



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)

**2004 Interim Results Announcement
(unaudited)**

The board of directors of Shenzhen Expressway Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2004 (the "Period"), prepared in accordance with generally accepted accounting principles in Hong Kong, together with the comparative figures for the corresponding period in 2003 as follows:

Condensed Consolidated Profit and Loss Account (unaudited)

		For the six months ended 30 June	
	Note	2004 RMB'000	2003 RMB'000 (Restated)
Turnover	2	218,610	207,357
Other revenues		50,311	33,038
Gain on disposal of assets	3	—	691,416
Depreciation		(42,247)	(40,359)
Staff costs		(12,727)	(15,828)
Road maintenance expenses		(1,246)	(2,805)
Other operating expenses		(17,034)	(13,172)
Operating profit		195,667	859,647
Finance costs		(803)	(8,494)
Share of profits less losses			
- Jointly controlled entities		54,152	38,901
- Associated companies		(221)	—
Profit before taxation		248,795	890,054
Taxation	4	(36,322)	(135,122)
Profit after taxation		212,473	754,932
Minority interests		(3,768)	(2,718)
Profit attributable to shareholders		208,705	752,214
Interim Dividends		—	—
Earnings per share	5	RMB0.096	RMB0.345

Condensed consolidated balance sheet

		Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Non current assets			
Goodwill		5,074	5,614
Fixed assets		3,269,794	3,306,899
Construction in progress		137,166	39,849
Interests in jointly controlled entities		1,303,358	1,319,175
Interests in associated companies		606,593	—
Long-term receivables		372,946	372,946
		5,694,931	5,044,483
Current assets			
Inventories		6,461	6,131
Amount due from a jointly controlled entity		1,095	637
Current portion of long-term receivables		667,220	649,330
Other receivables, prepayments and deposits		34,907	13,574
Restricted cash		323,574	—
Bank balances and cash		675,135	1,274,818
		1,708,392	1,944,490
Current liabilities			
Other payables and accrued expenses		488,549	192,760
Taxation payable		12,552	121,291
Current portion of long-term liabilities		3,082	3,082
Dividend payable		29,290	—
Short-term bank loans, unsecured		360,000	40,000
		893,473	357,133
Net current assets		814,919	1,587,357
Total assets less current liabilities		6,509,850	6,631,840
Financed by:			
Share capital		2,180,700	2,180,700
Reserves		3,127,484	3,127,484
Proposed dividend		—	414,333
Retained earnings		568,257	359,552
Shareholders' funds		5,876,441	6,082,069
Minority interests		50,696	49,967
Non-current liabilities			
Long-term liabilities		200,814	102,389
Deferred tax liabilities		47,052	42,943
Deferred income		334,847	354,472
		6,509,850	6,631,840

Notes:

1. **Principal accounting policies**

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25: "Interim financial reporting", issued by the Hong Kong Society of Accountants. This basis of accounting differs in certain material 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 applicable accounting principles and financial regulations in the PRC. 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 these interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2003 except that the Group has adopted SSAP 10 — "Accounting for Investment in Associates" following the acquisitions of interests in associated companies during the period. The consolidated profit and loss account includes the Group's share of the results of associated companies for the period, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill / negative goodwill (net of accumulated amortisation) on acquisition.

2. **Turnover**

- The Group's turnover comprises turnover from wholly-owned toll roads namely Jihe West, Yanba Expressway (Section A and B) and the 95% held Meiguan Expressway.
- No segment information is presented as all turnover of the Group is toll income derived from toll roads in the PRC.
- Taxes related to toll income are as follows:
 - PRC business tax at 5% on toll income
 - City development tax at 1% of PRC business tax
 - Education supplementary tax at 3% of PRC business tax

3. **Gain on disposal of assets**

In March 2003, the Company transferred all its rights and interests in National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section) to Shenzhen Communications Bureau at a consideration of RMB1,930,000,000 plus an extra compensation of RMB106,109,000. Accordingly, it recorded a gain on disposals amounting to RMB691,416,000.

4. **Taxation**

The Company is subject to PRC enterprise income tax at a rate of 15%, the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, while the standard rate is 33%.

5. **Earnings per share**

The calculation of earnings per share is based on the profit attributable to shareholders of RMB208,705,000 (2003: RMB752,214,000(as restated)) and 2,180,700,000 (2003: 2,180,700,000) ordinary shares in issue during the period.

6. **Comparatives**

The revised SSAP12 "Income taxes" became effective from 1 January 2003 onwards. Accordingly, certain comparative figures have been restated to reflect the change in accounting policies for taxation. Details are as follows:

	For the six months ended 30 June 2003		As at 1 January 2003	
	Taxation RMB'000	Minority interests RMB'000	Profit attributable to shareholders RMB'000	Retained earnings RMB'000
As previously reported	128,344	2,758	758,952	2,951,138
Effect of adopting SSAP 12 (Revised)	6,778	(40)	(6,738)	(12,398)
As restated	135,122	2,718	752,214	2,938,740

7. **Reconciliation of accounts**

The Group has prepared a separate set of unaudited accounts for the period ended 30 June 2004 in accordance with PRC accounting standards. The major differences between the accounts prepared under PRC and Hong Kong accounting standards are summarised as follows:

	Profit attributable to shareholders for the six months ended 30 June 2004 RMB'000 (unaudited)	Net assets as at 30 June 2004 RMB'000 (unaudited)
As per PRC statutory accounts	187,483	5,725,998
Impact of HK GAAP adjustments:		
Amortisation of land use rights and the related deferred tax impact	2,574	58,133
Depreciation of fixed assets	758	17,126
Extra compensation for assets disposal	—	106,109
Imputed interest adjustment on long- term portion of receivables	17,890	(30,943)
Others	—	18
Net amount of adjustments	21,222	150,443
As restated after HK GAAP adjustments	208,705	5,876,441

INTERIM RESULTS AND DIVIDEND

In accordance with generally accepted accounting principles in Hong Kong, the Group achieved a turnover of RMB218,610,000 for the Period, an increase of 5.43% as compared to the corresponding period of 2003. However, excluding the turnover of RMB38,793,000 of the two Class 1 Highways prior to the transfer last year, turnover derived during the Period in fact increased by 29.69%. Profit attributable to shareholders of the Company for the Period amounted to RMB208,705,000, a decrease of 72.25% compared to the corresponding period of the previous year. However, the total amount of profit attributable to shareholders generated from the disposal of the two Class 1 highways and the operation of the two highways prior to the transfer was RMB608,985,000. Without taking into account the aforesaid portion of profit, profit attributable to shareholders in fact increased by 45.71%. Earnings per share for the Period was RMB0.096.

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: nil), nor does it recommend any transfer to capital reserves.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Company is principally engaged in the investment, construction, operation and management of highways and roads. During the Period, the toll roads and bridges mainly operated by the Company consist of Shenzhen Meiguan Expressway ("Meiguan Expressway"), Shenzhen Jihe Expressway (Eastern Section) ("Jihe East"), Shenzhen Jihe Expressway (Western Section) ("Jihe West"), Shenzhen Shuiguan Expressway ("Shuiguan Expressway"), Shenzhen Yanba Expressway ("Yanba Expressway"), Hunan Changsha Ring Road (Northwestern Section) ("Changsha Ring Road") and Hubei Yungang Geputan Bridge ("Geputan Bridge").

During the Period, the Group was constructing the Shenzhen Jihe Expressway Yantian Subsidiary Road ("Yanpai Expressway"). The Group also invested in the following toll roads: Shenzhen Shuiguan Expressway Extension ("Shuiguan Extension"), the expressway between Yangjiang City and Maoming City ("Yangmao Expressway"), the expressway between Jiangmen City and Zhongshan City ("Jiangzhong Expressway"), and the Western Ring Road of Pearl River Delta Surrounding Expressway ("Guangzhou Western Second Ring Expressway") in Guangdong Province; and Nanjing-Yangtze Third Bridge in Jiangsu Province (Nanjing Third Bridge).

During the Period, the Company was entrusted the construction management projects of Shenzhen Nanping Freeway (Phase 1) (Nanping Freeway) and Longgang Hengping Highway ("Hengping Highway") during the Period.

During the first half of 2004, driven by the gradual implementation of the Closer Economic Partnership Agreement ("CEPA") and the establishment of the Pan-Pearl River Delta ("PPRD") Economic Circle, an excellent external environment resulted which has in turn sustained the robust growth of Shenzhen's imports and exports. Meanwhile, benefiting from continued growth of private vehicle sales in Shenzhen, the toll road business of the Group grew rapidly. During the first half of 2004, all the toll roads operated by the Group registered over 22% growth over last year in terms of daily mixed traffic volume or average daily toll revenue. The toll road business has been providing steady increase in cash flow to the Group, and has been the major profit contributor among the Group's businesses.

Operating results of the toll roads & bridge of the Company in the first half of 2004

Toll roads & bridge	Average daily mixed traffic volume	Year on year	Average daily toll revenue (RMB)	Year on year
Meiguan Expressway	58,254	+44.14%	645,146	+27.61%
Jihe West	32,375	+28.46%	541,184	+23.84%
Jihe East	40,468	+35.33%	575,452	+25.02%
Yanba Expressway*	8,664	nil	80,807	nil
Shuiguan Expressway	36,032	+28.16%	353,748	+25.19%
Changsha Ring Road	4,284	+48.60%	53,502	+27.00%
Geputan Bridge	2,768	+25.00%	22,066	+19.00%

Note: Yanba Expressway comprises Yanba Section A and Yanba Section B, whilst Yanba Section B commenced operation on 12 June 2003.

Meiguan Expressway and Jihe Expressway have been the main contributors to the steady growth of the Company. The proportion of traffic using the whole section of Meiguan Expressway out of its total traffic volume continued climbing. The percentage increase in small vehicles was the greatest among all types of vehicles contributing to the increase in traffic flow. The expressway between Guangzhou and Huizhou commenced operation by the end of 2003, which diverted certain traffic flow from Jihe Expressway. However, as the cross-border passage peripheral to Shenzhen, Jihe Expressway still recorded rapid growth in traffic flow and toll income during the first half of 2004. This was attributable to the economic prosperity of Shenzhen and its peripheral area, booming business activities, increase in passenger flow from airports and strong demand for travel.

Shuiguan Expressway and Yanba Expressway will become important growth points for the earnings of the Group during the year of 2004 and the coming years. Serving as the only trunk expressway connecting the centre of Longgong, key industrial areas and the urban area of Shenzhen, Shuiguan Expressway continued to record rapid growth in traffic flow and toll income for its second operating year. It is expected that after Shuiguan Extension and Nanping Freeway's opening to traffic next year, the traffic flow of Shuiguan Expressway will continue to grow rapidly. Yanba B commenced operation in June 2003, and has soon enabled Yanba Expressway to form a local road network with boosted traffic volume. However, due to the small proportion of large vehicles, toll income on Yanba Expressway remained at a lower level as compared to other expressways in Shenzhen.

The completion of the southwestern section of Changsha Ring Road in May this year upgraded the expressway network of the peripheral of Changsha and boosted the growth of average daily mixed traffic volume on Changsha Ring Road. We believe that following the economic development of Changsha and the increase in traffic demand along the peripheral of Changsha, traffic flow and toll income of Changsha Ring Road will steadily increase.

Financial Position

Capital Liquidity

	As at 30 June 2004	As at 31 December 2003
Current ratio	1.91	5.44
Liquidity ratio	1.90	5.43

As at the end of the Period, the Group's liquidity was maintained at a comfortable level. During the Period, cash and deposits decreased and current liabilities increased, which resulted in decrease in liquidity.

Financial Resources

(1) **Cash and bank balances**

As at 30 June 2004, the Company's cash and bank balances amounted to RMB998,709,000, including the balance of special borrowings being provided by the Shenzhen Municipal Government for undertaking the construction management of Nanping Freeway at an amount of RMB323,574,000. Cash decreased during the Period, which was mainly attributable to the payment of year 2003 dividends, the profit tax arising from the transfer of titles of the two Class 1 highways and external investments.

(2) **Bank borrowings and Government loans**

As at 30 June 2004, the Company's bank borrowings and government loans amounted to RMB495,442,000. Renminbi denominated loans from commercial banks in the PRC increased by RMB420,000,000, whilst an amount of USD186,000 was repaid to the Spanish Government.

(3) **Consolidated credit facility**

The Company was granted a consolidated credit facility of RMB4,090,000,000 by commercial banks in the PRC. As at the end of the Period, RMB3,630,000,000 of such consolidated credit facility remained unutilised.

(4) **Installments of the consideration of the disposal of assets**

Pursuant to transfer agreement entered into by the Company and the Shenzhen Communications Bureau in 2003, the Company will receive a sum of RMB1,930,000,000 for the transfer of rights and interests in two Class 1 highways by four installments. As at 30 June 2004, the accumulated amount received was RMB965,000,000. RMB579,000,000 will be received during the year, whilst the remaining balance of RMB386,000,000 will be received in 2005. At the same time, pursuant to the agreement, the Company will receive an amount of RMB106,109,000 from the Shenzhen Ministry of Finance as related tax compensation.

Capital Commitments

The Company's capital commitments were mainly related to the capital commitments with respect to the construction investment of expressways as well as the investment in associated companies, which amounted to RMB2,153,270,000 in aggregate. The current financial resources are adequate to meet Company's future capital requirement.

Management of foreign exchange risks

The Company's payment in foreign currencies during its usual course of business comprises mainly the payment of dividends for its H shares. As at the end of the Period, deposits in foreign currencies included HK\$63,905,000 and USD54,000, while bank loans denominated in foreign currencies totalled USD4,282,000. The balance in foreign currencies of the Company was relatively small. Therefore, fluctuations in exchange rate would not have any material impact on the Company's results.

Main sources of cash flows and their applications

As at 30 June 2004, net decrease in cash and cash equivalents was RMB529,683,000.

(1) Cashflow from operating activities

As at 30 June 2004, the Company's net cash inflow from operating activities was RMB134,987,000. All of the toll income from the Company's toll roads was cash receipts, which provided a stable stream of cashflow to the Company.

(2) Cashflow from investment activities

As at 30 June 2004, the Company's net cash outflow from investment activities was RMB695,058,000. Cash inflow from investment activities comprised mainly dividends from jointly controlling entities and shareholders' loan at an aggregate amount of RMB56,000,000, term deposits of more than three months at an amount of RMB70,000,000, and interest received from deposits at an amount of RMB7,000,000. Cash outflow from investment activities comprised mainly capital expenditure for the construction of Yanpai Expressway and Yanba Expressway at an amount of RMB126,000,000; accrued profit tax arising from the transfer of National Highway 107 and National Highway 205 in 2003 at an amount of RMB105,000,000; and the considerations for the acquisitions of Yangmao Expressway, Jiangzhong Expressway, Nanjing Third Bridge, Shuiguan Extension and Guangzhou Western Second Ring Expressway at an aggregate amount of RMB604,000,000.

(3) Cash flow from financing activities

During the Period, the Company's net cash inflow from financing was RMB30,388,000. Cashflow from financing comprised mainly an increase of bank loans by RMB420,000,000 and distribution of year 2003 dividends in the amount of RMB385,000,000.

Capital Structure

The Group's capital structure comprised shareholders' funds and liabilities. As at the end of the Period, its gearing ratio (ratio of total liabilities to shareholders' funds) was 25.12% (31 December 2003:14.09%).

The Group's indebtedness as a whole has been relatively low and its capital structure remained sound. It has strong risk tolerance and great flexibility in debt financing.

Current liabilities increased by 150.18% as compared to the end of last year, which was mainly attributable to increase in short-term borrowings, as well as the special project construction monies allocated in the Period by the Shenzhen Municipal Government for entrusting the construction management of Nanping Freeway which resulted in a current liability of RMB320 million.

Long-term liabilities increased by 16.59% as compared to the end of last year, which was mainly attributable to the increase of long-term borrowings in the Period.

At the end of the Period, the Company's floating rate liabilities comprised long-term borrowings from commercial banks in the PRC of RMB100,000,000 in total, at a rate which was 10% less than the rate for borrowing of the same amount with the same tenor as published by The People's Bank of China. The prevailing interest rate was 4.941%. The Company's fixed rate liabilities amounted to RMB395,442,000 in total, of which RMB360,000,000 was short-term fixed-rate bank loans from commercial banks in the PRC. RMB200,000,000 of which was at a fixed interest rate of 4.536% per annum and RMB160,000,000 was at a fixed interest rate of 4.779% per annum. USD4,282,000 (equivalent to RMB35,442,000) was long-term fixed-rate loans from the Spanish Government. USD2,048,000 of which was at an interest rate of 7.17% per annum and the remaining USD2,234,000 at an interest rate of 1.8% per annum.

Currently, as the Company's bank borrowings were mainly fixed-rate borrowings, fluctuations in interest rates will not have any material effect on the operating results of the Company.

The Company's interest-free liabilities were mainly current account payables and deferred income.

Use of the proceeds

The Company raised RMB604 million from the additional issuance of A shares. During the Period, the Company applied such proceeds for the construction of the expressway from Yantian to Bagang (Yanba Expressway) Section B in strict compliance with the undertakings as made in the prospectus. Yanba Expressway Phase B commenced construction in June 2001 and toll collection on 12 June 2003.

During the Period, the Company has applied an amount of RMB22,000,000 to the project, to which a total of RMB405,637,000 from the proceeds has been injected.

As at 30 June 2004, a balance of the raised proceeds at RMB198,000,000 has not been applied. Such amount, largely entrusted with domestic banks as fixed deposits, will be applied to other upcoming works of the project.

Pledge of assets

Shenzhen Qinglong Expressway Company Limited ("Qinglong Company"), a joint controlled entity 40% owned by the Group, repaid in advance the loan in the amount of RMB550 million with the pledge on the toll collections rights of Shuiguan Expressway as security extended by the China Development Bank obtained through the Communications Department of Guangdong Province in February 2004. At the same time, Qinglong Company entered into a loan agreement with the Bank of China, Shenzhen Branch, for a loan of RMB550 million with the pledge on the toll collections rights of Shuiguan Expressway as security. The term of loan was 12 months and the annual interest rate was 10% discount of the basis rate quoted by the People's Bank of China. The scope of security was the principal and interests on the RMB550 million loan, and the term of pledge was up to full payment of principal and interests.

Investment and Construction in Shenzhen

According to Shenzhen's trunk highway network planning, the Shenzhen Municipal Government will invest RMB20 billion in the coming 10 years to construct new expressways of 270km. The Company will make full use of the concession right to develop and operate expressways planned in Shenzhen. There are two projects under construction:

(1) Yanpai Expressway

Yanpai Expressway runs from Yantian Port to Paibang Interchange of Jihe East, with a length of 15.2 km. It commenced construction in July 2003 and is expected to commence operation by the end of 2005.

Yanpai Expressway is a subsidiary route of Jihe Expressway in Shenzhen leading to Yantian Port. Following the rapid increase in container throughput and the full operation of Phase 3 Project at

Yantian Port next year, Yanpai Expressway will become the major trunk expressway facilitating the traffic flow around the Yantian Port, as well as one of the most promising highway projects of the Company.

(2) Shuiguan Extension

Shuiguan Extension starts at Bulong Interchange of Shuiguan Expressway and ends at the check point at Qingshuihe Special Administration Zone newly set up in Shenzhen, connecting the two warehouse areas at Qingshuihe and Sungang in the urban area of Shenzhen. With a total length of 5.25 km, its total investment is estimated to be RMB510 million. The Company holds 40% equity interest in this project. The project commenced in 2003 and is expected to commence operation in 2005.

Upon completion of Shuiguan Extension, Shuiguan Expressway will be connected to the urban area of Shenzhen which will release the traffic pressure in Buji Checkpoint. In addition, it will attract part of traffic flow that travels on NH205, thus further boosting the traffic growth of Shuiguan Expressway.

The Company has been recently preparing feasibility studies for the Nanguang Expressway and Yanba Expressway (Section C) in Shenzhen.

Investment and Developments in Highway Projects outside Shenzhen

It is the strategy of the Company to invest and develop toll expressways with Shenzhen as the base expanding to the Pearl River Delta region as a whole, and selectively acquire quality expressway projects in other regions of central and eastern PRC. The Company will capitalise on the opportunities as presented by Guangdong Province's readiness to dispose of equity rights in expressway projects, and use its best endeavours to increase its market share in trunk expressways of the Guangdong region.

During the Period, the Company obtained breakthrough in its course of development. An overview of the contracts entered into with external parties and investments concluded was as follows:

Time of Agreement	Investment Project	Total investment of the Company (RMB'000)	Equity Interest	Length (km)
March 2004	Yangmao Expressway	271,680	25%	79.76
April 2004	Jiangzhong Expressway	308,270	25%	32.38
May 2004	Guangzhou Western Second Ring Expressway	250,000	25%	39.13
June 2004	Nanjing Third Bridge	270,000	25%	15.6

Yangmao Expressway is a section of the coastal National Trunkway that begins from Tongjiang in Heilongjiang to Sanya in Hainan. The section between Kaiping and Yangjiang Expressway was opened to traffic in August 2003 and the expressway from Maoming to Zhanjiang was opened to traffic as early as in 2001. Commanding an excellent geographical location, Yangmao Expressway will be a convenient transportation route in Guangdong connecting Hainan, Guangxi and all southwestern provinces. It is expected to be opened to traffic by the end of 2004.

Jiangzhong Expressway is the expressway between Zhongshan City and Jiangmen City in Guangdong Province and will be fully opened to traffic by mid-2005. Upon completion, Jiangzhong Expressway will form a trunk network of highway communication in the southwestern region of Guangdong together with Jingzhu Expressway Guangzhou Section, Humen Bridge and the expressway between Changping and Humen, and will significantly reduce the travelling distance between the eastern and western wings of the Pearl River Delta which has Guangzhou as its centre.

Guangzhou Western Second Ring Expressway is located in Foshan and Guangzhou City. It is a section of the ring road surrounding Guangzhou City in the Pearl River Delta region, and is also the only route travelling to and from Huadu International Airport and the west of Guangdong. It is planned to commence construction in August 2004 and is expected to be completed by 2007.

Nanjing Third Bridge in Jiangsu Province is a key construction project for the "Tenth Five-Year Plan" period of the State and will be the most convenient passage along the Shanghai-to-Chengdu national highway trunk crossing over Yangtze River at Nanjing. It will be connected with Shanghai-Nanjing Expressway and Ninghe Expressway, thereby completing the whole Jiangsu portion of the expressway passage from Shanghai to Chengdu. It will contribute to the formation of the east-to-west highway trunk and will enhance the overall traffic network. The project started construction in May 2003 and is expected to be completed by 2006. As the economy of the Yangtze River Delta is developing rapidly, it is an excellent project with good profitability.

Project Construction management

Since the Company has accumulated more than ten years' experience and good result in construction management of Meiguan Expressway, Jihe Expressway and Yanba Expressway, and has successfully achieved effective controls over the pricing of engineering works, the warranty of high quality and schedule of construction, project construction management has become a core advantage of the Company. Such advantage has provided the Company the opportunity of developing the project management business for highway engineering projects invested by the government, thereby building a new income base for the Company. In February and April 2004 respectively, the Company was successfully appointed as the manager of the construction project of Nanping Freeway and Hengping Highway, mainly responsible for the engineering tendering, management on construction as well as during the defect warranty period of the project, cost control and monitoring over construction quality and construction safety, etc.

Nanping Freeway is a major construction project invested by the Shenzhen Municipal Government. It comprises a main trunk with a total length of 13.9 kilometers, with a subsidiary route of 4.17 kilometers in length. The construction period of the project is 12 months for the main trunk and 18 months for the subsidiary route, beginning from the date the construction commences for the last section of the project. The estimated construction cost of the project was RMB2,268 million. The revenue from the construction management that the Company is entitled to shall depend on the construction costs saved. If the construction expenses actually saved or over-spent are within 2.5% above or below the budget, the Company will be entitled to or assume all amount related. If the saving or over-spending exceeds 2.5% of the project budget, the excess amount shall be equally shared or assumed by the Company and the Shenzhen Communications Bureau. During the first half of this year, works commenced in full scale on eight of the contracted sections. It is expected that the construction works of the subsidiary route of Nanping Freeway and the starting point of the trunk up to the Meiling Checkpoint will be completed before 30 April 2005. It is thus assured that the whole project will be completed within the contract period. Subject to the macro control measures introduced by the State, the prices of construction materials fell in April. Therefore, the risk of up-surge in prices for construction materials was eliminated. During the Period, tenders in respect of 9 contracted sections with total contract value of RMB860,000,000 have been completed, with prices awarded on the contracts all falling within budget.

The Company was appointed as the project manager for the construction of the western section of Hengping Highway with a total length of 17.182 kilometers by the People's Government of Longgang District, Shenzhen. Estimated construction was approximately RMB450 million. The management revenue that the Company is entitled to shall depend on the construction expenses saved. If there is saving or over-spending in the

actual construction expenses of the project, the Company will be entitled to or assume any such saving or over-spending. Hengping Highway starts from the Henggang exit of Shuiguan Expressway, runs westward until the outbound road of Longgang City, and connects with Huiyan Expressway in the southwest. It consists of a main trunk with a total length of 45.842 kilometers and a subsidiary route of approximately 4.546 kilometers. It will take 18 months to complete the construction of the main trunk. During the Period, tenders for the construction of road foundation and bridge culvert, tenders for monitoring and tenders for material supplies were completed. The Company aims at completing 30% of works with respect to road foundation and bridge culvert by the end of this year.

Prospects and Outlook

In 2004, the Company expects to see continued increase in traffic demand on the expressways operated by the Group, fueled by the full implementation of CEPA and Shenzhen's rapid economic growth — especially in terms of the continued growth in private vehicle ownership and in external trade. The fact that Guangdong Province aims to build expressways totalling 4,000 kilometres by 2007 and the establishment of the "9+2" PPRD Economic Circle will provide ample room for development as well as an excellent business environment for the Company's expressway operation. Meanwhile, the Chinese Government has intensified macro-control measures during the first half of 2004 and this has indirectly created more acquisition opportunities for the Company. The Company will adhere to its development strategy with toll road operation as its core business. Its investment strategy will continue to rely on Shenzhen as a base, while expanding towards the Pearl River Delta as well as other economically fast-growing regions in the PRC. Ultimately, the Company aims to enhance the profitability of its core business, its investment return and its net asset return, bringing ever-improving returns to shareholders.

CONNECTED TRANSACTIONS

On 5 March and 7 April 2004, the Company as purchaser entered into an acquisition agreement respectively with Guangdong Expressway Company Limited and Guangdong Province Highway Construction Company Limited, the associates of Guangdong Roads and Bridges Construction Development Company Limited ("Guangdong Roads"), to acquire 25% equity interests each in Yangmao Expressway Company Limited and Jiangzhong Expressway Company Limited. The consideration was respectively RMB271.68million and RMB169.5million. As Guangdong Roads is the promoter of the Company, these constituted connected transactions of the Company. The Company has issued a circular and the acquisition was approved in an extraordinary general meeting held on 14 June 2004 with Guangdong Roads having refrained from voting.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2004, the Company had a total of 1,073 staff, of whom 256 were administrative and professional staff and 817 were toll collection personnel.

In April 2004, the Company passed the "Staff Remuneration and Benefits Administration Guide". Remunerations for staff are to be determined on the basis of positions and performance, and will follow a market-competitive principle. Results are determined under comprehensive performance assessments, comprising four components: monthly salary, annual performance bonus, statutory benefits and company benefits.

The Company places a lot of emphasis on staff training. During the Period, many specific training courses were carried out according to the annual training programme aiming to improve the human resources structure of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE AND THE MODEL CODE

The Directors of the Company consider that during the Period, the Company has been in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of Hong Kong Stock Exchange.

The Company has adopted the Model Code as the code of conduct regarding directors' securities transactions. During the Period, all directors and supervisors of the Company have complied with the Model Code and the required standard regarding directors' securities transactions set out in Appendix 10 of the Listing Rules.

The Company has appointed an adequate number of independent non-executive directors. There were four independent non-executive directors, representing one-third of the total number of directors since 2003.

AUDIT COMMITTEE

In line with good Corporate Governance practice and pursuant to the Listing Rules of the respective Stock Exchanges in Shanghai and Hong Kong, an Audit Committee has been established since August 1999, primarily responsible for the monitoring and reviewing of the Group's financial reporting quality and procedures, reliability of the internal control systems and effectiveness of the external audit process.

The Audit Committee members, with the majority from Independent Non-executive Directors, are experienced professionals in the accounting, securities or banking and finance industry.

At the date of this report, the Audit Committee has held four formal meetings principally to deal with, inter alia, the following businesses:

- adoption of 2004 objectives;
- appointment of external auditors;
- review of 2003 annual report, 2004 first quarter and interim reports;
- performance of the Internal Audit Department.

The Audit Committee has, on several occasions, formally met the external auditors, without management, to discuss matters relating to its remit and any issues arising from the audit, including their independence.

BOARD OF DIRECTORS

As at the date of this announcement, the directors of the Company are: Mr. Chen Chao (Chairman of the Board); Mr. Wu Ya De (Director and General Manager); Mr. Zhang Rong Xing (Director and Company Secretary); Mr. Chiu Chi Cheong, Clifton (Director); Mr. Zhong Shan Qun (Director); Ms. Tao Hong (Director); Mr. Lin Xiang Ke (Director); Ms. Zhang Yang (Director); Mr. Ho Pak Cho, Denis Morgie (Independent Director); Mr. Li Zhi Zheng (Independent Director); Mr. Zhang Zhi Xue (Independent Director) and Mr. Poon Kai Leung, James (Independent Director).

By Order of the Board
Chen Chao
Chairman

Shenzhen, the PRC, 6 August 2004

A detailed annual results announcement containing all the information required by paragraph 46(1) to 46(3) of Appendix 16 to the Listing Rules will be subsequently published on website of The Stock Exchange of Hong Kong Limited at <http://www.hkex.com.hk> in due courses.