transaction of the Company. On 18 February 2005, such acquisition was approved by shareholders at the Company’s extraordinary general meeting, with connected parties and their associates abstaining from voting. In June 2005, the Company appointed two directors and financial controller for Guangyun Company, so as to enable the Company to exert material influence thereon. Guangyun Company is accounted for as an associate. From the completion date of acquisition till the end of the reporting period, the project has incurred a net loss of RMB924,000 to the Company. As at August 2005, the procedures for industry and commerce registration change in relation to the acquired equity have been completed.

Qinglian Project

On 3 February 2005, the Company and Mei Wah Company entered into agreements with other parties concerned to acquire a 56.28% equity interest in Qinglian Company at a consideration of RMB 1,839,200,000. In accordance with the Listing Rules of HKEX, the transaction constituted a connected transaction of the Company. On 23 May 2005, such acquisition was approved by shareholders at the Company’s extraordinary general meeting, with connected parties and their associates abstaining from voting. As at 30 June 2005, the subject equity interest of the agreement and other rights and liabilities had been transferred and the procedure for the transfer of the loan has been completed. The Company has appointed to Qinglian Company nine directors and certain key management including the General Manager and the chief financial officer. Other arrangements pursuant to the agreement are being executed at present. Although the Company holds a 56.28% equity interest in Qinglian Company directly and indirectly, the Company has no power to govern the latter’s financial and operating policies in accordance with the investment

agreement and the articles of association of Qinglian Company, and can only exercise significant influence thereon. As a result, Qinglian Company is treated as the Company's associate. From the completion date of acquisition to the end of the reporting period, the project has incurred a net loss of RMB221,000 to the Company.

Qinglian Class 1 Highway, owned by Qinglian Company, is a 215.85km arterial highway in Guangdong Province, connecting the northern and southern highway backbone in the province and enhancing the trading and economic activities from the Pearl River Delta region to the central areas. It is also an essential corridor to link up the Pearl River Delta region and the central and northern parts of Guangdong Province with Hunan Province and other central districts. With a view to enhancing the efficiency of the existing route and bringing the capacity of the major trunk highway into full play, plans are underway to re-construct Qinglian Class 1 Highway into an expressway. To date, the project management headquarters has already been established for the reconstruction work, and various aspects of preparation work are in active progress.

Wuhuang Expressway

On 19 March 2005, the Company and Mei Wah Company entered into agreements with other parties concerned to acquire a 55% equity interest in Magerk Company (which owns the operating right of Wuhuang Expressway) at a consideration of HK\$ 653,632,000. In accordance with the Listing Rules of the HKEX and SSE, the transaction constituted a connected transaction of the Company. On 3 June 2005, such acquisition was approved by shareholders at the Company's extraordinary general meeting, with connected parties and their associates abstaining from voting.

To facilitate a successful completion of the acquisition, the Company and Mei Wah Company entered into a Supplementary Agreement with other parties concerned on 12 July 2005. Pursuant to the provisions in the Supplementary Agreement, the Company has arranged Mei Wah Company to directly acquire the 55% equity interest in Jade Emperor Limited (which sole business is to own and operate Magerk Company), and paid the consideration for the acquisition as well as completing the relevant transfer procedures on 5 August 2005.

Wuhuang Expressway, measuring 70.3 kilometers, forms a well-established network with neighbouring highways. As a major route connecting Wuhan and Huangshi and a major trunk for accessing eastern Hubei, it is an important road pivot within the transportation network of eastern Hubei and constitutes a major part of the Hurong National Highway which is the horizontal trunk highway from Shanghai to Chengdu within the national expressway network. Indeed, Wuhuang Expressway commands an important location with strategic advantages. In the first half of 2005, traffic volume and toll revenue on Wuhuang Expressway maintained steady growth as compared to the corresponding period of the previous year.

(3) *Project under Construction*

The Company owns 25% equity interest in Jiangzhong Expressway. As per the progress of the physical completion of the expressway, an accumulated amount of RMB2.387 billion (approximately 75% of the estimated investment) had been utilised as construction costs as at 30 June 2005, and completion is scheduled for October 2005.

Nanjing Third Bridge will be the most convenient passage along the Hurong National Highway crossing over Yangtze River at Nanjing. The Company owns 25% equity interest in Nanjing Third Bridge. As at 30 June 2005, the major parts of Nanjing Third Bridge have been jointed and as per the progress of the physical completion of the expressway, an accumulated amount of RMB 2.470 billion had been utilised as construction costs which accounted for about 75% of the estimated investment. The whole project is expected to be completed by October 2005.

Yanpai Expressway is an express passage for prompt traffic diversion at Yantian Port, playing a significant role in relieving traffic pressure caused by the rapid growth of container throughput at Yantian Port upon the full operation of Phase 3 Project at Yantian Port. The Company owns 100% equity interest in Yanpai Expressway. At the end of the reporting period, as per the progress of the physical completion of the expressway, an accumulated amount of RMB540 million or about 47% of the estimate investment had been utilised as construction costs. As work progress has been affected by the coordination work with the Municipal Government's other complementary projects as well as by the weather, the project is scheduled for completion in the first half of 2006.

The Company owns 25% equity interest in GZ W2 Expressway. As at 30 June 2005, as per the progress of the physical completion of the expressway, an amount of RMB826 million had been utilised as construction costs, accounting for approximately 28% of the estimate investment. Construction is expected to be completed by the first half of 2007.

In addition to the aforesaid projects, the Company has been actively preparing for the construction work of two expressways, Nanguang Expressway and Yanba C in the Shenzhen area. As at 30 June 2005, the preliminary designs of Nanguang Expressway were assessed and approved, and tenders have been started for some contract sections. The whole project is expected to be completed by the end of 2007. The Company is now proceeding with the preliminary preparation work for the construction of Yanba C .

(4) *Entrusted Construction Management Services*

The Company was appointed as the project administrator of the Nanping Project and the Hengping Project in 2004, which marked the beginning of the entrusted construction management business of the Company. This will further broaden the Company's scope of business and create a new income source for the Company.

As at 30 June 2005, as per the progress of the physical completion of the expressway, an amount of RMB1.213 billion or about 53% of the estimate investment had been utilised as construction costs for the Nanping Project. The project is scheduled for completion in the first half of 2006 according to the centralised deployment and arrangement of the government. As at 30 June 2005, as per the progress of the physical completion of the expressway, an amount RMB68 million or approximately 15% of the estimate investment had been utilised as construction costs for the Hengping Project. The project is scheduled for completion at the end of 2006.

3. Financial Position

(1) *Current Assets and Liabilities*

As at 30 June 2005, the Group's current assets amounted to RMB 1,599,925,000 (31 December 2004: RMB1,714,003,000), including cash and cash equivalents of RMB624,188,000, restricted cash of RMB515,993,000 and inventories and accounts receivable of RMB459,744,000. During the reporting period, the restricted cash was mainly a guarantee deposit placed for the financing on acquisition of 55% equity interests in Wuhuang Expressway by the Group. The cash of the Group is generally placed with commercial banks as current or short-term fixed deposits. No deposit is placed with financial institutions other than banks or used for securities investment.

As at 30 June 2005, the Group's current liabilities amounted to RMB2,127,373,000 (31 December 2004: RMB883,556,000), including RMB1,220,000,000 as short-term borrowings, RMB 103,082,000 as long-term liabilities due within one year, RMB 391,741,000 as consideration payable for the acquisition equity interest of Qinglian Company, RMB 162,818,000 as bidding deposits received from contractors, and RMB 158,631,000 as construction costs and deposits. The increase of the Group's current liabilities was mainly attributable to the increase in short-term borrowings. As at 30 June 2005, the Group reported a net current liabilities position. As the Group had un-utilised available banking facilities of approximately RMB 6,405,000,000 at 30 June 2005, the Group anticipates that it has sufficient capital to meet its loan obligations and other capital commitments.

(2) *Cash Flow of the Group*

As at 30 June 2005, cash and cash equivalents of the Group amounted to RMB624,188,000 (31 December 2004: RMB1,241,838,000), a decrease of RMB 617,650,000 over the year-end of 2004. During the reporting period, the Group's net operating cash inflow amounted to RMB 266,740,000 (six months ended 30 June 2004: RMB 195,992,000). The net increase in borrowings amounted to RMB 1,653,459,000. During the reporting period, major cash outflows used in investing activities comprised capital expenditures for Yanpai Expressway, Nanguang Expressway, the Qinglian Project, Jiangzhong Expressway, GZ W2 Expressway and Guangwu Expressway amounting to RMB 1,929,425,000; guarantee deposit for the borrowing to finance the acquisition of Wuhuang Expressway and prepaid deposit amounting to RMB516,243,000; dividends distribution amounting to RMB 239,877,000; and interests payments on loans amounting to RMB 21,349,000.

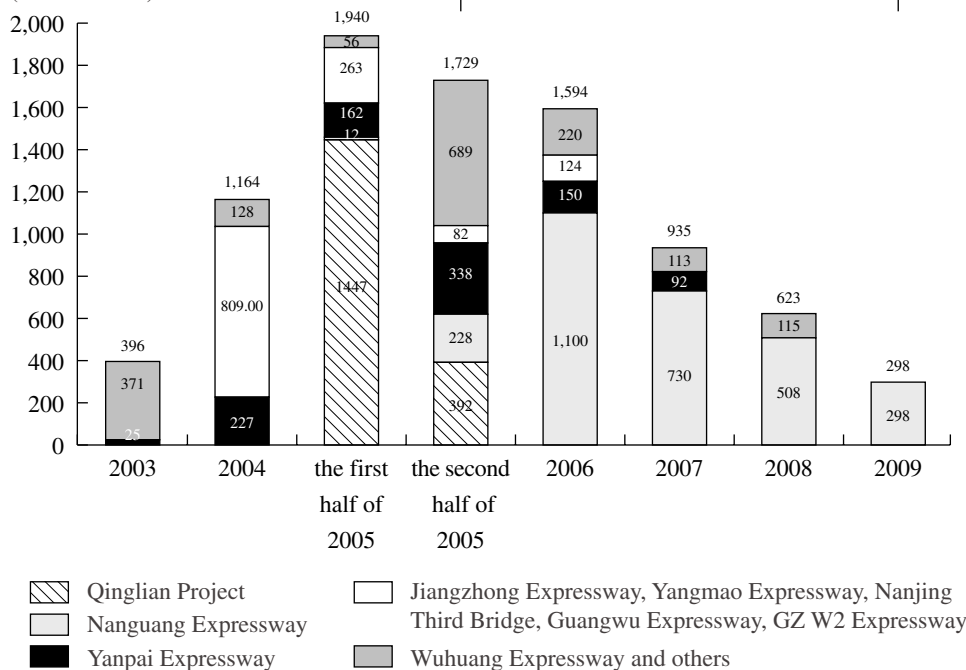
(3) *Capital Expenditure*

As at 30 June 2005, the Group's capital expenditure plans comprised mainly construction expenditure incurred for Yanpai Expressway, Nanguang Expressway and Yanba C and investment amounts in acquiring the equity interest of the Qinglian Project, GZ W2 Expressway, Jiangzhong Expressway and Wuhuang Expressway. Capital expenditures to be incurred for the next five years are estimated to amount to RMB 5,179,000,000. Due to the large amount of capital expenditures of the Group for the coming five years, the Company plans to fund the aforesaid

amounts by both internal resources and bank borrowings. At present, according to the estimation of the Company's directors, the Group is able to meet these expected capital expenditures given the Group's financial resources and financing capabilities.

Capital Expenditure Plans

(RMB million)



(4) Contingent Liabilities

According to the construction contracts of the Nanping Project and the Hengping Project, the Company shall bear the administrative responsibility for overrun costs. For the Hengping Project, the Company shall be liable for all the costs exceeding such estimated cost of the project. For the Nanping Project, if the actual construction cost exceeds the estimated construction cost by 2.5% or less, the Company shall bear all the cost exceeding such estimated cost of the project. If the overrun costs are more than 2.5%, the Company together with the relevant government department shall bear the portion that exceeds the 2.5% threshold. In addition, pursuant to the requirements of the contracts, at the end of the reporting period the Company has provided the Longgang Highway Bureau and the Shenzhen Communications Bureau with irrevocable letters of bank guarantee in amount of RMB30,000,000 and RMB100,000,000 respectively. A deposit of RMB15,000,000 has been paid to the Longgang Highway Bureau to guarantee the achievement of the agreed progress of construction, quality and safety management of the Hengping Project.

(5) Financing Activities

With the backing of steady growth in cash flow, a sound credit record and an excellent industry reputation, the Group has been granted an AAA credit rating for three consecutive years up to 2005 by a recognised institution of the People's Bank of China. A good credit rating is beneficial to the Company's financing activities and allows the Company to continue to enjoy prime rates under the interest rate policy of the People's Bank of China.

During the reporting period, with the increase in the scale of the Company's borrowings, adjustments have been made in the borrowing structure that there is, an increased percentage of long-term borrowings and fixed-interest borrowings for the purpose of reducing various financial risks. The average borrowing cost during the reporting period was 5%, slightly higher than the 4.78% of the previous year.

On 12 August 2005, the Board of the Company passed a resolution on the proposal for issuing not more than RMB 2.4 billion short-term commercial papers by the Company. The proposal will be submitted for approval by shareholders at an extraordinary general meeting to be convened on 10 October 2005. As the interest rate of short-term commercial papers is lower than that of bank loans with similar maturities, the successful issuance of these commercial papers will be beneficial for improving the Company's debt structure and reducing its finance costs.

During the reporting period, the Group capitalise on both the favourable internal and external conditions to negotiate new financing facilities and agreements with banks. As of 30 June 2005, the total credit facilities granted to the Group amounted to RMB8.55 billion, utilised and unutilised credit facilities amounted to RMB 2.145 billion and RMB 6.405 billion respectively. From the date of balance sheet to the date of this report, new credit facilities amounting to RMB2.58 billion were obtained. As of the date of this report, the Group's total credit facilities amounted to RMB11.13 billion and unutilised credit facilities amounted to RMB 7.715 billion. The credit facilities available to the Group will meet the need of capital requirements for the Company's future development.

(6) ***Interest Risk***

The Group safeguarded itself against the risk of interest rate fluctuations by deploying a reasonable combination of fixed and floating interest rates borrowings, and by seeking control of the risks of rising interest rates through taking appropriate interest rate swap contracts with regard to market changes. During the reporting period, the Group had no interest-rate swap option contracts.

(7) ***Exchange Risk***

The principal activities of the Group are conducted in China. Other than the payment of H share dividends, the Group's operating revenues and expenses and capital expenses are mainly denominated in RMB. Therefore, the Group obtains loans primarily in RMB. As at the end of the reporting period, the balances of the Group's borrowing and cash deposits in foreign currencies were insignificant, and therefore the fluctuations in foreign exchange rates had no material impact on the Group's results.

4. Outlook

Robust economic growth coupled with effective policy support has provided the Company with a golden opportunity for rapid, sustainable development. Meanwhile, the Board and the management of the Company are fully aware of the risks confronting the Group in the financial, marketing and operational aspects. Reviews will be conducted on an ongoing basis and relevant preventive measures will be taken. The Group will carry out the following pro-active business strategies:

- (1) Strengthening the operational management of the toll projects under operation to ensure a steady growth of income;
- (2) Enhancing the construction management of the key projects under development to ensure that the projects will be completed within budgets and in accordance with schedules;
- (3) Maintaining a reasonable debt structure, broadening sources of funds and lowering financial costs; and
- (4) Fostering the building, development and management of human resources to fulfill the Company's continuous development needs.

Looking ahead, the Company will continue to focus on the toll highway operation as its principal business and development path. It will leverage its competitive advantages in the investment, construction, operational management of highways and in its innovative strengths, while capitalising on every opportunity and dealing with the challenges constructively. It will continue to strengthen its core competitiveness and further enhance its standards in corporate governance, with a view to achieving greater profitability and risk resilience. This way, the Company will grow rapidly but steadily on all fronts, enabling itself to reward all shareholders with promising returns.

USE OF PROCEEDS

The Company raised RMB604 million from the issue of A shares in 2001. During the reporting period, the Company applied such proceeds in the construction of Yanba B in strict compliance with the undertakings as made in the prospectus. The construction of Yanba B began in June 2001 and was opened to traffic for toll collection in June 2003. An amount of RMB15,056,000 was applied during the reporting period and the cumulative amount of proceeds applied was RMB429,056,000. As at 30 June 2005, proceeds in the amount of RMB174,944,000 remained unutilised and were mainly held as short-term fixed deposits with banks in the PRC to be used for the settlement of remaining project payments for Yanba B.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the reporting period, no shares of the Company were purchased, sold or redeemed by the Company and its subsidiaries or any of its jointly controlled entities.

With the main purposes to protect shareholders' and investors' interests and to enhance the confidence of investors, the Company had made a plan since 2002 to seek authorisation and approval from shareholders and regulatory authorities in respect of the repurchase of H Shares of the Company

(“Repurchase of H Shares”). Currently, the Company has completed all the requisite preparatory work for the Repurchase of H Shares in accordance with the relevant laws and regulations. After fully considering various factors such as the price of H Shares and the capital expenditure of the Company, the Company has not yet repurchased any H Shares up to the date of this Report.

EMPLOYEES, REMUNERATION AND TRAINING

In line with its development strategies, the Company recruits more professional and technical staff at all levels, while enhancing the staff’s overall qualities and work competence through various training programmes at different levels.

As of 30 June 2005, the Company had 1,290 employees, of whom 7%, 4%, 14% and 75% were administrative, financial, technical and toll collection staff respectively. 31% of the total number of employees held tertiary or above qualifications, while the ratio for administrative, financial and technical staff reached 81%.

In April 2004, the Company adopted the “Management Rules for Employee’s Remuneration and Benefits”. The employee’s remuneration is divided into three parts, namely monthly salary, year-end performance bonus as well as statutory and non-statutory benefits provided by the Company. The remuneration is determined in accordance with an overall assessment, and salary and performance bonus are determined with reference to the staff’s position and performance respectively so that the Company will maintain competitiveness. In addition, the Group has provided relevant social insurance protection to its employees in accordance with statutory requirements.

The Company has implemented a shares appreciation rights scheme as approved by the shareholders since 2001 which was subsequently amended at the extraordinary general meeting held on 30 October 2003. Pursuant to the amended shares appreciation rights scheme, the Board of Directors has approved during the reporting period the Company to exercise, as authorised by the shareholders’ meeting, Phase-3 and Phase-4 shares appreciation rights amounting to 5,501,400 shares collectively held by the management team. An amount of RMB 4,412,000 from exercising such rights shall be used as a special incentive fund and distributed to the management team in accordance with the proposal put forward by the General Manager and the Remuneration Committee of the Company. As at 30 June 2005, the shares appreciation rights granted by the shareholders’ meeting were fully exercised. The special incentive fund from the scheme has not yet been distributed during the reporting period.

During the reporting period, the Company organised various training programmes including communication of company strategies, specific training for department representatives, continuing education for financial staff, on-the-job training for file management staff and orientation courses for toll collection staff. Furthermore, individual departments organised a number of specific internal training programmes on their own according to the annual training plan.

Looking towards the second half of 2005, the Company will continue to carry out comprehensive management skills training for senior management, recruit and develop new management specialists and provide more incentives to its employee, in order to enhance the execution abilities of both management and staff, and to meet the Company’s needs for quality people on its course towards continued development.

CORPORATE GOVERNANCE

(1) Compliance with the Code on Corporate Governance Practice

The Company is committed to ensuring high standards of corporate governance. During the reporting period, the Company has fully complied with the provisions of the Code on Corporate Governance Practice (the “Code”) as set out in Appendix 14 of the Listing Rules of HKEX, save as:

- During the reporting period, the Company has yet to arrange independent non-executive directors to attend shareholders’ meeting that was convened to approve connected transactions. The Company will ensure compliance of such provision of the Code from the date of this Report. As a transitional arrangement during the reporting period, an independent financial advisor appointed by the Committee of Independent Non-Executive Directors had attended the above-mentioned shareholders’ meeting to respond to questions from shareholders.
- The Group will issue a written document in the third quarter of 2005 to employees in setting out official guidelines and procedures for the dealing of the Company’s shares by relevant employees.

(2) Audit Committee

The Audit Committee comprises three directors, all of whom are senior professionals in the fields of accounting, securities or finance with two of them being independent non-executive directors. The Chairman of the Committee is an independent non-executive director. During the reporting period, the Audit Committee has amended their terms of reference according to the provisions of the Code and the terms of reference have been duly approved by the Board on 26 August 2005.

The Audit Committee of the Company has reviewed and endorsed the Interim Results Announcement and the Interim Report for the six months ended 30 June 2005, provided that the relevant financial information has not been audited.

(3) Remuneration Committee and Nomination Committee

Since November 2001, the Company established a dedicated committee to oversee the remunerations and nominations of the Board. During the reporting period, the Board approved to split the committee into two, namely the Remuneration Committee and the Nomination Committee to deal with their respective responsibilities. As at the date of this Report, the Remuneration Committee and the Nomination Committee have formulated their respective terms of reference in accordance with the Code and these terms of reference have been duly approved by the Board. The Remuneration Committee comprises three directors, two of whom are independent non-executive directors and the Chairman is an independent non-executive director.

(4) Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted Appendix 10 of the Listing Rules entitled “Model Code for Securities Transactions by Directors of Listed Issuers” as rules for securities transactions initiated by the Directors and the Supervisors. After specifically inquiring with all the Directors and the Supervisors, the Company confirms that its Directors’ and Supervisors’ securities transactions have been fully complied with the standard laid down in the said rules.

DEFINITIONS

“Changsha Ring Road”	Hunan Changsha Ring Road (Northwestern Section), located in Changsha City of Hunan Province
“Consulting Company”	深圳高速工程顧問有限公司 (Shenzhen Expressway Engineering Consulting Company Limited)
“GDRB Company”	廣東省路橋建設發展有限公司 (Guangdong Roads and Bridges Construction Development Company Limited)
“Geputan Bridge”	Hubei Yungang Geputan Bridge, located in Yugang City of Hubei Province
“Guangwu Expressway”	The expressway from Guangzhou City to Wuzhou City (Ma’an to Hekou section), located in Guangdong Province
“Guangyun Company”	雲浮市廣雲高速公路有限公司 (Yunfu Guangyun Expressway Company Limited), which owns Guangwu Expressway
“GZ W2 Expressway”	Guangzhou Western Second Ring Expressway, located in Guangdong Province
“H Shares”	Overseas-listed Foreign Shares of the Company with a par value of RMB1.00 each, which were issued in Hong Kong and subscribed in Hong Kong dollars and are listed on HKEX
“Hengping Project”	Western Section of Hengping Class 1 Highway, located in Shenzhen City
“HKEX”	The Stock Exchange of Hong Kong Limited
“Magerk Company”	湖北馬鄂高速公路經營有限公司 (Hubei Magerk Expressway Management Limited)
“Jiangzhong Company”	廣東江中高速公路投資有限公司 (Guangdong Jiangzhong Expressway Company Limited), which owns Jiangzhong Expressway
“Jiangzhong Expressway”	The expressway from Zhongshan City to Jiangmen City and the second phase of the expressway from Jiangmen City to Heshan City, located in Guangdong Province

“Jihe Expressway”	Shenzhen Jihe Expressway, comprising Jihe East and Jihe West
“Listing Rules”	the Rules Governing the Listing of Securities on the HKEX and/or the Rules Governing the Listing of Stocks on the SSE
“Mei Wah Company”	美華實業(香港)有限公司 (Mei Wah Industrial (Hong Kong) Limited)
“Meiguan Company”	深圳市梅觀高速公路有限公司 (Shenzhen Meiguan Expressway Company Limited), which owns Meiguan Expressway
“Meiguan Expressway”	Shenzhen Meiguan Expressway
“Nanguang Expressway”	Shenzhen Nanguang Expressway
“Nanjing Third Bridge”	Nanjing Yangtze Third Bridge, located in Nanjing City of Jiangsu Province
“Nanping Project”	Nanping Freeway (Phase I), located in Shenzhen City
“Qinglian Class 1 Highway”	Class 1 Highway from Qingyuan City to Lian Zhou City, located in Guangdong Province
“Qinglian Company”	廣東清連公路發展有限公司 (Guangdong Qinglian Highway Development Company Limited), which owns Qinglian Project
“Qinglian Project”	Qinglian Class 1 Highway, and/or its project to reconstruct to expressway, and/or Class 2 road from Qingyuan City to Lianzhou City in Guangdong Province (the definition of which should depends on the situation it used)
“Qinglong Company”	深圳清龍高速公路有限公司 (Shenzhen Qinglong Expressway Company Limited), which owns Shuiguan Expressway
“Shuiguan Expressway”	Shenzhen Shuiguan Expressway, also referred to as the “No.2 Longgang Passage”
“Shuiguan Extension”	An extension to the Shuiguan Expressway, also referred to as the “Qingping Expressway Phase I”, located in Shenzhen City
“SSE”	The Shanghai Stock Exchange
“The Reporting Period”	For the six months ended 30 June 2005
“Wuhuang Expressway”	The expressway from Wuhan City to Huangshi City, located in Hubei Province

“Yanba Expressway”	Shenzhen Yantian-Bagang Expressway, comprising Yanba A, Yanba B and Yanba C
“Yangmao Company”	廣東陽茂高速公路有限公司 (Guangdong Yangmao Expressway Company Limited), which owns Yangmao Expressway
“Yangmao Expressway”	The expressway from Yangjiang City to Maoming City, located in Guangdong Province
“Yanpai Expressway”	Shenzhen Yanpai Expressway, also known as Yantian Subsidiary Road to Jihe Expressway

By Order of the Board
Yang Hai
Chairman

Shenzhen, the PRC, 26 August 2005

As at the date of this announcement, the Directors of the Company are Mr. Yang Hai (Chairman of the Board); Mr. Wu Ya De (Director and General Manager); Mr. Zhang Rong Xing (Director); Mr. Lin Xiang Ke (Director); Ms. Zhang Yang (Director); Mr. Chiu Chi Cheong, Clifton (Director); Mr. Li Jing Qi (Director); Mr. Wang Ji Zhong (Director); Mr. Li Zhi Zheng (Independent Non-executive Director); Mr. Zhang Zhi Xue (Independent Non-executive Director); Mr. Poon Kai Lueng, James (Independent Non-executive Director) and Mr. Wong Kam Ling (Independent Non-executive Director).

A detailed interim report containing all the information required by Appendix 16 to the Listing Rules will be subsequently published on the website of The Stock Exchange of Hong Kong Limited at <http://www.hkex.com.hk> in due course.