

## 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)

#### 2008 Interim Results Announcement

The Board is pleased to announce the unaudited results of the Group for the six months ended 30 June 2008, prepared in accordance with HKFRS, together with comparative figures for the corresponding period in 2007, as follows:

##### Condensed consolidated income statement

	<i>Note</i>	Six months ended 30 June	
		2008 <i>RMB'000</i> <i>(Unaudited)</i>	2007 <i>RMB'000</i> <i>(Unaudited)</i> <i>(Restated)</i>
Revenue	3	1,757,758	1,653,313
Business tax and surcharges	4	(16,753)	(17,917)
Cost of services	4	(1,449,594)	(1,293,736)
<b>Gross profit</b>		<b>291,411</b>	341,660
Other gains - net		594	1,818
Administrative expenses	4	(17,391)	(19,758)
<b>Operating profit</b>		<b>274,614</b>	323,720
Finance income	5	1,396	6,955
Finance costs	5	(117,293)	(75,880)
Share of post-tax profit of jointly controlled entities		149,844	91,321
Share of post-tax loss of associates		(639)	(1,318)
<b>Profit before income tax</b>		<b>307,922</b>	344,798
Income tax expenses	6	(27,071)	(54,823)
<b>Profit for the period</b>		<b>280,851</b>	289,975

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2008</b>	2007
		<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
			<i>(Restated)</i>
<b>Attributable to:</b>			
- Equity holders of the Company		284,291	290,171
- Minority interest		(3,440)	(196)
		<u>280,851</u>	<u>289,975</u>
<b>Earnings per share for profit attributable to equity holders of the Company</b>			
(expressed in RMB per share)			
- Basic	7	<u>0.130</u>	<u>0.133</u>
- Diluted	7	<u>0.130</u>	<u>0.133</u>
<b>Dividends</b>	8	<u>-</u>	<u>-</u>
<b>Condensed consolidated balance sheet</b>			
	<i>Note</i>	<b>As at</b>	<b>As at</b>
		<b>30 June</b>	<b>31 December</b>
		<b>2008</b>	<b>2007</b>
		<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Unaudited)</i>	<i>(Restated)</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		627,281	344,800
Construction in progress		631,531	702,485
Concession intangible assets		11,589,195	10,388,606
Prepaid lease payments		13,142	-
Investments in associates		1,274,741	1,141,828
Investments in jointly controlled entities		1,250,260	1,423,810
		<u>15,386,150</u>	<u>14,001,529</u>
<b>Current assets</b>			
Inventories		3,590	2,956
Trade and other receivables	9	253,929	223,886
Restricted cash		134,281	16,032
Cash and cash equivalents		323,076	466,990
		<u>714,876</u>	<u>709,864</u>
<b>Total assets</b>		<u>16,101,026</u>	<u>14,711,393</u>

	<i>Note</i>	As at <b>30 June 2008</b> <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2007 <i>RMB'000</i> <i>(Restated)</i>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		2,180,700	2,180,700
Other reserves		3,586,887	3,586,887
Retained earnings			
– Proposed final dividend		-	348,912
– Others		1,060,867	776,576
		<u>6,828,454</u>	<u>6,893,075</u>
<b>Minority interest</b>		<u>710,010</u>	<u>713,450</u>
<b>Total equity</b>		<u>7,538,464</u>	<u>7,606,525</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		6,414,012	5,251,963
Deferred income tax liabilities		430,882	441,741
Provision for maintenance/resurfacing obligations		270,927	237,720
		<u>7,115,821</u>	<u>5,931,424</u>
<b>Current liabilities</b>			
Other payables and accrued expenses		751,304	754,895
Current income tax liabilities		22,238	27,565
Borrowings		673,199	390,984
		<u>1,446,741</u>	<u>1,173,444</u>
<b>Total liabilities</b>		<u>8,562,562</u>	<u>7,104,868</u>
<b>Total equity and liabilities</b>		<u>16,101,026</u>	<u>14,711,393</u>
<b>Net current liabilities</b>		<u>(731,865)</u>	<u>(463,580)</u>
<b>Total assets less current liabilities</b>		<u>14,654,285</u>	<u>13,537,949</u>

Notes:

## **1 Basis of preparation**

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard 34, "Interim Financial Reporting". The PRC statutory financial statements of the Group have been prepared in accordance with the Accounting Standards for Business Enterprises (2006) of the People's Republic of China ("CAS"). Appropriate restatements have been made to the PRC statutory financial statements to conform with HKFRS.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with HKFRS.

The Group reported net current liabilities of approximately RMB732 million as at 30 June 2008. The directors of the Company made an assessment and concluded that there is no going concern issue of the Group based on the facts that the Group has been generating positive and increasing operating cash flows and it has not experienced any difficulties in renewing its banking facilities and there is no evidence indicating that the banks will not renew the facilities. In addition, the Group had unutilised banking facilities of approximately RMB7.5 billion at 30 June 2008 in order to meet its obligations and commitments. Consequently, the interim financial information has been prepared by the directors of the Company on a going concern basis.

## **2 Accounting policies**

Except for the changes in accounting policies arising from the adoption of IFRIC 12, "Service Concession Arrangements", the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in the 2007 annual financial statements.

IFRIC 12 is mandatory for the financial year beginning 1 January 2008. Adoption of the interpretation resulted in changes in accounting policies on accounting for the service concession arrangements of the Group.

In previous years, the costs incurred for constructing the related infrastructures for toll roads under the service concession arrangements ("Service Concessions") of the Group with relevant local governments were accounted for as property, plant and equipment of the Group and these expenditures were depreciated on an units-of-usage basis, making reference to the proportion of actual traffic volume achieved for a particular period over the total projected traffic volume throughout the periods within which the Group is granted the rights to operate these toll roads (the "Traffic Flow Amortisation Method"). IFRIC 12 requires the Group to account for these Service Concessions under this interpretation from 1 January 2008 onwards. The application of the interpretation results in changes in accounting policies of the Group, which have been applied retrospectively and the comparative figures have been restated accordingly.

The accounting policies changed arising from the adoption of IFRIC 12 include the following:

### Concession arrangements

The Group has entered into contractual service arrangements with local government authorities for its participation in the development, financing, operation and maintenance of various toll road infrastructures. Under the arrangements, the Group carries out the construction or upgrade work of toll roads for the granting authorities and receives in exchange of a right to operate the toll roads concerned and the entitlement to the toll fees collected from users of the toll road services. In accordance with IFRIC 12, the assets under the Service Concessions are classified as intangible assets or financial assets. The assets are classified as intangible assets if the Group receives a right to charge users of the respective toll roads or as financial assets if it is paid by the grantor.

### Construction contracts

The Group recognises income and expenses associated with construction services and upgrade services provided under the Service Concessions in accordance with HKAS 11, "Construction Contracts".

Revenue generated by construction services rendered by the Group is measured at the fair value of the consideration received or receivable, where total income and expenses associated with the construction contract and the stage of

completion can be determined reliably. The consideration may be rights to attain a financial asset or an intangible asset.

The Group uses the percentage of completion method to determine the appropriate amount of income and expenses to be recognised in a given period. The stage of completion is measured by reference to the construction costs of the related infrastructures incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

#### Intangible asset model

The Group applies the intangible asset model to account for the Service Concessions where the Group is paid by the users of the toll roads and the concession grantors (the respective local governments) have not provided any contractual guarantees in respect of the amounts of construction costs incurred to be recoverable. The intangible asset corresponds to the right granted by the respective concession grantors to the Group to charge users of the toll road services.

Intangible assets resulting from the application of IFRIC 12 are recorded in the balance sheet as 'Concession intangible assets'. Once the underlying infrastructure of the Service Concessions is completed, the intangible assets are amortised, on the Traffic Flow Amortisation Method, as allowed under HK-Int 1, "The Appropriate Policies for Infrastructure Facilities", over the operating periods granted.

For certain Service Concessions contracts, the Group receives from the concession grantors certain monetary grants (the "Grants") in addition to the entitlements and rights to receive the toll fees from users of the toll road services. The consideration receivable is divided into two components, financial assets recognised based on the amount of Grants payable by the concession grantors, and the residual balance is recognised as intangible assets. The Grants were previously recognised as deferred income or advances from government, where deferred income was credited to the income statement of the Group based on the actual traffic volume of a period and the basis as determined based on the Grants and the total projected traffic volume throughout the whole approved operating period of the relevant toll roads, over the operating periods of the respective toll roads before the adoption of IFRIC 12.

Financial assets resulting from the application of IFRIC 12 are recorded in the balance sheet as financial assets.

#### Provisions

As part of its obligations under the respective Service Concessions, the Group assumes responsibility for maintenance and resurfacing of the toll roads it manages. The resulting maintenance and resurfacing costs, except for upgrade services, are recognised as provisions according to the requirements of HKAS 37, "Provisions, Contingent Liabilities and Contingent Assets", when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provision for maintenance/resurfacing obligations are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

#### Land use rights

Land use rights acquired in conjunction with the Service Concessions which the Group has no discretion or latitude to deploy for other services other than the use in the Service Concessions are treated as intangible assets acquired under the Service Concessions. They were previously separately presented as long-term assets of the Group before the adoption of IFRIC 12.

These changes in accounting policies have been applied retrospectively and resulted in the following financial impact:

	30 June 2008 RMB'000	31 December 2007 RMB'000
Increase in concession intangible assets	11,589,195	10,388,606
Decrease in property, plant and equipment	8,980,890	7,065,518
Decrease in construction in progress	2,783,857	3,505,947
Decrease in land use rights	209,854	215,526
Decrease in investments in jointly controlled entities	99,565	89,820
Increase in deferred income tax assets	67,731	59,430
Increase in deferred income tax liabilities	29,234	26,936
Increase in provision for maintenance/resurfacing obligations	270,927	237,720
Decrease in government grants	327,882	337,263
Decrease in retained earnings	391,287	357,138
Increase in minority interest	1,768	970

	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2007 RMB'000	Year ended 31 December 2007 RMB'000
Increase in revenue	1,263,194	1,134,864	2,742,056
Increase in cost of services	1,271,536	1,140,906	2,750,344
Increase in finance costs	11,886	9,043	18,087
Decrease in other income	9,382	9,781	18,199
Decrease in share of profit of jointly controlled entities	9,745	6,850	14,947
Decrease in income tax expenses	6,004	4,651	8,538
Increase in minority interest	798	292	970
Decrease in basic and diluted earnings per share (in RMB per share)	0.016	0.013	0.024

The opening retained earnings at 1 January 2007 has been decreased by RMB305,183,000 as a result of these changes in accounting policies.

The above changes reflect the impact of application of IFRIC 12 to the Group, including its share of net assets and operating results in associates and jointly controlled entities engaged in Service Concessions accounted for under the equity method of accounting, to the extent that they are significant to the Group.

### 3 Segment information

Due to the adoption of IFRIC 12 during the period, as at 30 June 2008, the Group reassessed its operations to be organised in three main business segments:

- Toll roads operations;
- Construction under Service Concessions; and
- Provision of construction management services

Revenue consists of income from operations of toll roads, construction under Service Concessions and service income derived from the construction management services, which are RMB460,424,000, RMB1,263,194,000 and RMB6,602,000 for the six months ended 30 June 2008 and RMB467,343,000, RMB1,134,864,000 and RMB33,727,000 for the six months ended 30 June 2007 (restated), respectively.

Other operations mainly comprise provision of advertising services and other services. None of these operations constitutes a separately reportable segment.

The segment results for the six months ended 30 June 2008 are as follows:

Business segment	Toll roads operations	Construction under Service Concessions	Construction management services	Others Unallocated		Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Segment revenue</b>	460,424	1,263,194	6,602	27,538	-	1,757,758
<b>Segment results</b>	264,558	9,632	-	17,221	-	291,411
Other gains - net	-	-	-	-	594	594
Administrative expenses	-	-	-	-	(17,391)	(17,391)
<b>Operating profit</b>						274,614
Finance income	-	-	-	-	1,396	1,396
Finance costs	(124,864)	-	-	-	7,571	(117,293)
Share of post-tax profit of jointly controlled entities	149,844	-	-	-	-	149,844
Share of post-tax loss of associates	(646)	-	-	7	-	(639)
<b>Profit before income tax</b>						307,922
Income tax expenses						(27,071)
<b>Profit for the period</b>						<u>280,851</u>

The segment results for the six months ended 30 June 2007 are as follows:

Business segment	Toll roads operations	Construction under Service Concessions	Construction management services	Others Unallocated		Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Segment revenue</b>	467,343	1,134,864	33,727	17,379	-	1,653,313
<b>Segment results</b>	291,737	10,180	30,375	9,368	-	341,660
Other gains - net	-	-	-	-	1,818	1,818
Administrative expenses	-	-	-	-	(19,758)	(19,758)
<b>Operating profit</b>						323,720
Finance income	-	-	-	-	6,955	6,955
Finance costs	(80,863)	-	-	-	4,983	(75,880)
Share of post-tax profit of jointly controlled entities	91,321	-	-	-	-	91,321
Share of post-tax loss of associates	(245)	-	-	(1,073)	-	(1,318)
<b>Profit before income tax</b>						344,798
Income tax expenses						(54,823)
<b>Profit for the period</b>						<u>289,975</u>

Other segment items included in the income statement are as follows:

	<b>Six months ended 30 June 2008</b>					
	<b>Toll roads operations</b>	<b>Construction under Service Concessions</b>	<b>Construction management services</b>	<b>Others</b>	<b>Unallocated</b>	<b>Group</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation	26,311	-	-	621	2,291	29,223
Amortisation	62,605	-	-	1,094	-	63,699

	<b>Six months ended 30 June 2007</b>					
	<b>Toll roads operations</b>	<b>Construction under Service Concessions</b>	<b>Construction management services</b>	<b>Others</b>	<b>Unallocated</b>	<b>Group</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation	15,141	-	-	633	1,839	17,613
Amortisation	74,031	-	-	-	-	74,031

The segment assets and liabilities at 30 June 2008 and capital expenditure for the six months then ended are as follows:

	<b>Toll roads operations</b>	<b>Construction under Service Concessions</b>	<b>Construction management services</b>	<b>Others</b>	<b>Unallocated</b>	<b>Group</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Assets	1,444,531	11,589,195	178,837	29,258	2,859,205
Liabilities	372,222	497,771	47,500	12,459	7,632,610	8,562,562
Capital expenditure	287,548	1,263,194	-	2,310	9,870	1,562,922

The segment assets and liabilities at 31 December 2007 and capital expenditure for the six months ended 30 June 2007 are as follows:

	<b>Toll roads operations</b>	<b>Construction under Service Concessions</b>	<b>Construction management services</b>	<b>Others</b>	<b>Unallocated</b>	<b>Group</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Assets	1,286,969	10,388,606	150,498	21,679	2,863,641
Liabilities	304,895	518,950	19,161	11,441	6,250,421	7,104,868
Capital expenditure	50,087	5,363,023	-	1,991	113,391	5,528,492

No geographical segment information is presented as substantially all the Group's business activities were carried out and substantially all the Group's assets are located in the PRC.



#### 4 Expenses by nature

	Note	Six months ended 30 June	
		2008 RMB'000	2007 RMB'000
Construction costs under Service Concessions	(a)	1,253,562	1,124,684
Business tax and surcharges	(b)	16,753	17,917
Depreciation and amortisation		92,922	91,644
Employee benefit expenses		36,655	33,371
Road maintenance expenses		21,172	13,675
Provision for maintenance/resurfacing obligations		21,321	19,383
Other expenses		41,353	30,737
Total cost of services and administrative expenses		<u>1,483,738</u>	<u>1,331,411</u>

- (a) This represented the construction costs recognised for the period associated with the construction and upgrade services provided under the Service Concessions using the percentage of completion method.
- (b) The amount represents PRC business tax and surcharges levied on the Group's toll income at RMB14,365,000 (2007 interim: RMB15,717,000); service income derived from the provision of construction management services at RMB206,000 (2007 interim: RMB1,123,000); and income arising from the provision of other services at RMB2,182,000 (2007 interim: RMB1,077,000).

Toll income of the Group is subject to the following taxes and surcharges:

- PRC business tax at 3% or 5% of toll income;
- City development tax at 1% of the PRC business tax; and
- Education supplementary fee at 3% of the PRC business tax.

#### 5 Finance income and finance costs

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
<b>Finance income</b>		
Interest income from bank deposits	<u>1,396</u>	<u>6,955</u>
<b>Finance costs</b>		
Interest on bank and other borrowings and bonds	193,860	93,842
Less: interest expenses capitalised in construction in progress and under Service Concessions	<u>(80,290)</u>	<u>(22,022)</u>
	113,570	71,820
Other interest expenses (a)	11,886	9,043
Other borrowing costs	1,605	167
Net foreign exchange gains	<u>(9,768)</u>	<u>(5,150)</u>
	<u>117,293</u>	<u>75,880</u>

- (a) Increase of provision for maintenance/resurfacing obligations due to passage of time.

## 6 Income tax expenses

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Current income tax		
- PRC enterprise income tax	37,930	41,205
Deferred income tax		
- Temporary differences recognised	(10,859)	(3,097)
- Adjustment to the enacted tax rate	-	16,715
	<u>27,071</u>	<u>54,823</u>

New Tax Law is effective from 1 January 2008. According to the New Tax Law and the relevant regulations, the income tax rate applicable to the Company and all of its subsidiaries established in the PRC will be gradually increased to 25% over a five-year period from 2008 to 2012. The rates are 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012.

The PRC enterprise income tax charged to the condensed consolidated interim income statement has been calculated based on assessable profits of the Company and its subsidiaries located in the PRC of the period at rates of tax applicable to the respective companies of 18% (2007: 15%).

No provision for Hong Kong profits tax has been made for the period since the Group has no income assessable under Hong Kong profits tax.

## 7 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.

	Six months ended 30 June	
	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	284,291	290,171
Number of ordinary shares in issue (thousands)	2,180,700	2,180,700
Basic earnings per share (RMB per share)	0.130	0.133

The Company had no diluted potential shares in both 2007 and 2008 interim periods and the diluted earnings per share presented is the same with basic earnings per share.

## 8 Dividends

No interim dividend has been paid or declared by the Company for the six months ended 30 June 2008 (2007: Nil).

A 2007 final dividend of RMB0.16 (2006: RMB0.13) per ordinary share, totaling RMB348,912,000 (2006: RMB283,491,000) was approved by the shareholders at the Annual General Meeting of the Company.

## 9 Trade receivables

As at 30 June 2008, trade receivables of the Group was RMB161,930,000 (2007: RMB152,560,000). As at 30 June 2008 and 31 December 2007, the aging analysis of trade receivables was as follows:

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Within 1 year	102,566	121,140
Over 1 year	59,364	31,420
	<u>161,930</u>	<u>152,560</u>

## 10 Contingent liabilities

The Company has entered into certain projects construction management contracts with government authorities. For Hengping Project, the Company had arranged a bank to issue irrevocable performance guarantees on its behalf to the Shenzhen Longgang Highway Bureau amounting to RMB30,000,000. The Company also paid a guarantee deposit of RMB9,425,000 to the authority for assuring the progress, quality and safety standards for the construction of the Hengping Project. For Nanping (Phase II) and the renovation project of the Shenyun-North Ring Interchange in Shenzhen, the Company had arranged with banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Communications Bureau amounting to RMB50,000,000 and RMB1,000,000 respectively.

During the period, the Company tendered for a management project in relation to the daily maintenance and tunnel operation of the Shenzhen Eastern Yanhai Expressway (from Liantang to Yantian, Shenzhen). Pursuant to the relevant arrangement, the Company had arranged a bank to issue tender guarantee to the Shenzhen Communications Bureau amounting to RMB600,000. The tender guarantee was expired on 5 August 2008.

During the period, the Company had arranged a bank to issue guarantee to 深圳市科源建設集團有限公司(Shenzhen Keyuan Construction Holding Company Limited) amounting to RMB1,075,000 for assuring the payment of decoration of the new office building of the Company.

## 11 Reconciliation of interim financial information

The Group has prepared a separate set of unaudited interim financial information for the six months ended 30 June 2008 in accordance with the CAS. The differences between the financial information prepared under the CAS and HKFRS are summarised as follows:

	Unaudited	
	Profit attributable to equity holders of the Company for the six months ended 30 June 2008 RMB'000	Capital and reserves attributable to equity holders of the Company as at 30 June 2008 RMB'000
As per PRC statutory financial statements (Note)	318,050	7,244,282
<b>Impact of HKFRS adjustments:</b>		
Adjustments arising from adoption of IFRIC 12		
- Revenue and profit recognition for construction services and amortisation of concession intangible assets	6,096	48,561
- Provision for maintenance/resurfacing obligations	(24,905)	(203,196)
- Recognition of government grants as financial assets under the Service Concessions and adjustment on their related amortisation	(5,205)	(199,000)
- Adjustment on investments in jointly controlled entities	(9,745)	(99,565)
- Reclassification of land use rights relating to Service Concessions to concession intangible assets and adjustment on amortisation	-	37,372
	<u>(33,759)</u>	<u>(415,828)</u>
<b>As restated after HKFRS adjustments</b>	<b><u>284,291</u></b>	<b><u>6,828,454</u></b>

Note: IFRIC 12 issued by the Hong Kong Institute of Certified Public Accountants is effective from 1 January 2008. The Group has adopted IFRIC 12 for the preparation of its financial statements prepared in accordance with HKFRS and changed certain accounting policies, which have been applied retrospectively. Due to the fact that there is no effective standard, interpretation or regulation currently under the CAS, which is equivalent to IFRIC 12, the Group has adopted the existing accounting policies for preparation of its financial statements prepared under CAS, for prudence consideration. The Group will apply the relevant standard or regulation upon their issuance by the PRC relevant authorities.

## INTERIM RESULTS AND DIVIDENDS

In accordance with HKFRS, during the Reporting Period, the Group recorded a revenue of RMB1,758 million, representing an increase of 6.32% as compared to the corresponding period of 2007. Profit attributable to equity holders of the Company during the Reporting Period amounted to RMB284 million, whereas earnings per share was RMB0.130, representing a decrease of 2.03% as compared to the corresponding period of 2007.

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2008 (2007: Nil), nor does it recommend any transfer of capital reserve to share capital.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. Business Review and Analysis

Toll highway operation and investment are the primary sources of the Group's earnings. After 10 years of continuous development, the Group currently operates and invests in 17 toll highway projects in Shenzhen region, other regions in Guangdong Province and other provinces in the PRC, of which 15 have been already in operation and 2 are under construction or reconstruction. A summary of the business operations during the Reporting Period is as follows:

#### (1) Toll Highway Operations

Toll highway	Percentage of interests held by the Group	Percentage of revenue consolidated	Average daily mixed traffic volume (number of vehicles in thousands)		Average daily toll revenue (RMB'000)	
			The Period	Change as compared to the same period of 2007	The Period	Change as compared to the same period of 2007
<i>Shenzhen Region:</i>						
Meiguan Expressway	100%	100%	90	-3.6%	772	-13.4%
Jihe West	100%	100%	66	8.4%	938	6.7%
Yanpai Expressway	100%	100%	31	38.6%	394	20.2%
Yanba (A&B) (1)	100%	100%	11	-7.1%	166	5.0%
Nanguang Expressway (2)	100%	100%	12	N/A	147	N/A
Jihe East	55%	-	90	9.6%	1,219	15.2%
Shuiguan Expressway	40%	-	105	11.9%	985	13.1%
Shuiguan Extension	40%	-	27	5.3%	173	1.4%
<i>Other Regions in Guangdong Province:</i>						
Yangmao Expressway	25%	-	20	12.4%	973	-3.7%
Guangwu Project	30%	-	10	9.3%	275	5.3%
Jiangzhong Project	25%	-	46	25.4%	667	20.5%
GZ W2 Expressway	25%	-	9.1	77.0%	281	93.3%
Qinglian Project	76.37%	100%	13	-37.6%	132	-59.3%
<i>Other Provinces in the PRC:</i>						
Wuhuang Expressway	55%	-	29	6.7%	1,013	0.2%
Changsha Ring Road	51%	-	5.7	1.6%	58	-0.3%
Nanjing Third Bridge	25%	-	19	12.5%	661	6.6%

Notes:

- (1) To facilitate the travel of Shenzhen residents to and from the east coast for leisure and vacation, the government entered into agreements with the Company pursuant to which the government would, from February 2007, pay the tolls collectively for all vehicles travelling between the Yantian to Dameisha Interchange section on Yanba Expressway by means of the standard and method mutually agreed upon (2007: RMB6 million/year; 2008-2012: RMB9 million/year; the arrangement beyond 2012 shall be negotiated and decided by both parties before the term of the agreements end). The tolls collectively paid are included monthly in Yanba (A&B)'s toll revenue, whereas the traffic volume in this section was no longer included in the scope of statistics.
- (2) Main route of Nanguang Expressway opened to traffic for operation on 26 January 2008.

During the Reporting Period, traffic volumes and toll revenues on most of the Group's toll highways maintained growth, in which approximately one-third of the projects recorded double-digit growth, including Shuiguan Expressway, Jihe East and the three toll highways opened to traffic in the past 2 years, namely Yanpai Expressway, Jiangzhong Project and GZ W2 Expressway. The overall growth slowed down as compared to the rapid growth in the past 2 years. The main factors generally affecting the operating performance on toll highways in the first half of 2008 include:

◆ *Slowdown in economic growth:* Economic development is the critical factor in determining growth in traffic demand. According to the information published by the Bureau of Statistics, in the first half of 2008, the PRC's GDP increased by 10.4% over the same period of 2007 while that in Shenzhen region reached 10.5%, representing decreases of 1.8 percentage points and 2.7 percentage points, respectively. Economic benchmarks that reflect traffic demand such as cargo turnover, passenger turnover and port throughput saw various levels of slowdowns in their overall growths. The national economy continued to post growth but at a slower pace, leading to an overall growth in operating results of toll highways in the first half but with a slower speed.

◆ *Devastating natural disasters:* In the first half of 2008, there were frequent natural disasters in the PRC including rare snowstorms in southern China, serious earthquake in Sichuan and rainstorms in southern China. These natural disasters not only impeded the overall economic development, but also caused direct losses in assets and revenues to highways in the affected areas. The snowstorms in early 2008 caused road closure and traffic jam during certain periods to Wuhuang Expressway, Changsha Ring Road and Nanjing Third Bridge. Continuous rainstorms in Shenzhen and Guangdong region in June suppressed a certain degree of traffic demand on the relevant highways. In general, the impact of these disasters on toll highway operation was temporary and the highway projects operated and invested by the Group that were directly affected by the disasters were relatively few. As a result, the disasters had merely slight effect on the operating performance during the Reporting Report.

◆ *Implementation of the "Green Passage Toll Free Policy":* The State had established "Green Passage" in major transportation routes in the PRC since 2005 with a view to ensuring smoothness for fresh agricultural product carrier vehicles and granted considerable toll concessions. The State and regional governments initiated provisionally the "Green Passage" emergency mechanism, upgrading the policy from toll concessions to toll free and extending the implementation period on a case-by-case basis to the end of 2008 ("Green Passage Toll Free Policy"), with an aim to cope with the natural disasters occurring in 2008 and ensure social stability. The Group's projects affected by this policy mainly included Jihe Expressway, Yangmao Expressway and Wuhuang Expressway. During the Reporting Period, toll fees waived from these projects amounted to approximately RMB40 million, which led to a decrease of the Group's operating results amounting to approximately RMB12 million. It is estimated that the impact in the second half would be similar to that in the first half.

Although the operating performance of various toll highways during the Reporting Period were

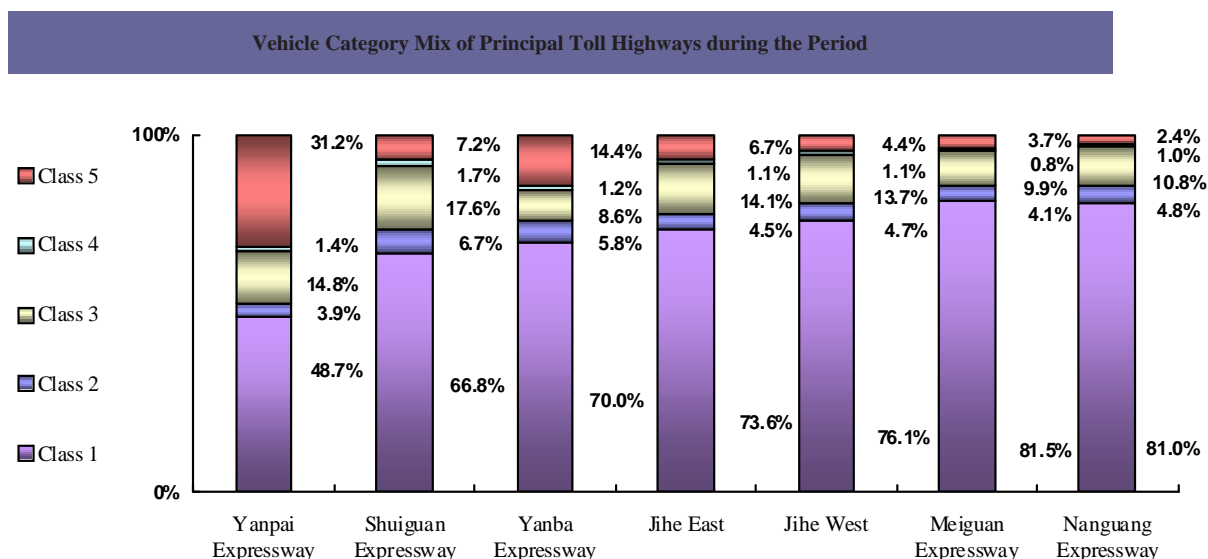
mainly affected by the external economic environment, the operating results of projects in different provinces vary due to their different functions, years of opening to traffic and peripheral road networks. Further analysis by area is as follows:

**Shenzhen region**

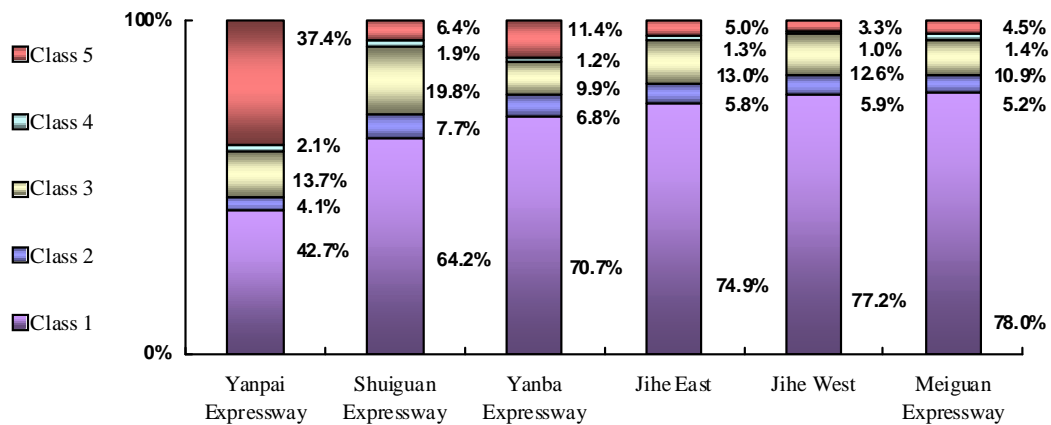
Changes in the peripheral road networks led to varied performances on the toll highways in Shenzhen region. The number of travelling vehicles on Yanpai Expressway, Jihe East and Shuiguan Expressway recorded increases and thus toll revenues posted increases in turn due to the opening to traffic of Yanpai Expressway and Shuiguan Interchange, the construction works on the Shenzhen Metro Line 3, and the reconstruction works on Shenhui Highway and Bulong Road. The proportion of Class 1 vehicles rose to 48.7% during the Reporting Period from 42.7% during the same period of 2007, as the number of small vehicles travelling on Yanpai Expressway increased. This led to a surge of 38.6% increase in traffic volume, which was higher than the growth in toll revenues. On the other hand, construction works on Shenyang Pathway 2 (Shenzhen downtown -Yantian) caused traffic inconvenience, diminishing the growth in traffic volume and toll revenue on Yanba (A&B) which is connected with it. Guanshen Expressway (Donghuan-Shenzhen) which is connected with Meiguan Expressway has been partly closed for large-scale road surface maintenance work since October 2007. During such period, Class 4 and Class 5 vehicles were prohibited from travelling on Guanshen Expressway. The maintenance work also affected the traffic efficiency of the peripheral road network. Such maintenance work along with the diversion caused by Fulong Road, a municipal road which opened to traffic at the end of 2007, led to a decrease of 13.4% in toll revenue on Meiguan Expressway during the Reporting Period as compared to the same period of 2007.

Nevertheless, with the completion of large-scale road surface maintenance work on Guanshen Expressway and its entire resumption of operation on 30 May 2008, large-size vehicles travelling on Meiguan Expressway had increased markedly since June 2008. Beside, the opening to traffic of Shenyang Pathway 2 in July 2008 cleared the bottleneck between Shenzhen downtown and eastern Shenzhen, thereby facilitating economic development in the eastern area and generating synergy on Yanba Expressway.

With respect to vehicle category mix, except for Yanpai Expressway which is a passage for traffic distribution for Yantian Port, vehicles on various highways in Shenzhen region were mainly Class 1 vehicles, accounting for approximately 70% to 80% of the total traffic volume. During the Reporting Period, the ratio of Class 1 vehicles on Meiguan Expressway, Yanpai Expressway and Shuiguan Expressway recorded an increase over the same period of 2007 under the impact of maintenance works on neighboring roads. The ratio of Class 1 vehicles on other highways saw a trend of slight decrease. The vehicle category mix on various major highways in Shenzhen region are as follows:



Vehicle Category Mix of Principal Toll Highways during the Same Period of 2007



The main route of Nanguang Expressway, which is the Group’s major investment in recent years, was successfully completed and opened to traffic on 26 January 2008. It provides a quick passage connecting Hong Kong and Pearl River Delta region and serves its function as traffic distribution for Shenzhen-Hong Kong Western Corridor and western Shenzhen port area, with a view to enhancing the road networks of Shenzhen region and of the Group. The connecting section between Nanguang Expressway and Tongle Road, a municipal road, is scheduled to be completed this year while the connecting section between Nanguang Expressway and Nanping (Phase II) will be completed concurrently with Nanping (Phase II).

While Nanguang Expressway was at a preliminary stage of operation with imperfect connection between the starting point and municipal roads, the Company emphasized targeted promotion and sales work on Nanguang Expressway including releasing advertisements and highway information on traffic radios, visiting neighboring large-scale passenger stations and improving relevant road signs and signposts. Currently, the operating performance of Nanguang Expressway improved significantly as compared to its initial operation, with an average toll revenue exceeding RMB200,000. It is expected that the operating performance of Nanguang Expressway will continue to improve as the entire expressway opening to traffic and highway users becoming more and more familiar with the new highway, especially along with network effect generated on the connection between Shenzhen-Hong Kong Western Corridor and western Shenzhen port area upon the completion of Nanping (Phase II)

**Other regions in Guangdong Province**

The four projects invested by the Company as a minority shareholder in other regions of Guangdong Province have all been in operation. Except for Yangmao Expressway recording a slight decrease in toll revenue during the Reporting Period due to the effect of the “Green Passage Toll Free Policy”, other highways achieved good performances. Among these projects, GZ W2 Expressway, commencing operation in late 2006, recorded a significant improvement in operating performance during the Reporting Period owing to the successive openings-to-traffic of the interchange connecting Guangsan Expressway (Guangzhou-Sanshui) and GZ W2 (Southern Section) in the second half of 2007, thereby enhancing the peripheral road network. Toll revenue posted a surge of 93% increase over the same period of 2007.

Affected by its reconstruction into an expressway, Qinglian Class 1 Highway recorded a significant decrease in traffic volume and toll revenue during the Reporting Period. The reconstruction works are expected to be completed within the year. Please refer to the following section of “Project Construction and Development” for details.



### Other provinces in the PRC

The performances of the three toll highway projects invested by the Group in other provinces in the PRC during the Reporting Period were basically at par with those of the same period of 2007, which was mainly attributable to the various direct impacts on the abovementioned projects exerted by the snowstorms in early 2008 and the “Green Passage Toll Free Policy” implemented thereafter. Such factors affected revenue of Wuhuang Expressway for the first half of this year by nearly RMB20 million.

## **(2) Project Construction and Development**

At present, the Group’s toll highway projects under construction or reconstruction include Yanba C and the reconstruction of Qinglian Class 1 Highway into an expressway.

Construction of Yanba C commenced officially in October 2006. As at the end of the Reporting Period, an aggregated investment amount (on accounting recognition basis) of approximately RMB470 million (end of 2007: RMB340 million) had been utilised on the project. Currently, the project is proceeding smoothly and is expected to be completed within this year as scheduled.

As at the end of the Reporting Period, an aggregated investment amount (on accounting recognition basis) of approximately RMB2.78 billion (end of 2007: RMB1.68 billion) had been utilised on the Qinglian Project. The snowstorms and continuous rainstorms in the first half of 2008 had affected the progress of the project to a certain degree. To cope with these obstacles, the Group actively adopted effective measures. As at the end of the Reporting Period, road surface works on reconstructing sections of the Qinglian Project were basically completed; works on most of the tunnels were completed; and the superstructure on Dubu Bridge, which is the critical-path portion of the project, has commenced construction. All reconstruction works of the highway into an expressway are likely to be completed within this year as planned. It is expected there should be certain upward adjustments to the capital expenditure plan for the Qinglian Project given the spiralling prices of construction materials such as steel product and cement in recent years, as well as the increased spending on purchasing toll-by-weight facilities and setting up check points tackling overloading. Please refer to the following section of “Capital/Financing” in the “Financial Review and Analysis” for details.

Apart from the aforementioned projects under construction, the Group’s construction and investment plan in the recent two years include expansion of Meiguan Expressway and Shuiguan Expressway. The Company is currently proceeding with preliminary studies and proposal works for the expansion of Meiguan Expressway pursuant to legal procedures. As at the date of this announcement, the approval of the feasibility research report on the project and the work for inviting tenders for the preliminary design have been completed while the environmental impact evaluation is underway. According to the feasibility research report of the project, Meiguan Expressway is scheduled to be expanded to two-way eight lanes with an estimated investment amount to approximately RMB970 million. Qinglong Company is responsible for the expansion of Shuiguan Expressway and the approval of the feasibility research report on the project has been completed at present. According to the aforementioned report, a “two-way six lanes plus four ancillary lanes” proposal is intended to be adopted for the expansion of Shuiguan Expressway with an estimated investment amount to approximately of RMB940 million. The above expansion proposals are subject to the approval of the Board.

In addition, the Company is currently undertaking preliminary works on Outer Ring Expressway which include compiling an environmental evaluation report for the project, revising the feasibility research report on the project with reference to the comments of supervising governmental authorities, and carrying out the relevant application procedures for approval. The Company will

make appropriate arrangements for the progress of the project with reference to overall work arrangements and actual conditions of human resources and financial resources.

As at the end of the Reporting Period, the Company has finished certain preliminary works on Coastal Expressway (Shenzhen Section), and actively communicated with the Shenzhen Municipal Government with reference to the results of the preliminary works for a decision on detailed investment and construction plan. As the design standard is high and the project needs to take into account social development and public interests, it is estimated that the total investment of the project would exceed RMB10 billion. This project cannot satisfy the requirement of return on normal commercial investment. According to the spirit of the 深圳市政府常務辦公會(Standing Meeting of Shenzhen Municipal Government) in July 2008, the Shenzhen Municipal Government agreed in principle to have Coastal Expressway (Shenzhen Section) as a state-owned enterprise invested project, and to entrust the Company to take up the construction, operation, maintenance and management of the project. The details of entrustment and the rights and obligations of both parties are subject to in-depth negotiation and investigation between the Company and the Shenzhen Municipal Government and should be determined upon the fulfillment of approval procedures by both parties as required. Coastal Expressway (Shenzhen Section) taking the mode of entrusted management will relieve the funding pressure upon the Company at this stage, and will be beneficial for the Company to export its extensive experience accumulated on construction and operation management of highway projects. This will enable the Company to contribute its extensive experience and skills to social and economic development while continuously exploring new source of profit for the Company.

## **2. Financial Review and Analysis**

In the first half of 2008, the Group's operating results were basically in line with the Company's expectations. Profit attributable to equity holders of the Company ("Profit") amounted to RMB284,291,000, representing a decrease of 2.03% over the same period of 2007.

Since 1 January 2008, the Group has adopted IFRIC 12 in preparing the financial statements under HKFRS. The Group changed its accounting policies and made retrospective adjustments pursuant to IFRIC 12, which led to a significant increase in revenue and operating costs of the Group for the Reporting Period and the previous years; a decrease of RMB357,138,000 in capital and reserves attributable to the Company's equity holders ("Shareholders' equity") as at 31 December 2007; a drop of RMB34,149,000 in Profit for the Reporting Period. Such changes and adjustments had no material impact on the total assets, financial position and profitability of the Group as a whole. Please refer to the following explanation in "Adoption of IFRIC 12 and Changes in Major Accounting Policies" for details. After excluding the impacts of IFRIC 12 and adjustments to deferred income tax of RMB65,848,000 added in the first half of 2007, Profit for the Reporting Period decreased by 16.94% as compared to the corresponding period of 2007.

During the Reporting Period, although toll revenues of the major toll highways operated and invested by the Group maintained certain growth in general, toll revenue and profit recorded certain decrease over the same period of the previous year as Meiguan Expressway was affected by the maintenance work of connecting highway and changes in road network. After Nanguang Expressway commenced operation, relevant borrowing interests had ceased capitalisation, which caused a significant increase in the Group's finance costs over the same period of the previous year. Impacted by the rise in finance costs and Green Passage Toll Free Policy, the operating performance of some of the jointly controlled entities and associates were weaker than expected. In addition, the Group's operating costs went up amid escalating inflation. All of the above-mentioned factors led to a decrease in the Group's operating results for the Reporting Period over the corresponding period of 2007.

## (1) Analysis of Operating Results

### 1) Revenue

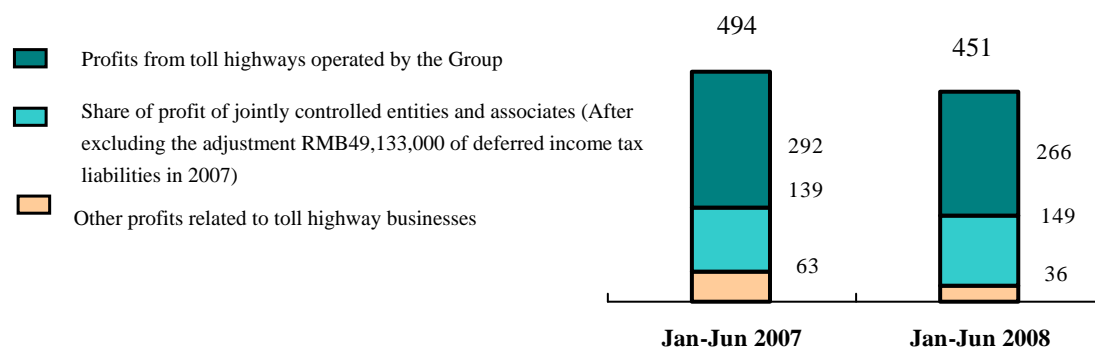
During the Reporting Period, the Group recorded a revenue of RMB1,757,758,000 representing an increase of 6.32% over the same period of 2007. Revenue from construction services under concession arrangements and toll revenue are the two main sources of revenue of the Group upon the adoption of IFRIC 12 during the Reporting Period. Out of this amount, revenue from construction services under concession arrangements recorded an increase of 11.31% over the corresponding period of the previous year while toll revenue recorded a slight decrease of 1.48%. Detailed analysis of revenue is as follows:

Revenue item	The Period (RMB'000)	Percentage	The corresponding period of 2007 (Restated) (RMB'000)	Percentage	Change
Revenue from construction services under concession arrangements	1,263,194	71.86%	1,134,864	68.64%	11.31%
Toll revenue	460,424	26.19%	467,343	28.27%	-1.48%
Income from entrusted management services	14,102	0.80%	33,727	2.04%	-58.19%
Other income (including income from advertising)	20,038	1.15%	17,379	1.05%	15.30%
<b>Total</b>	<b>1,757,758</b>	<b>100.00%</b>	<b>1,653,313</b>	<b>100.00%</b>	<b>6.32%</b>

### 2) Earnings before Interests, Tax and Administrative Expenses

During the Reporting Period, the Group's earnings before interests, tax and administrative expenses amounted to RMB450,769,000 (2007: RMB445,419,000), representing an increase of 1.2% over the same period of 2007. After deducting the impact of adjustments to deferred income tax liabilities of jointly controlled entities of RMB49,133,000 added for the same period of 2007, the Group's earnings before interests, tax and administrative expenses recorded a decrease of 8.85% over the same period of 2007. Profit contributions from principal operations are as follows:

#### Earnings before Interests, Tax and Administrative Expenses (RMB million):



### a) Profits from Toll Highways Operated by the Group

Toll highway	Percentage of interests held	Toll revenue		Operating costs			Gross margin		Profit before interests, tax and administrative expenses	
		The Period (RMB'000)	Change	The Period (RMB'000)	Including: provision for maintenance/resurfacing obligations ** (RMB'000)	Change	The Period (RMB'000)	Change in pct.pt.	The Period (RMB'000)	Change
Meiguan Expressway	100%	140,602	-12.87%	31,783	-	4.25%	77.40%	-3.71	105,387	-16.55%
Jihe West	100%	170,703	7.32%	40,013	10,804	10.97%	76.56%	-0.77	126,029	6.31%
Yanba Expressway	100%	30,295	5.55%	25,983	4,202	13.77%	14.24%	-6.19	*3,523	-29.99%
Yanpai Expressway	100%	71,754	20.86%	32,336	6,315	22.75%	54.93%	-0.69	*37,405	19.97%
Nanguang Expressway	100%	23,003	N/A	24,362	-	N/A	-	N/A	-2,079	N/A
Qinglian Project	76.37%	24,067	-59.1%	27,024	-	N/A	-	N/A	-3,796	N/A
<b>Total</b>		<b>460,424</b>	<b>-1.48%</b>	<b>181,501</b>	<b>21,321</b>	<b>12.72%</b>	<b>60.58%</b>	<b>-4.97</b>	<b>266,469</b>	<b>-8.72%</b>

\* After adoption of IFRIC 12, the government grants obtained for Yanba Expressway and Yanpai Expressway were treated as payment commitment under concession services arrangements, and was no longer included in subsidy income.

\*\* Please refer to the explanation in the following section of “Operating Costs” for details of the provision for maintenance/resurfacing obligations.

#### Toll revenue

During the Reporting Period, the Group recorded a toll revenue of RMB460,424,000, representing a decrease of 1.48% over the same period of 2007, of which Nanguang Expressway recorded a toll revenue of RMB23,003,000 in the first half after it commenced operation on 26 January 2008. As Qinglian Project is undergoing a period of reconstruction into an expressway, toll revenue decreased by 59.1% for construction works. Revenue on other toll highways as a whole recorded a mere increase of 1.19% over the same period of 2007, which was mainly due to a decrease of 12.87% in toll revenue on Meiguan Expressway caused by maintenance work of connecting highway and changes in the road network.

The increase or decrease of the Group’s toll revenue is principally determined by changes in traffic volume and average toll revenues per vehicle. The traffic volume of the Group’s principal toll highways for the Period is set out in the section “Business Review and Analysis” above. During the Reporting Period, the proportion of heavy lorries and full-trip vehicles on Meiguan Expressway decreased due to large-scale maintenance work on Guanshen Expressway and during such period, heavy lorries are prohibited from travelling on Guanshen Expressway, thereby leading to a drop in the average toll revenue per vehicle on this highway. The construction works on the Shenzhen Metro Line 3 and the Shenyang Pathway 2 led to diversions of a portion of vehicles from local highways to Yanpai Expressway, and thus the growth of small vehicles was larger than that in heavy lorries on this highway during the Reporting Period, while average toll revenue per vehicle was lower than that of the same period of 2007. The average toll revenue per vehicle of various principal toll highways is as follows:

Principal toll highway	Average toll revenue per vehicle *		
	The Period (RMB)	Change as compared to the corresponding period of 2007	Change as compared to 2007
Meiguan Expressway	8.55	-10.19%	-6.96%
Jihe West	14.10	-1.16%	-1.95%
Yanba (A&B) **	12.43	-6.47%	-1.51%
Yanpai Expressway	12.70	-13.25%	-9.74%
Nanguang Expressway***	10.97	N/A	N/A

\* Average toll revenue per vehicle = Average daily toll revenue / Average daily mixed traffic volume.

\*\* The average toll revenue per vehicle of Yanba Expressway does not include the tolls collectively paid by the government under an agreement for all vehicles travelling between Yantian and Dameisha Interchange. Please refer to relevant contents in the section "Business Review and Analysis" above for details.

\*\*\* Nanguang Expressway commenced toll operation on 26 January 2008.

### Operating costs

During the Reporting Period, operating costs for the Group's toll highways rose by 12.72% to RMB181,501,000 over the same period of 2007. An increase of RMB24,301,000 in operating costs was caused by the commencement of operation of Nanguang Expressway, while Qinglian Project, undergoing a period of reconstruction into an expressway, recorded a decrease of 40.34% in operating costs for the Reporting Period over the same period of 2007 as a result of decrease in traffic volume. Operating costs for other toll highways rose by 12.43% as compared to the same period of 2007. The rise in operating costs was mainly attributable to expansion in the scale of maintenance work on highways and increases in costs fuelled by inflation, thereby leading to a rising trend of operating costs for the Group during the Reporting Period and in the future. Besides, the Group made provision for maintenance/resurfacing obligations for Jihe West, Yanba (A&B) and Yanpai Expressway during the Reporting Period in accordance with the relevant requirements of IFRIC 12 and the large-scale maintenance work plan for the Group's principal toll highways. Detailed analysis of operating costs is as follows:

Operating costs item	The Period (RMB'000)	Percentage	The corresponding period of 2007 (RMB'000) (Restated)	Percentage	Change
Employee expenses	25,576	14.09%	20,553	12.76%	24.44%
Road maintenance expenses	42,493	23.41%	33,058	20.53%	28.54%
Including: provision for maintenance/resurfacing obligations	21,321	11.75%	19,383	12.04%	10.00%
Depreciation and amortisation	88,916	48.99%	89,172	55.38%	-0.29%
Other operating costs	24,516	13.51%	18,242	11.33%	34.39%
<b>Total</b>	<b>181,501</b>	<b>100%</b>	<b>161,025</b>	<b>100%</b>	<b>12.72%</b>

As the expansion work on Meiguan Expressway is scheduled to commence in 2009 while Nanguang Expressway is in preliminary phase of operation and Qinglian Project is undergoing a period of reconstruction into an expressway, no provision for maintenance/resurfacing obligations were made to these highways during the Reporting Period. Please refer to the explanation in the following section of "Adoption of IFRIC 12 and Changes in Major Accounting Policies" for details of accounting policies and accounting estimates for provision for maintenance/resurfacing obligations.

### Profit and gross margin

Affected by slightly decrease in toll revenue and increase in operating costs, profits from toll highways operated by the Group for the Reporting Period slipped by 8.72% to RMB266,469,000 over the same period of 2007, and gross margins of various toll highways all decreased. However, the overall profitability of toll highways operated by the Group is expected to resume and show improvement given that Qinglian Expressway will commence operation and its connecting road network will be enhanced in future.

### **b) Share of Profit/Loss of Jointly Controlled Entities and Associates**

During the Reporting Period, the Group's share of profit of jointly controlled entities and associates amounted to RMB149,205,000 (2007: RMB90,003,000), representing an increase of 65.78% as compared to the same period of 2007. After deducting the impact of adjustments to deferred income tax liabilities of jointly controlled entities of RMB49,133,000 added in the same period of 2007, the Group's share of profit of jointly controlled entities and associates increased by 7.24% as compared to the corresponding period of 2007. During the Reporting Period, certain associates recorded slight decrease in profits due to rising finance costs, and implementation of Green Passage Toll Free Policy had certain negative effect on the operating performance on highways such as Yangmao Expressway, Wuhuang Expressway and Jihe East. However, the investment gain of the Company saw an improvement as a whole given that the traffic volumes and revenues from the toll highways operated by the Company's invested enterprises maintained stable growth in general. Detailed analysis of profit/Loss of jointly controlled entities and associates is as follows:

Principal toll highway	Percentage of interests held	Toll income		Operating costs of toll highway		Profit/loss attributable to the Group	
		The Period (RMB'000)	Change	The Period (RMB'000)	Change	The Period (RMB'000)	Change
<b>Jointly controlled entities:</b>							
Jihe East	55%	221,918	15.88%	*59,052	13.02%	64,852	6,800
Shuiguan Expressway	40%	179,328	13.78%	36,850	12.45%	41,958	5,457
Wuhuang Expressway	55%	184,505	0.71%	**84,376	5.39%	41,970	-2,989
Changsha Ring Road	51%	10,467	0.27%	10,391	6.00%	1,064	121
<b>Associates:</b>							
Yangmao Expressway	25%	177,169	-3.17%	60,260	-3.48%	13,422	63
Jiangzhong Project	25%	121,429	21.17%	62,612	18.36%	-1,344	1,532
Nanjing Third Bridge	25%	120,370	7.21%	53,059	12.06%	-1,930	-985
Guangwu Project	30%	49,996	5.92%	22,540	9.14%	-712	-429
GZ W2 Expressway	25%	51,200	94.32%	29,843	49.71%	-10,733	271
Shuiguan Extension	40%	31,451	2.54%	13,572	10.83%	652	-852
<b>Total</b>		<b>1,147,833</b>	<b>10.11%</b>	<b>432,554</b>	<b>10.80%</b>	<b>***149,198</b>	<b>8,989</b>

\* Operating costs for Jihe East include a provision of RMB17,620,000 (2007: RMB16,018,000) made for maintenance/resurfacing obligations pursuant to the relevant provision of IFRIC 12. As the expansion work on Shuiguan Expressway is scheduled to commence in this year, expenses for large-scale maintenance work on Wuhuang Expressway have already been included in entrusted management fees, and other highways are still in preliminary phase of operation or such expenses are not significant, no provision of maintenance/resurfacing obligations were made for such highways.

\*\* The operating costs for Wuhuang Expressway recorded a decrease of RMB10,278,000 (2007: RMB12,760,000) due to changes in amortisation method of intangible assets under concession to align the accounting policy to be consistent with the Group. Please refer to the following section of “Adoption of IFRIC 12 and Changes in Major Accounting Policies” for details of changes in amortisation method.

\*\*\* Profit from Consulting Company of RMB7,000 (2007: an adjustment to income tax liabilities of RMB49,133,000 and a loss of RMB1,073,000 for Consulting Company were not included) is not included in profit/loss attributable to the Group for the Reporting Period.

### c) Profit from Other Highway-related Businesses

#### Profit from construction services under concession arrangements

During the Reporting Period, the Group recognised revenue and costs from construction services under concession arrangements for Yanpai Expressway, Nanguang Expressway, Qinglian Project and Yanba C within construction periods, based on their completion percentages in accordance with the relevant requirements of IFRIC 12. Based on the budgets of the projects and reasonable estimation of profitability of the construction services, the Group recognised profits of RMB9,632,000 from construction services of various projects representing a decrease of 5.38% over the corresponding period of 2007. Detailed analysis of revenue from construction services is as follows:

Self-construction expressway	The Period (RMB'000)			The corresponding period of 2007 (RMB'000)			Percentage of service completed	
	Revenue	Costs	Profit before tax	Revenue	Costs	Profit before tax	The Period	Cumulative
Yanpai Expressway	14,811	14,500	311	72,319	71,376	943	2.26%	95.66%
Nanguang Expressway	90,030	87,068	2,963	545,644	539,249	6,395	8.47%	75.17%
Yanba C	125,265	123,416	1,850	141,446	140,251	1,195	32.42%	69.76%
Qinglian Project	1,033,088	1,028,579	4,509	400,986	399,339	1,647	23.87%	52.87%
Jihe West	-	-	-	-25,531	-25,531	-	-	100.00%
<b>Total</b>	<b>1,263,194</b>	<b>1,253,562</b>	<b>9,632</b>	<b>1,134,864</b>	<b>1,124,684</b>	<b>10,180</b>		

#### Profit from entrusted construction management services

During the Reporting Period, no profit or loss from any entrusted construction management services was recognised by the Company. Profit from this item recorded a decrease of RMB30,375,000 over the corresponding period of 2007. During the Reporting Period, the government’s auditing work on the total costs for Nanping (Phase I) and the estimated budget for Wutong Mountain Project were not completed and thus the Company’s estimations for these projects remained unchanged and the Company did not recognise or predict any relevant gains during the Reporting Period. In addition, as the aggregated completions of Nanping (Phase II) and Hengping Project were less than 50%, results of the relevant services could not be predicted reliably. Since the Directors of the Company are in the view that future reimbursements of management expenses incurred are probable, the Company recognised revenue and costs for the Reporting Period based on actually incurred management costs of RMB2,562,000 and RMB4,040,000, respectively.

### Profit from entrusted operation management services

The Company had been entrusted to manage Baotong Company and the equity interests in Longda Company held by Baotong Company since 8 January 2008. Pursuant to the terms of the entrusted operation management agreement, the Company recognised a revenue of RMB7,500,000 from entrusted operation management services and a relevant profit of RMB7,110,000 after deducting business tax during the Reporting Period. Please refer to the announcement of the Company dated 8 January 2008.

### 3) Administrative Expenses and Finance Costs

The Group's administrative expenses for the Reporting Period decreased by 11.98% to RMB17,391,000 (2007: RMB19,758,000) as compared to the same period of 2007. The Group's finance costs for the Reporting Period increased by 54.58% to RMB117,293,000 as compared to the same period of 2007. This was mainly attributable to the cessation of capitalisation for relevant borrowing interests of RMB44,790,000 upon the commencement of operation of Nanguang Expressway. Besides, as adoption of IFRIC 12 and the rise in relevant interest expenses caused by increased provision made for maintenance/resurfacing obligations during the Reporting Period, such expenses increased by 31.44% over the same period of 2007. Detailed analysis of finance costs is as follows:

Item	The Period (RMB'000)	The corresponding period of 2007 (RMB'000) (Restated)	Change
Interest expenses	205,746	102,885	99.98%
<i>Including: interest expenses of provision for maintenance/resurfacing obligations</i>	<i>11,886</i>	<i>9,043</i>	<i>31.44%</i>
Excluded: interest capitalised	(80,290)	(22,022)	264.59%
Exchange gains and others	(8,163)	(4,983)	63.82%
<b>Finance costs</b>	<b>117,293</b>	<b>75,880</b>	<b>54.58%</b>

### 4) Income Tax and Impact of Implementation of New Tax Law

During the Reporting Period, the Group's income tax expenses amounted to RMB27,071,000 (2007: RMB54,823,000), representing a decrease of 50.62% as compared to the same period of 2007. After deducing the impact of adjustment to deferred income tax liabilities of RMB16,715,000 added for the same period of 2007, the Group's income tax expenses decreased by 28.96% as compared to the same period of 2007, which was mainly attributable to the decrease in taxable profit arising from a decrease in profits from toll highways operated by the Group and an increase in finance costs.

Furthermore, as stipulated by the New Tax Law, the enterprise income tax rate will be a unified 25% effective from 1 January 2008. For the enterprises established before the New Tax Law's implementation and having been enjoying the concessionary tax rate of 15% under the then tax law, there will be a gradual transition of 5 years, of which a transitional tax rate of 18% will be applied in 2008. Subject to the above requirements, the Company and the enterprises in which the Company invests in Shenzhen region, as well as certain foreign-invested enterprises in which it invests in other regions of the PRC, adopted an enterprise income tax rate of 18% for the Reporting Period; other enterprises which had originally adopted an enterprise income tax rate of 33% adopted a tax rate of 25% since this year. The Group's profit decreased by approximately RMB12,810,000 after a consolidated neutralisation of the above effects.



## 5) Amortisation Policies of Intangible Assets under Concession and the Differences under Different Amortisation Methods

The Group's intangible assets under concession recognised under IFRIC 12 are amortised based on units-of-usage method which is the same as the method of depreciation for the fixed assets on toll highways in previous years, i.e. based on units-of-usage method, where amortisation amount is calculated by the percentage of the actual traffic volumes in respective periods to the total projected traffic volume during the operating period. The Group conducted regular reviews on the total projected traffic volumes and made corresponding adjustments to ensure reliability and accuracy of the amortisation amount.

As the toll highways operated and invested by the Group had not reached their designated saturated traffic volumes and certain toll highways were at preliminary stages of operation, the amortisation amount calculated by units-of-usage method was lower than that calculated by straight-line method for the Reporting Period. The amortisation difference under different amortisation methods attributable to the Group based on its equity interests was RMB103,225,000. With the growth in traffic volume on the various toll highways in future, the above difference will gradually decrease. The adoption of different amortisation methods had no impact on the cash flows generated from various toll highway projects and thus had no impact on the valuations of various projects. Data for reference calculated for various toll highways for the Reporting Period are as follows:

Toll highway	Percentage of interests held	Amortisation amount of operating rights (RMB million)			Amortisation difference attributable to the Company based on equity interests percentage (RMB million)	
		Units-of-usage method The Period	Units-of-usage method Corresponding period of 2007	Straight-line method**	The Period	Corresponding period of 2007
<b>The Company and subsidiaries:*</b>						
Meiguan Expressway	100%	12	13	15	-3	-1
Jihe West	100%	13	13	14	-1	-1
Yanba (A&B)	100%	9	9	21	-12	-13
Yanpai Expressway	100%	14	12	24	-10	-12
Nanguang Expressway	100%	5	-	43	-37	-
<b>Jointly controlled entities and associates:</b>						
Jihe East	55%	18	17	16	1	1
Shuiguan Expressway	40%	20	18	20	0	-1
Wuhuang Expressway	55%	34	32	44	-6	-7
Changsha Ring Road	51%	6	5	9	-2	-2
Yangmao Expressway	25%	34	35	45	-3	-3
Jiangzhong Project	25%	41	34	64	-6	-8
Nanjing Third Bridge	25%	28	27	59	-8	-8
Guangwu Project	30%	10	10	29	-5	-6
GZ W2 Expressway	25%	11	7	55	-11	-12
Shuiguan Extension	40%	8	8	12	-2	-2
<b>Total</b>					-103	-74

\* Qinglian Project is undergoing a period of reconstruction into an expressway and the differences of this item was not calculated.

\*\* Assuming the carrying values of the intangible assets be amortised evenly over the allowed operating periods granted by the concession grantors.

## (2) Analysis of Financial Position

### 1) Assets, Equity and Liabilities

The Group's financial position remains solid, with its assets comprising mainly intangible assets under concession in high-grade toll highways, as well as jointly controlled entities and associates investments. As at 30 June 2008, the Group's total assets amounted to RMB16,101,026,000, representing an increase of 9.45% as compared to the end of 2007. The increase was primarily owing to increased investments in the reconstruction of Qinglian Class 1 Highway into an expressway and the construction of Nanguang Expressway and the Yanba C. During the Reporting Period, the main route of Nanguang Expressway was completed and opened to traffic while the progress of other projects under construction basically met the Company's expectations. It is expected that such projects will become new sources of profit for the Group upon completion and operation.

During the Reporting Period, the Group adopted IFRIC 12 and made retrospective adjustments, treating relevant operating rights of highway assets obtained under concession arrangements as "intangible assets under concession"; treating government grants obtained for Yanba Expressway and Yanpai Expressway as consideration for construction; and making provision for maintenance/resurfacing obligations on principal toll highways. Such acts reduced Shareholders' equity and caused certain changes in classification of assets while having no material effect on the scale of total assets. Please refer to the explanation in the following section of "Adoption of IFRIC 12 and Changes in Major Accounting Policies" for details.

Item	As at 30 June 2008 (RMB million)		As at 31 December 2007 (RMB million) (Restated)		Change
	The Group (consolidated)	Including: the impact of IFRIC 12	The Group (consolidated)	Including: the impact of IFRIC 12	
<b>Asset</b>					
Total assets	16,101	-485	14,711	-488	9.45%
Property, plant and equipment	627	-8,981	345	-7,065	81.74%
Construction in progress	632	-2,784	702	-3,506	-9.97%
Intangible assets under concession	11,589	11,589	10,389	10,389	11.57%
Land use rights and prepaid lease payments	13	-210	-	-216	-
Investments in jointly controlled entities and associates	2,525	-99	2,566	-90	-1.60%
<b>Equity and Liabilities</b>					
Shareholder's equity	6,828	-391	6,893	-357	-0.94%
Minority interest in equity	710	2	713	1	-0.42%
Borrowings*	7,087	-	5,643	-	25.59%
Deferred income tax liabilities	431	-39	442	-33	-2.49%
Provision for maintenance/resurfacing obligations	271	271	238	238	13.87%
Government grants	-	-328	-	-337	-
Other liabilities	774	-	782	-	-1.02%

\* The borrowings stated in the table include bank loans and bonds payable, but does not include bills payable.

As at 30 June 2008, the Group's total equity amounted to RMB7,538,464,000, representing a decrease of RMB68,061,000 over the end of 2007. This was mainly attributable to the profit for the Reporting Period and the deduction of dividend distributed for 2007. As at 30 June 2008, outstanding bills payable, bonds payable and bank loans of the Group amounted to RMB7,159,505,000, representing an increase of RMB1,422,235,000 over the beginning of the year, of which Qingling Project and Nanguang Expressway used borrowings of RMB3.150 billion and RMB1.699 billion respectively.

## 2) Capital Structure and Debt Repayment Capability

	As at 30 June 2008	As at 31 December 2007 (Restated)
Debt-to-asset ratio (total liabilities/total assets)	53.18%	48.30%
Net borrowings-to-equity ratio ((total amount of borrowings-cash and cash equivalents)/total equity)	90.69%	69.29%
	Jan~Jun 2008	Jan~Dec 2007 (Restated)
Interest covered multiple (profit before interests and tax/interest expenses)	2.09	3.16
EBITDA interest multiple (earnings before interests, tax, depreciation and amortisation /interest expenses)	2.53	3.82

With progress of new projects and gradual capital payments by the Company, various financial leverage ratios of the Group increased over the beginning of the year. As at 30 June 2008, net current liabilities of the Group amounted to RMB731,865,000. Based on the fact that the Group possesses a stable and robust operating cash flow and sufficient bank credit facilities, and that appropriate financing arrangements have been made to meet the needs of debt repayment and capital expenditure, the Board is of the views that there is no concern over the Group's ongoing operation and the leverage ratios at the end of the Reporting Period remained at a safe level.

## 3) Foreign-Currency Based Assets and Liabilities

All major operations of the Group are located in China, and the majority of the Group's operating payments and capital expenditures are settled in RMB. As at the end of the Reporting Period, the Group had primarily RMB13,026,000 and RMB246,255,000 worth of foreign currency-based liabilities denominated in US\$ and HK\$, respectively, while RMB4,090,000 worth of foreign currency-based assets were denominated in HK\$. All foreign currency-based items netted off in the form of net liabilities.

In June 2008, the Company applied a bank for a loan of HK\$133 million with a term of 1 year and arranged forward transaction of foreign exchange for the principal and interests upon maturity, with a view to locking the risks related to the exchange rate.

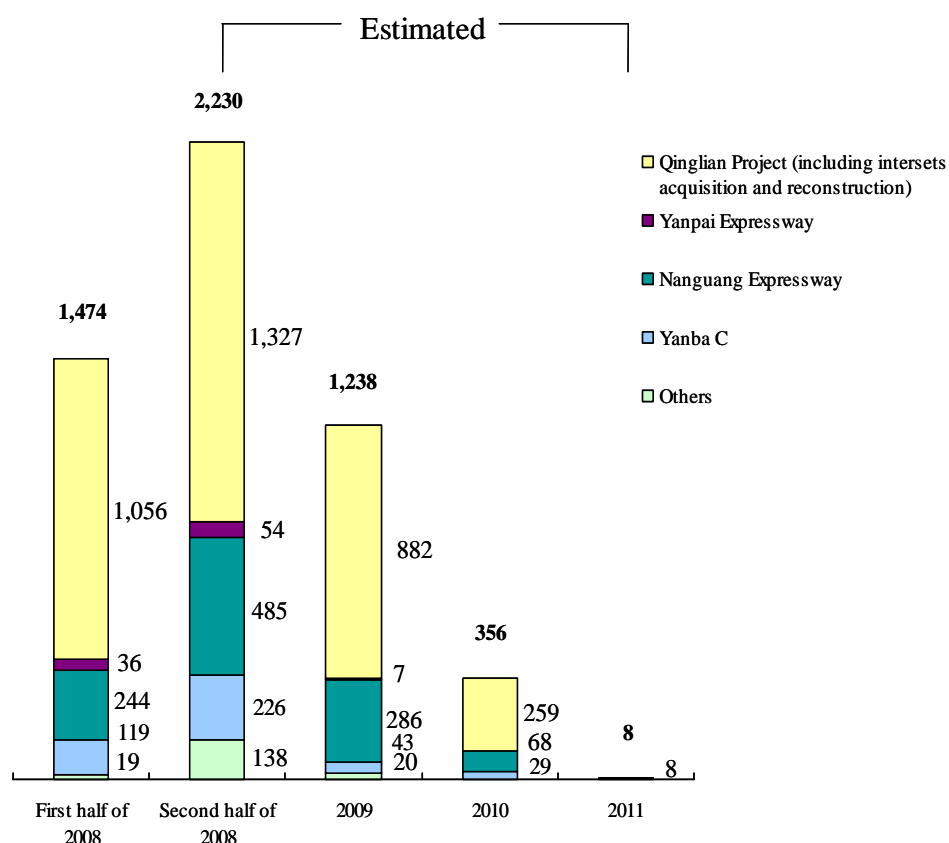
With RMB on an appreciating trend under the current market conditions, it is projected that the trend of exchange rate fluctuations will benefit the Group but there will be no substantial impact on the Group's results.

### (3) Capital / Financing

#### 1) Capital Expenditure

During the Reporting Period, the Group's capital expenditures comprised mainly construction investments in the reconstruction of Qinglian Class 1 Highway into an expressway, Nanguang Expressway and Yanba C, totaling approximately RMB1.474 billion. As at 30 June 2008, the Group's capital expenditure plan comprised mainly construction investments in the reconstruction of Qinglian Class 1 Highway into an expressway, Nanguang Expressway and Yanba C. It is expected the Group's total capital expenditures will amount to approximately RMB3.832 billion by the end of 2011. Of such amounts, affected by factors such as rising material prices, the total capital expenditures of Qinglian Project and Nanguang Expressway increased RMB372 million and RMB322 million respectively on the basis of the Company's original controlled amounts of RMB4.765 billion and RMB2.722 billion. The Company plans to satisfy such capital needs with its own capital reserve and through bank borrowings. According to the Directors' estimate, the Group's financial resources and financing capability are sufficient for satisfying the needs of various capital expenditures.

**Capital Expenditure Plan (RMB million)**



#### 2) Operating Cash Flow

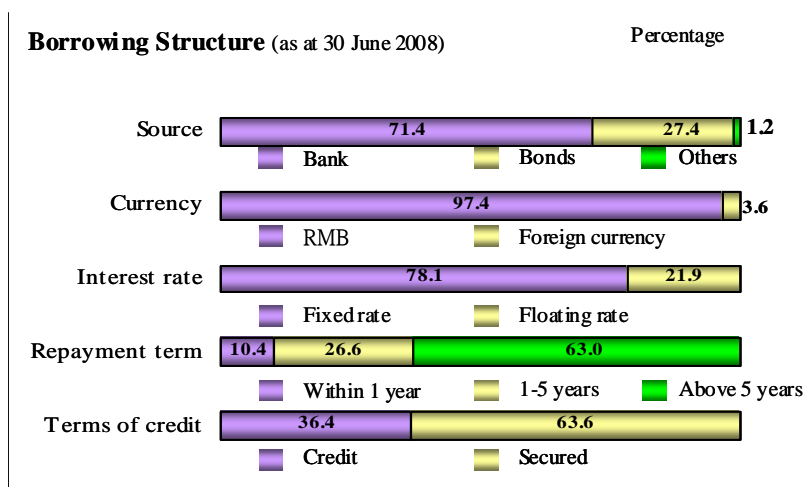
The toll revenues of the Group's principal toll highway operations are collected in cash, thereby giving a steady operating cash flow. During the Reporting Period, the Group's net cash inflow

from operating activities and cash return on investments totaled RMB489,513,000 (2007: RMB567,493,000), representing a decrease of 13.74%, which was mainly due to decreases in revenues and profits from the toll highways operated by the Group for the Reporting Period. In future, with the completion and opening to traffic of Qinglian Expressway and with an improved connecting road network, the Company's operating cash flow is expected to resume and have further increase, thereby safeguarding the Company's development.

### 3) Financial Strategies and Financing Arrangements

In the first half of 2008, the PRC government continued to implement macro-economic control measures including a persistently tightened monetary policy, resulting in a further increase in market interest rates. Although the Company's debt level was rising, the Company, backed by its steady and sufficient operating cash flow and good reputation, continued to attain the highest rating of AAA in Shenzhen credit rating for borrowing enterprises, and the highest rating of AAA in the follow-up rating for the corporate bonds of RMB800 million and Bonds with Warrants of RMB1.5 billion issued in 2007. During the Reporting Period, the Company maintains good access to financing channels and continued to enjoy the most favorable rates under the interest rate policy of the People's Banks of China.

With the relevant financing arrangements made in 2007 and previous years, the proportion of the Company's borrowings at fixed interest rates reached 78.1%; and borrowings with terms over 5 years reached 63%, leading to an effective control on the Company's financing risks and financial risks. Based on the Company's existing borrowing structure and its judgment that interest rates will less probably rise than expected in future, the Company appropriately increased the scale of short-term current borrowings and borrowings denominated in foreign currencies during the Reporting Period in order to reduce capital costs. The Company's consolidated borrowing costs for the Reporting Period amounted to 5.6%, slightly higher than that of 5.307% in 2007.



As at 30 June 2008, the Group has obtained RMB12.3 billion of banking facilities, of which RMB4.8 billion has been utilised and total unutilised banking facilities available amounted to RMB7.5 billion. Of these amounts, facilities with terms over 10 years accounted for 37% and fixed-rate facilities accounted for 13%.

#### **(4) Adoption of IFRIC 12 and Changes in Major Accounting Policies**

Since 1 January 2008, the Group has adopted IFRIC 12 in preparing financial statements under HKFRS and has made comprehensive retrospective adjustments for the previous years. According to IFRIC 12, the Group accounted for the investment, construction and operation businesses as “service concession arrangements”. Changes in major accounting policies and their effects include:

The Group accounted for the operating rights of relevant highway assets obtained under service concession arrangements, i.e. the rights to charge public service users, as “intangible assets under concession” in the financial statements, and measured at the fair value of the considerations received or receivable for providing concession service and amortising such considerations based on units-of-usage method during the operation period. As for the year 2007 and previous years, they were treated as property, plant and equipment, construction in progress and land use rights, which were booked basing on actual construction expenses of toll highway projects. This accounting policy change mainly resulted in reclassification of non-current assets and amortisation method to be adopted at units-of-usage method and led to an increase of RMB53,347,000 in shareholders’ equity of the Group as at 31 December 2007.

In accordance with HKFRS 11 “Construction Contracts”, the Group recognised revenues and costs for construction services or reconstruction services provided under service concession arrangements by adopting percentage-of-completion method. The revenues incurred in construction services provided by the Group were recognised based on the fair values of considerations received or receivable. As for the year 2007 and previous years, no revenues or costs were recognised for such construction services carried out on toll highways. This accounting policy change led to a significant increase in revenues and operating costs of the Group, an increase of RMB42,464,000 in shareholders’ equity of the Group as at 31 December 2007, and increases of RMB6,094,000 and RMB7,073,000 in profits for the Reporting Period and for the corresponding period of 2007, respectively.

The Group recognised the government grants obtained under the service concession arrangements for Yanba Expressway and Yanpai Expressway as financial assets, which were given by the concession grantor as payment commitments of a portion of investment, and resulted in reducing the amortisation amount for the operating period. As for the year 2007 and previous years, such amounts were treated as deferred income liabilities and recognised as subsidy income during the operating period. Such accounting policy change led to a decrease of RMB168,863,000 in shareholders’ equity of the Group as at 31 December 2007, and decreases of RMB5,594,000 and RMB6,261,000 in profits for the Reporting Period and for the corresponding period of 2007, respectively.

In accordance with HKFRS 37 “Provisions, contingent liabilities and contingent assets”, the Group made “provision for maintenance/resurfacing obligations” for the obligations of highway maintenance and road surface repaving under the service concession arrangements, except for those under reconstruction service. Such provisions were made based on the Group’s reasonable estimates of the extent of maintenance required and the expected expenses, and the provisions were made at discounted present values thereof. Incremental provisions due to passage of time were recognised as interest expenses. As for the year 2007 and previous years, toll highways were deemed as dividable fixed assets, while reconstruction and large-scale maintenance expenses were treated as asset costs which would be amortised in future usage period. The book value of assets replaced would be expensed in the income statement. Such accounting policy change led to a decrease of RMB312,638,000 in shareholders’ equity of the Group as at 31 December 2007, and decreases of RMB38,889,000 and RMB33,432,000 in profits for the Reporting Period and for the corresponding period of 2007, respectively.

For the intangible assets under concession owned by Magerk Company, the Group's jointly controlled entity - the operating rights of Wuhuang Expressway, the Group had their amortisation changed to units-of-usage method in order to be consistent with the Group's unified accounting policies. As for the year 2007 and previous years, such assets were amortised by straight-line method. Such accounting policy change led to an increase of RMB28,552,000 in shareholders' equity of the Group as at 31 December 2007, and increases of RMB4,240,000 and RMB5,263,000 in profits for the Reporting Period and for the corresponding period of 2007, respectively.

To conclude, the Group's changes in certain accounting policies corresponding to the adoption of IFRIC 12 resulted in a decrease of RMB357,138,000 in shareholders' equity of the Group as at 31 December 2007, and decreases of RMB34,149,000 and RMB27,357,000 in profits for the Reporting Period and for the corresponding period of 2007, respectively. Such changes had no material impact on the Group's financial position and operating results as a whole.

### 3. Outlook and Strategy

The Company's future operating performance and outlook will be affected by changes in external economic environment and operating environment. In the face of opportunities and challenges arising from such changes, the Company will not give up any development opportunities easily, nor will it neglect any potential risks. The management will continue to evaluate internal and external factors which may affect the Company's development, and will adopt appropriate measures to tackle them. As compared to the information disclosed in the Annual Report 2007, the Company is, at the present stage, also paying close attention to the possible impacts on the Company exerted by the following changes and developments:

Factors	Corresponding measures and strategies
<p><b>Slowdown in economic growth:</b></p> <p>Slowdown in economic growth directly affected the traffic demand generated from economic and social activities</p>	<ul style="list-style-type: none"> <li>● Strengthening analyses and studies on factors such as traffic flow composition and price elasticity of demand;</li> <li>● Closely monitoring the impact of the relevant factors on the existing operating projects of the Company and conducting in-depth studies and analyses;</li> <li>● Formulating targeted marketing strategies or traffic coordination measures based on actual conditions;</li> <li>● Thoroughly evaluating the pressure brought about by such factors upon project valuation when conducting investment feasibility studies on new projects.</li> </ul>
<p><b>Rise in fuel prices:</b></p> <p>On 20 June, domestic fuel prices were raised by over 15%. Rise in fuel prices will increase costs of transportation enterprises and suppress travelling demand.</p>	
<p><b>Rise in costs triggered by inflation :</b></p> <p>Raw material prices and remuneration kept rising amid inflation, presenting the Company with pressures from surging operating costs and construction costs.</p>	
	<ul style="list-style-type: none"> <li>● Adopting active cost control measures, including strengthening comprehensive budget management, enhancing relevant operating procedures and ensuring various expenses are reasonable and under effective control;</li> <li>● In the process of construction, closely controlling key matters such as survey designs and engineering changes; strengthening the management of tendering and contracting; optimising construction plan and fully capitalising on market-oriented methods, with an aim to control costs;</li> <li>● Reasonably and effectively transferring the relevant risks by entering into appropriate insurance contracts, construction contracting agreements and centralised procurement contracts for major materials.</li> </ul>

Factors	Corresponding measures and strategies
<p><b>Changes in road network or its planning:</b></p> <ul style="list-style-type: none"> <li>– Qinglian Expressway and Yanba C are scheduled to open to traffic within this year. However, Yilian Expressway and Huishen Coastal Expressway which are connected with them are not expected to open to traffic concurrently;</li> <li>– The planning of Erguang Expressway, which is originally planned to intersect Qinglian Expressway, has been adjusted.</li> </ul> <p><b>Persistently tightened monetary policy:</b></p> <p>The People’s Bank of China continued to raise the deposit reserve ratio to squeeze the credit scale.</p>	<ul style="list-style-type: none"> <li>● Paying close attention to user base and traffic flow composition on newly operating highways; strengthening publicity efforts and expanding publicity scopes for these highways; and launching effective marketing measures;</li> <li>● Continuously maintaining good communication and cooperation with government authorities and other industry peers and urging the government to guide reasonable distribution and connection in the regional road network;</li> <li>● Timely adjusting construction plans; making good preparation various works.</li> </ul> <ul style="list-style-type: none"> <li>● Continuously maintaining good bank-corporation cooperation and timely entering into or renewing banking facilities agreements with banks;</li> <li>● Conducting research on new financing products and portfolio, appropriately increasing foreign currency borrowings, with a view to broadening financing channels and optimising the financing structure;</li> <li>● Strengthening planning on capital expenditure and borrowings utilisation.</li> </ul>

The Company’s principal toll highway projects are located in areas with dynamic economic development in the PRC. As a result, despite numerous operating challenges faced by the Company currently, given our reasonable expectation of the macro economy being on an upbeat note in the long run and a maturing peripheral road network, the Company will continue to implement its designated development strategies through focusing on investment, construction and operation management of toll highways and roads. The management will continue to prudently evaluate and review various challenges faced by the Company currently, and will adopt corresponding measures and strategies to enhance its capability of risk resistance, so as to ensure a stable development for the Company.

## **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 representations made in the prospectus. An amount of RMB40,351,000 was applied during the Reporting Period and the cumulative amount of proceeds applied was RMB602,941,000. As at 30 June 2008, proceeds in the amount of RMB1,187,000 remained unutilized and were mainly held as deposits with domestic commercial banks in the PRC to be used for Yanba B, involving payment for approximately 2-km uncompleted works as well as settlement of payment for a small quantity of completed works.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the Reporting Period, the Company, any of its subsidiaries or any of its jointly controlled entities had not purchased, sold or redeemed any listed securities of the Company.



## PROFILE OF SHAREHOLDERS

As at 30 June 2008, the Company had 45,956 shareholders in total, including 256 holders of H Shares and 45,700 holders of domestic shares.

As at 30 June 2008, the top ten holders of non-restricted circulating shares of the Company based on the shareholders' registers supplied by the share registrars and the transfer offices of Hong Kong and the PRC were as follows:

Name of shareholder	Number of shares	Type of shares
HKSCC Nominees Limited (note)	737,745,098	H Share
BOC - China AMC Sector Selected Securities Investment Fund (LOF)	12,133,698	A Share
BoComm - Bosera Growth Securities Investment Fund	8,999,868	A Share
Social Insurance Fund Portfolio 102	5,500,000	A Share
ICBC - Lion Balance Securities Investment Fund	3,641,836	A Share
Arsenton Nominees Limited	3,000,000	H Share
CMB - SSE Dividend ETF	2,891,420	A Share
ICBC - China Universal Balanced Growth Securities Investment Fund	2,238,716	A Share
BOC - Harvest CSI300 Securities Investment Fund	1,773,554	A Share
Ping An Property & Casualty Insurance Company of China, Ltd. - Investment Insurance Product	1,500,000	A Share

Note: The H Shares held by HKSCC Nominees Limited were held on behalf of various clients.

## EMPLOYEES, REMUNERATION AND TRAINING

As at 30 June 2008, the Company and its wholly owned subsidiaries had 1,430 employees, of whom 377 were management and professional staffs while 1,053 were toll collection staff.

The employee's remuneration of the Company comprises of three parts, namely monthly salary, annual performance bonus as well as statutory and company fringe benefits. The remuneration is determined in accordance with the results of the overall assessment, of which the salary and the performance bonus are respectively determined according to the individual staff's position and performance and with a view to maintaining market competitiveness. Pursuant to statutory requirements, the Group has participated in an employee's retirement scheme, which is organized by the local government authorities. The Group has also provided various insurances such as basic medical insurance package, industrial injury insurance and unemployment insurance to its employees. The Company values staff training. During the Reporting Period, the Company had organized theme training courses such as serial trainings on an excellent performance management regime, leadership skills training for middle/senior management and operational training for engineering and technical staff, and so forth, with a total of 486 participants.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. During the Reporting Period, the Company has fully adopted the code provisions of the "Code on Corporate Governance Practices" as set out in Appendix 14 to the Listing Rules of HKEx. The current corporate governance practices of the Company have gone beyond the requirements of the aforesaid code provisions in certain aspects.

## REVIEW OF INTERIM RESULTS

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 2008 and the relevant financial information has not been audited.

The auditor of the Company, PricewaterhouseCoopers, has performed a review on the interim financial information of the Group for the six months ended 30 June 2008 prepared in accordance with Hong Kong Accounting Standard 34, "Interim Financial Reporting", in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and a report was issued by them dated 29 August 2008.

## DEFINITIONS

### 1. Names of Highway and Road Projects

Changsha Ring Road	Changsha National Highway Ring Road (Northwestern Section), located in Hunan Province
Coastal Expressway (Shenzhen Section)	The Shenzhen Section of Guangshen Coastal Expressway
Guangwu Project	The Ma'an to Hekou Section of the expressway from Guangzhou, Guangdong to Wuzhou, Guangxi (called Guangwu Expressway for short), located in Guangdong Province
GZ W2 Expressway	Xiaotang to Maoshan Section of national trunk highway Guangzhou Ring Road, also referred to as Guangzhou Western Second Ring Expressway, located in Guangdong Province
Hengping Project	Shenzhen Hengping Class 1 Highway (Western Section)
Jiangzhong Project	the expressway from Zhongshan to Jiangmen and the second phase of the expressway from Jiangmen to Heshan (called Jianghe Expressway for short), located in Guangdong Province
Jihe Expressway	The expressway from Shenzhen airport to He'ao in Shenzhen City, comprising Jihe East and Jihe West
Longda Expressway	The expressway from Longhua in Shenzhen City to Dalingshan in Dongguan City
Meiguan Expressway	The expressway from Meilin to Guanlan in Shenzhen City
Nanguang Expressway	The expressway from Xili to Gongming in Shenzhen City, also referred to as Liming Avenue
Nanjing Third Bridge	Nanjing Yangtze Third Bridge, located in Jiangsu Province
Nanping (Phase I), Nanping (Phase II)	Shenzhen Nanping Freeway (also referred to as Nanping Avenue) Phase I, main route of Nanping Freeway Phase II
Outer Ring Expressway	The Shenzhen Outer Ring Expressway
Qinglian Project	Guangdong Qinglian Class 1 Highway (Qingyuan - Lianzhou), and/or its being reconstructed into an expressway, and/or Qinglian Class 2 Road (Qingyuan - Lianzhou) (as the case may be)
Shuiguan Expressway	The expressway from Shuijingcun to Guanjintou in Shenzhen City, also referred to as the No.2 Longgang Passage
Shuiguan Extension	An extension to Shuiguan Expressway, Phase I of Qingping Expressway (the expressway from Yulongkeng to Pinghu in Shenzhen City, also referred to as Yuping Avenue)
Wuhuang Expressway	The expressway from Wuhan to Huangshi, located in Hubei Province

Wutong Mountain Project	Shenzhen Wutong Mountain Avenue (Ancillary Road) and Jihe Expressway Yantian Subsidiary Route Checkpoint Station Project
Yanba Expressway	The expressway from Yantian to Bagang in Shenzhen City, comprising Yanba A, Yanba B and Yanba C
Yangmao Expressway	The expressway from Yangjiang to Maoming, located in Guangdong Province
Yanpai Expressway	The expressway from Yantian to Paibang in Shenzhen City, also referred to as Yantian Subsidiary Route to Jihe Expressway

## 2. Enterprises invested

Consulting Company	深圳高速工程顧問有限公司 (Shenzhen Expressway Engineering Consulting Company Limited), a company incorporated in Shenzhen City with limited liability
Magerk Company	湖北馬鄂高速公路經營有限公司 (Hubei Magerk Expressway Management Private Limited), a wholly foreign-owned enterprise incorporated in Hubei Province, which owns the operating rights of Wuhuang Expressway
Mei Wah Company	Mei Wah Industrial (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability
Qinglian Company	廣東清連公路發展有限公司 (Guangdong Qinglian Highway Development Company Limited), a Sino-foreign joint-venture enterprise incorporated in Guangdong Province, which owns Qinglian Project
Qinglong Company	深圳清龍高速公路有限公司 (Shenzhen Qinglong Expressway Company Limited), a Sino-foreign joint-venture enterprise incorporated in Shenzhen City, which owns Shuiguan Expressway

## 3. Others

A Shares	Renminbi-denominated ordinary shares of the Company with a par value of RMB1.00 each, which were issued in the PRC and subscribed in RMB and are listed on SSE
Baotong Company	深圳市寶通公路建設開發有限公司 (Shenzhen Baotong Highway Construction and Development Company Limited), which owns 89.93% interests in Longda Company, and is a wholly-owned subsidiary of Yibin Company
Board	The board of Directors of the Company
Bonds With Warrants	Convertible corporate bonds, in which bonds and subscription warrants are tradable separately
The Company, Company	Shenzhen Expressway Company Limited
Director(s)	The director(s) of the Company
The Group, Group	The Company and its subsidiaries
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 HK\$ and are listed on HKEx
HKEx	The Stock Exchange of Hong Kong Limited
HKFRS	Hong Kong Financial Reporting Standards
IFRIC 12	HK(IFRIC) - Int 12 “Service Concession Arrangements” issued by the Hong Kong Institute of Certified Public Accountants

Listing Rules	The Rules Governing the Listing of Securities on HKEx and/or the Rules Governing the Listing of Stocks on SSE (as the case may be)
Longda Company	深圳龍大高速公路有限公司(Shenzhen Longda Expressway Company Limited), which owns Longda Expressway
New Tax Law	《中華人民共和國企業所得稅法》(The Enterprise Income Tax Law of the People's Republic of China), which came into effect on 1 January 2008
PRC	The People's Republic of China excluding, for the purpose of this announcement, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
The Reporting Period, The Period	For the six month ended 30 June 2008
Shenzhen International	Shenzhen International Holdings Limited, whose shares are listed on the main board of HKEx, the controlling shareholder of XTC Company
SSE	The Shanghai Stock Exchange
XTC Company	新通產實業開發(深圳)有限公司(Xin Tong Chan Development (Shenzhen) Company Limited), formerly known as 深圳市高速公路開發公司(Shenzhen Freeway Development Company Limited), a shareholder of the Company
Yibin Company	怡賓實業(深圳)有限公司(Yibin Industry (Shenzhen) Company Limited), a wholly-owned subsidiary of Shenzhen International

By Order of the Board  
**Yang Hai**  
Chairman

Shenzhen, the PRC, 29 August 2008

*As at the date of this announcement, the directors of the Company are: Mr. Yang Hai (Chairman of the Board), Mr. Wu Ya De (Executive Director and President), Mr. Li Jing Qi (Non-executive Director), Mr. Wang Ji Zhong (Non-executive Director), Mr. Liu Jun (Non-executive Director), Mr. Lin Xiang Ke (Non-executive Director), Ms. Zhang Yang (Non-executive Director), Mr. Chiu Chi Cheong, Clifton (Non-executive Director), Mr. Li Zhi Zheng (Independent non-executive Director), Mr. Zhang Zhi Xue (Independent non-executive Director), Mr. Poon Kai Leung, James (Independent non-executive Director) and Mr. Wong Kam Ling (Independent non-executive Director).*

*This Results Announcement, which has been published on the website of HKEx at <http://www.hkex.com.hk>, only gives a summary of the information and particulars contained in the full Interim Report of the Company. A detailed Interim Report containing all the information to accompany interim report required by Appendix 16 to the Listing Rules will be subsequently published on the website of HKEx at <http://www.hkex.com.hk> in due course.*