



**SHENZHEN EXPRESSWAY COMPANY LIMITED**

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

Leading with an Excellent Corporate System.

**Striving for the Best, not the Biggest.**

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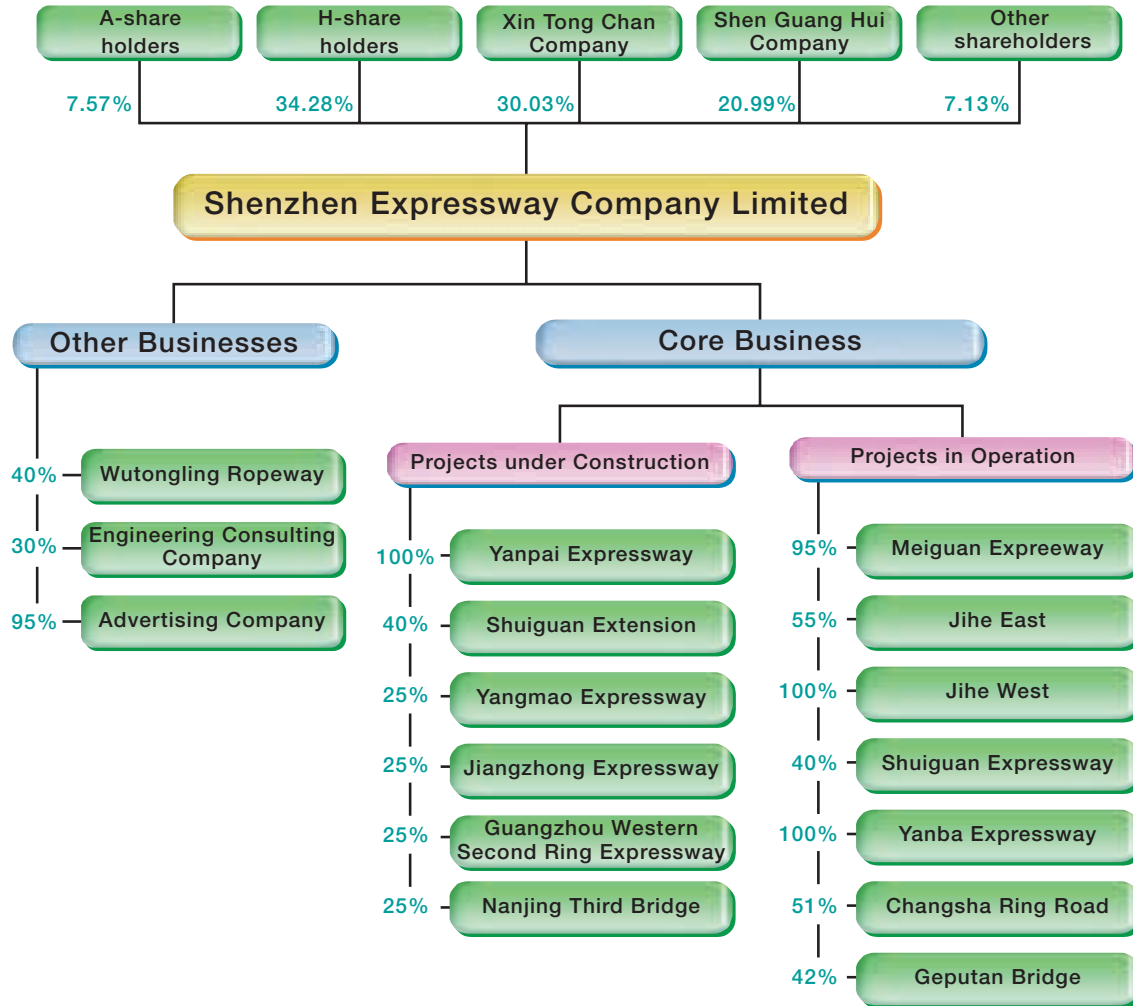
## CORPORATE PROFILE

Shenzhen Expressway Company Limited (“the Company”) is principally engaged in the investment, construction, operation and management of highways and roads. It was granted concession rights to operate its existing expressways and a right of first refusal to develop and operate new expressways in Shenzhen. With Shenzhen as its base, the Company focuses on investing and operating toll roads, and managing the construction of highways and roads in the Pearl River Delta region and other regions in the PRC. It is committed to supplying high quality and efficient services to the public and the government at reasonable costs. The toll roads in Shenzhen operated by the Company have already formed a complete road network, which not only connects the main ports, the airport, customs checkpoints and industrial zones in Shenzhen, but also forms the main component of the national and provincial road networks. This road network constitutes the major gateway between Shenzhen and Hong Kong and serves as the main passage to the Pearl River Delta. They are important infrastructures especially after the commencement of the Closer Economic Partnership Arrangement (“CEPA”) and the establishment of the “9+2” Pan Pearl River Delta Economic Zone.

The toll roads and expressways currently operated by the Company and its subsidiaries (the “Group”) or jointly controlled entities include Meiguan Expressway, Jihe East, Jihe West, Shuiguan Expressway and Yanba Expressway (Sections A & B) in Shenzhen, as well as Changsha Ring Road located in Hunan and the Geputan Bridge in Hubei. The toll road under construction includes Yanpai Expressway in Shenzhen. Investment projects include Shuiguan Expressway Extension in Shenzhen; Yangmao Expressway, Jiangzhong Expressway and Guangzhou Western Second Ring Expressway in Guangdong Province; and Nanjing Third Bridge in Jiangsu Province. Besides operating toll roads, the Group also holds 95% equity interest in Shenzhen Expressway Advertising Company Limited, 30% equity interest in Shenzhen Expressway Engineering Consulting Company Limited and 40% equity interest in Shenzhen Wutongling Ropeway Company Limited.

The Company was established on 30 December 1996 with a total share capital of RMB1,268,200,000. In March 1997, the Company issued 747,500,000 foreign shares (H Shares), which were listed on HKEX on 12 March 1997 (code: 0548). It issued 165,000,000 Renminbi-denominated ordinary shares (A shares) in December 2001, which were listed on the Shanghai Stock Exchange on 25 December 2001 (code: 600548). The total share capital of the Company at present amounts to RMB2,180,700,000. The controlling shareholder of the Company is Xin Tong Chan Development (Shenzhen) Co. Ltd, a wholly-owned subsidiary of Shenzhen International Holdings Limited (HKEX stock code: 0152), which is listed on HKEX, holding approximately 30.03% of the Company.

## THE SHAREHOLDING AND BUSINESS STRUCTURE OF THE COMPANY



## FINANCIAL HIGHLIGHTS

### 1. PREPARED IN ACCORDANCE WITH THE HONG KONG ACCOUNTING STANDARDS (UNAUDITED)

#### Results Highlights

(For the six months ended 30 June)

	2004 (RMB'000)	2003 (RMB'000) (Restated)	2003 Discounting gain on disposal of assets* (RMB'000) (Restated)
Turnover	218,610	207,357	207,357
Earnings before interest, taxation, depreciation & amortization	291,845	938,907	247,491
Profit before taxation	248,795	890,054	198,638
Profit attributable to shareholders	208,705	752,214	165,942
Earnings per share (RMB)	0.096	0.345	0.076

\* The disposal of two Class 1 highways, NH 107/205, on 18 March 2003 generated an income amounting to RMB691,416,000. The relevant profit tax was RMB105,144,000, resulting in a profit attributable to shareholders of RMB586,272,000.

#### Assets Highlights

	As at 30 June 2004 (RMB'000)	As at 31 Dec 2003 (RMB'000)	Change (%)
Total assets	7,403,323	6,988,973	5.93
Total liabilities	1,476,186	856,937	72.26
Minority interests	50,696	49,967	1.46
Total net assets	5,876,441	6,082,069	-3.38
Net assets per share (RMB)	2.695	2.789	-3.38
Working capital	814,919	1,587,357	-48.66

#### Principal Financial Ratios

(For the six months ended 30 June)	2004	2003 (Restated)	Change
Operating profit margin	89.51%	81.13%*	8.38%
Net profit margin	95.47%	80.03%*	15.44%
Return on average equity	3.49%	13.22%	-9.73%
Interest cover	310.83	105.79	205.04

	As at 30 June 2004	As at 31 Dec 2003	Change
Current ratio	1.91	5.44	-3.53
Gearing ratio	25.12%	14.09%	11.03%

\* For easier comparison and analysis, the calculation of operation profit margin and net profit margin has discounted the effects of profit generated from the disposal of NH107 and NH205.

## 2. FINANCIAL HIGHLIGHTS FOR THE PAST FIVE YEARS (RESTATED)

### Results Highlights

(For the year ended 31 Dec)

	2003 (RMB'000)	2003 Discounting NH107/205* (RMB'000)	2002 (RMB'000)	2001 (RMB'000)	2000 (RMB'000)	1999 (RMB'000)
Turnover	421,531	421,531	524,291	489,813	420,455	342,069
Earnings before interest, taxation, depreciation & amortization	1,149,858	458,442	539,619	554,402	458,490	424,119
Profit before taxation	1,054,530	363,114	414,018	424,605	365,598	339,035
Profit attributable to shareholders	899,372	313,100	347,064	408,222	348,958	331,030
Earnings per share (RMB)	0.412	0.144	0.159	0.187	0.173	0.164
Dividends per share (RMB)	0.19	—	0.12	0.10	0.10	0.06

\* The disposal of two Class 1 highways, NH 107/205, on 18 March 2003 generated an income amounting to RMB691,416,000. The relevant profit tax was RMB105,144,000, resulting in a profit attributable to shareholders of RMB586,272,000.

### Assets Highlights

(As at 31 Dec)

	2003 (RMB'000)	2002 (RMB'000)	2001 (RMB'000)	2000 (RMB'000)	1999 (RMB'000)
Total assets	6,988,973	6,700,302	6,764,379	5,712,406	5,427,435
Total liabilities	856,937	1,204,739	1,399,678	1,158,209	1,118,382
Minority interests	49,967	50,282	48,414	48,690	32,462
Total net assets	6,082,069	5,445,281	5,316,287	4,505,507	4,276,591
Net assets per share (RMB)	2.789	2.497	2.438	2.235	2.122
Working capital	1,587,357	225,884	918,105	288,470	-252,664

### Principal Financial Ratios

(For the year ended 31 Dec)	2003	2002	2001	2000	1999
Operating profit margin	75.24%*	71.92%	83.35%	81.19%	91.63%
Net profit margin	74.28%*	66.20%	83.34%	83.00%	96.77%
Return on average equity	15.60%	6.45%	8.31%	7.94%	8.04%
Interest cover	81.25	17.61	11.20	11.69	9.90

(As at 31 Dec)	2003	2002	2001	2000	1999
Current ratio	5.44	1.30	3.13	2.28	0.67
Gearing ratio	14.09%	22.12%	26.33%	25.71%	26.15%

\* For easier comparison and analysis, the calculation of operation profit margin and net profit margin has discounted the effects of profit generated from the disposal of NH107 and NH205.

Notes:

Operating profit margin (Operating profit/Turnover x100%)

Net profit margin (Profit after tax and minority interests/Turnover x100%)

Return on average equity (Profit after tax and minority interests/Average equity x100%)

Current ratio (Current assets/Current liabilities)

Interest cover (Profit before interest and tax/Interest)

Gearing ratio (Total debt/Equity x100%)

### 3. FINANCIAL DATA AND INDICATORS PREPARED UNDER THE PRC ACCOUNTING STANDARDS (UNIT: RMB)

Item	As at 30 June 2004 (Unaudited)	As at 31 Dec 2003
Current assets	2,048,571,657.58	2,304,207,693.08
Current liabilities	1,118,597,708.08	368,356,792.38
Total assets	7,479,335,949.05	7,105,308,870.56
Shareholders' interest (Excluding minority interest)	5,725,998,360.60	5,952,865,584.17
Net asset per share	2.63	2.73
Adjusted net asset per share	2.63	2.73
	2004 (Unaudited)	2004 (Unaudited) (Restated)
(For the six months ended 30 June)		
Net profit	187,483,349.87	708,696,753.50
Net profit excluding non-recurring items	168,942,729.46	160,578,683.15
Earnings per share	0.086	0.325
Return on net assets (fully diluted)	3.27%	12.20%
Return on net assets (weighted average)	3.17%	12.39%
Net cash inflow from operating activities	203,799,392.56	190,099,557.00



#### 4. THE MAJOR DIFFERENCES BETWEEN ACCOUNTS PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG AND PRC ACCOUNTING STANDARDS

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



## Yangmao Expressway

# Yangmao Expressway

Yangmao Expressway in Guangdong Province is a section of the coastal National Trunk Expressway that begins from Tongjiang in Heilongjiang Province and ends at Sanya in Hainan Province. The section between Kaiping and Yangjiang Expressway was opened to traffic in 2003 and the expressway from Maoming to Zhanjiang was opened to traffic in 2001. Upon completion of this project, the major East-to-West trunk expressway along the coastal line of Guangdong running from Shantou to Zhanjiang through Guangzhou will be completely opened to traffic. The expressway will be a convenient transportation route in Guangdong connecting Hainan, Guangxi and all southwestern provinces. It is expected that the expressway will be opened to traffic at the end of 2004.

## BUSINESS REVIEW

The Company is principally engaged in the investment, construction, operation and management of highways and roads. During the six months ended 30 June 2004 (the "Reporting Period"), the highways operated by the Group and jointly controlled entities included Meiguan Expressway, Jihe East, Jihe West, Shuiguan Expressway, Yanba Expressway (Sections A & B) in Shenzhen as well as Changsha Ring Road in Hunan and Geputan Bridge in Hubei.

During the Reporting Period, the Group was constructing the Yanpai Expressway in Shenzhen. The Group also invested in the following toll roads: Shuiguan Extension in Shenzhen; Yangmao Expressway, Jiangzhong Expressway, Guangzhou Western Second Ring Expressway in Guangdong Province and Nanjing Third Bridge in Jiangsu Province.

During the Reporting Period, the Company was entrusted with the construction management projects of Nanping Project and Hengping Project (Longgang district) in Shenzhen.

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

The Board of Directors of the Company is pleased to announce the unaudited consolidated operating results of the Group prepared in accordance with the accounting principles generally accepted in Hong Kong for the Reporting Period. During the Reporting Period, the Group recorded a turnover of RMB218,610,000, and a profit attributable to shareholders of RMB208,705,000, whilst earnings per share was RMB0.096.

Two Class 1 highways, NH107 and NH205, were transferred to the Shenzhen Municipal Government in March 2003. The gain from the operation of the two highways for the corresponding three months of last year prior to the transfer of ownership plus the gain derived from the transfer amounted to a profit attributable to shareholders of RMB608,985,000 in aggregate.

During the Reporting Period, turnover increased by 5.43% compared to the corresponding period of the previous year. Excluding the effect on the transfer of the two Class 1 highways, turnover derived during the Reporting Period in fact increased by 29.69% compared to the corresponding period of the previous year. Profit attributable to shareholders decreased by 72.25% compared to the corresponding period of the previous year. However, without taking into account the gain from the transfer of ownerships of the two Class 1 highways and the operating profit generated from the operation of the two highways prior to the transfer, profit attributable to shareholders in fact increased by 45.71%. During the Reporting Period, high rates of growth were recorded for the existing businesses and operating results of the Group's toll roads.

## Operating Results

### 1. Composition of Earnings before Interests and Taxes (“EBIT”)

For the six months ended 30 June (Unaudited)

	2004 RMB'000	2003 RMB'000	Change %
Turnover	218,610	207,357	5.43
Of which: Turnover from toll roads in operation	218,610	168,564	26.69
Other income	50,311	33,038	52.28
Total operating costs	73,254	72,164	1.51
Gain on disposal of assets	—	691,416	—
Operating profit	195,667	859,647	-77.24
Of which: Operating profits from toll roads in operation	183,686	145,594	26.16
Share of profits from jointly controlled entities	54,152	38,901	39.20
EBIT	249,598	898,548	-72.22
Of which: EBIT of the assets in operation	249,598	180,411	38.35

During the Reporting Period, operating profit from toll roads in operation increased by 26.16%, share of profits from jointly controlled entities increased by 39.20%, and other income increased by 52.28% as compared to the corresponding period of the previous year, which was mainly due to the interest income discounted from the installment receivable upon transfer of asset being increased by RMB17,890,000 during the Reporting Period. EBIT of the assets in operation increased by 38.35% as compared to the corresponding period of the previous year.

EBIT from the two Class 1 highways before the transfer and the gain from the transfer for the corresponding period of the previous year totalled RMB718,137,000, which included gain in the transfer of ownership of RMB691,416,000 and the turnover of RMB38,793,000 or corresponding operating profit of RMB26,721,000 contributed by such assets as at 18 March 2003, resulting in a decrease of 72.22% on the EBIT of the Reporting Period as compared to the corresponding period of the previous year.

## 2. Turnover and Operating Profits of Toll Roads for the Reporting Period

For the six months ended 30 June (Unaudited)

Toll roads and bridge		2004 Turnover RMB'000	2003 Turnover RMB'000	Change %	2004 Operating Profits RMB'000	2003 Operating Profits RMB'000	Change %
The Company and its subsidiaries	Meiguan Expressway	111,312	86,751	28.31	87,451	71,324	22.61
	Jihe West	93,373	74,990	24.51	77,629	61,947	25.32
	Yanba Expressway	13,925	6,823	104.09	18,606	12,323	50.98
	<b>Total</b>	<b>218,610</b>	<b>168,564</b>	<b>29.69</b>	<b>183,686</b>	<b>145,594</b>	<b>26.16</b>
Jointly controlled entities	Jihe East	54,694	43,509	25.71	43,376	35,380	22.60
	Shuiguan Expressway	24,452	19,425	25.88	9,591	4,293	123.41
	Changsha Ring Road	4,688	3,671	27.70	202	(772)	N/A
	Geputan Bridge	3,434	—	N/A	983	—	N/A
	<b>Total</b>	<b>87,268</b>	<b>66,605</b>	<b>31.02</b>	<b>54,152</b>	<b>38,901</b>	<b>39.20</b>

Notes:

- As set out in the table, the Company is entitled to share the income from its toll roads in operation, namely Jihe East, Changsha Ring Road, Shuiguan Expressway and Geputan Bridge, in accordance with the proportions of 55%, 51%, 40% and 90%, respectively. Their turnover and operating profit were presented in accordance with the income sharing proportions.
- Operating profit from Yanba Expressway included subsidy income.

By comparing the Reporting Period and the corresponding period of the previous year, Yanba B and Geputan Bridge were added to the operation of toll roads, which in turn increased the turnover and profits of the Company. Growth in both turnover and operating profit were recorded in all of our toll roads. Changsha Ring Road also recorded increase in turnover and achieved an operating profit for the Reporting Period.

### Analysis of Operations

During the Reporting Period, an overview of all the toll roads in operation was as follows:

Toll roads and bridge	Average daily mixed traffic flow (No. of vehicle)	Change compared to the corresponding period	Average daily toll revenue (RMB)	Change compared to the corresponding period
Meiguan Expressway	58,254	+44.14%	645,146	+27.61%
Jihe West	32,375	+28.46%	541,184	+23.84%
Jihe East	40,468	+35.33%	575,452	+25.02%
Yanba Expressway <sup>note</sup>	8,664	N/A	80,807	N/A
Shuiguan Expressway	36,032	+28.16%	353,748	+25.19%
Changsha Ring Road	4,284	+48.60%	53,502	+27.00%
Geputan Bridge	2,768	+25.00%	22,066	+19.00%

Note: Yanba Expressway comprised Section A and Section B. Yanba B was completed and commenced operation on 12 June 2003.

During the first half of 2004, the toll road business of the Group grew rapidly and provided steady growth in cash flow to the Group, and has been a major profit contributor for the Group's businesses.

### Expressways - Rapid Growth Continued

During the first half of 2004, the expressways under the Group still maintained the trend of rapid growth. Meiguan Expressway and Jihe Expressway have become the major sources contributing to the continuous growth in profit for the Group. Shuiguan Expressway and Yanba Expressway will become important growth points for the earnings of the Group during this year and the coming years.

#### Meiguan Expressway and Jihe Expressway

In recent years, the percentage of full-trip vehicles using the whole Meiguan Expressway continued to increase. Traffic flow and toll income grew rapidly for the past few years. For the first half of 2004, traffic flow and toll income increased by 44.14% and 27.61%, respectively, compared to the corresponding period of the previous year. The percentage increase in small vehicles was the greatest with respect to the rapid growth in traffic flow.

Certain traffic flow was diverted from Jihe Expressway, which has been serving as a cross-border passage peripheral to Shenzhen, when the expressway between Guangzhou and Huizhou commenced operation at the end of 2003. Despite the above, during the first half of 2004, Jihe Expressway still recorded rapid growth in traffic flow and toll income, which was attributable to the economic prosperity of Shenzhen and its peripheral areas, booming business activities, increase in passenger flow from airports and strong demand for people to travel. Full-trip traffic on Jihe Expressway assured continuous growth in traffic flow for Jihe East and Jihe West. During the Reporting Period, Jihe West recorded growth in traffic flow and toll income by 28.46% and 23.84%, respectively, while Jihe East recorded 35.33% and 25.02% increase in traffic flow and toll income, respectively.

Chart 1: Comparison on traffic flow and average daily toll revenue of Meiguan Expressway (2000-2004)

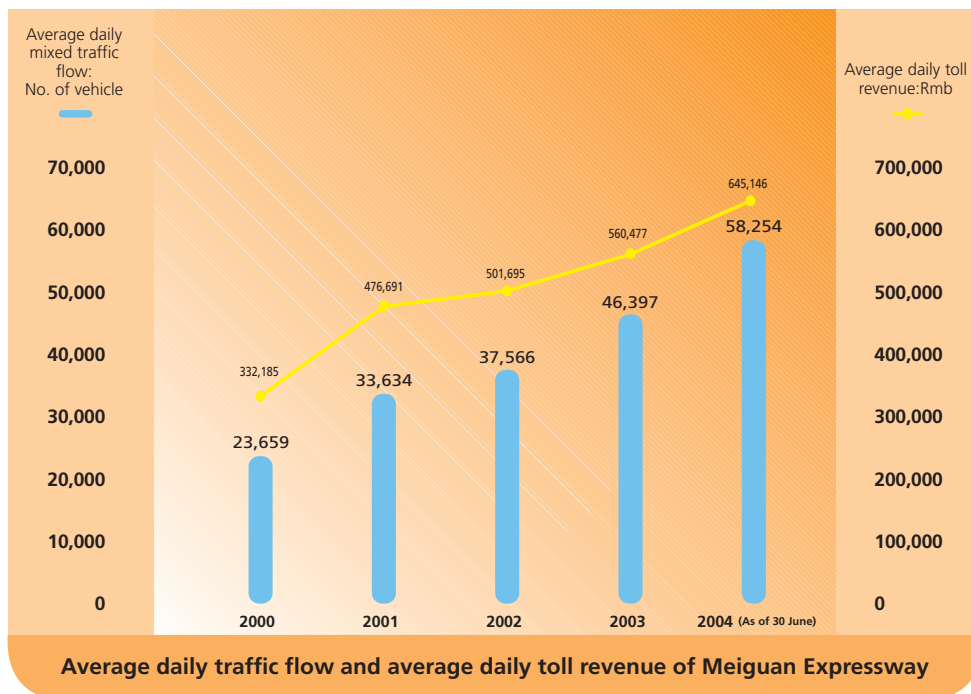


Chart 2: Comparison on traffic flow and average daily toll revenue of Jihe West (2000-2004)

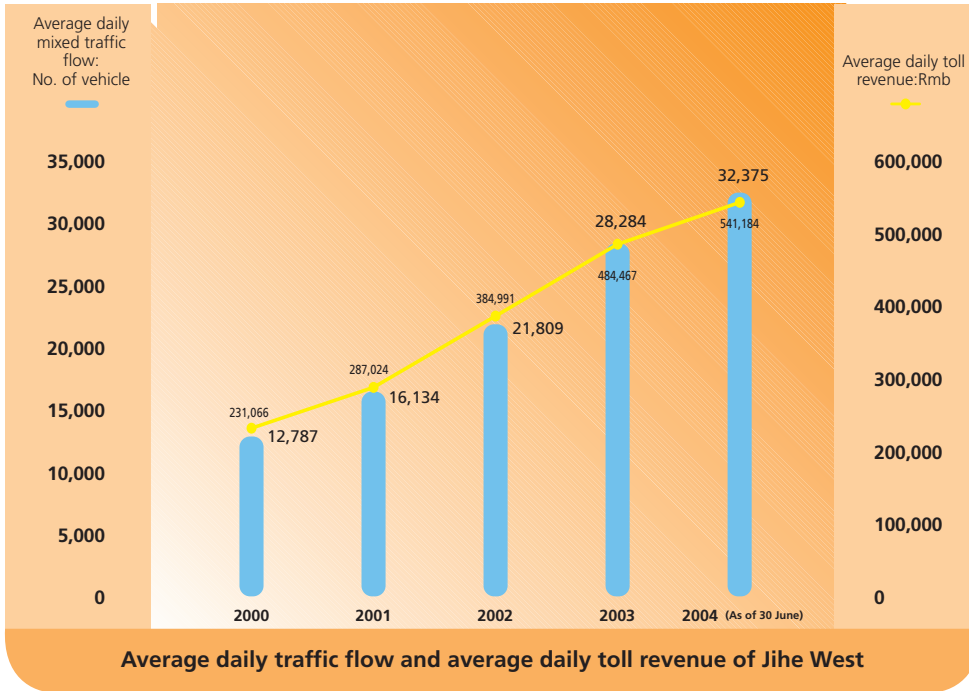
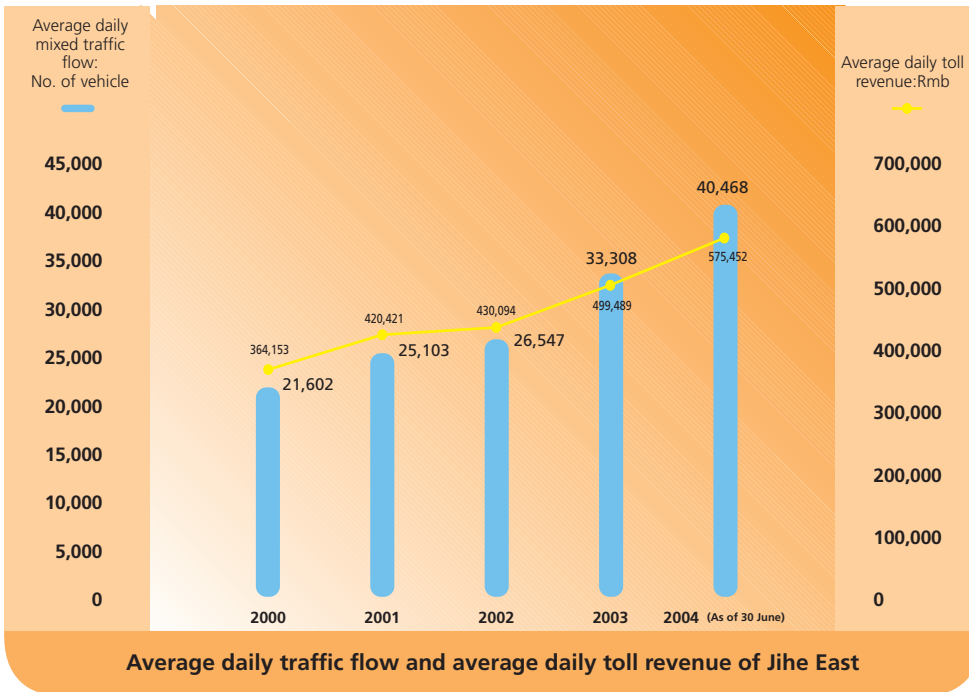


Chart 3: Comparison on traffic flow and average daily toll revenue of Jihe East (2000-2004)





Jiangzhong Expressway

# Jiangzhong Expressway

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



### Shuiguan Expressway and Yanba Expressway

As the only trunk expressway connecting the centre of Longgang, key industrial areas and the urban area of Shenzhen, Shuiguan Expressway, which has commenced operation for only two years, continued to record rapid growth in traffic flow and toll income during the first half of 2004. Average daily mixed traffic volume and average daily toll revenue grew 28.16% and 25.19%, respectively. It is expected that after the Shuiguan Extension and Nanping Freeway come into operation next year, traffic flow of Shuiguan Expressway will continue to grow rapidly. Therefore, renovation and expansion works were scheduled for the toll stations of Shuiguan Expressway so as to cope with the need of ever-increasing traffic.

Since Yanba B commenced operation in June last year, Yanba Expressway has become a local road network and has facilitated growth in traffic flow. However, as the traffic of large vehicles remained low, toll income from Yanba Expressway remained at a lower level as compared with the other few expressways in Shenzhen. During the first half of 2004, average daily toll revenue was RMB80,807 and average daily mixed traffic volume was 8,664 vehicles.

### Changsha Ring Road and Geputan Bridge

During the first half of 2004, average daily mixed traffic volume and average daily toll revenue of Changsha Ring Road continued to grow at rates of 48.6% and 27.0%, respectively. However, traffic flow and toll income remained at lower levels. The official completion and commissioning of the southwestern section of Changsha Ring Highway, which directly connects with Changsha Ring Road in May 2004 has gradually perfected the expressway network of the peripheral of Changsha and has boosted the growth of average daily mixed traffic volume for Changsha Ring Road. It is expected that following the economic development of Changsha and the increase in traffic demand along the peripheral of Changsha, traffic flow and toll income of Changsha Ring Road will increase steadily.

The Company owns 42% interests in Hubei Geputan Bridge through Mei Wah Company, its wholly-owned subsidiary in Hong Kong. Between 1 October 2002, the date on which the acquisition of the same was completed, and 1 March 2006, the Company was entitled to receive 90% of revenue in advance, and in accordance with the proportion of shareholding of 42% thereafter. During the Reporting Period, turnover from Geputan Bridge was RMB3,816,000, which was increased by 19% as compared to the corresponding period of the previous year.

## Investment and Development of Expressways in Shenzhen

According to Shenzhen's trunk highway network planning, the Shenzhen Municipal Government will invest RMB20 billion in the coming 10 years to construct new expressways of 270km. The Company will make full use of its concession rights to develop and construct expressways planned in Shenzhen. Set out below is a description of the projects under construction as well as investment:

### Yanpai Expressway

Yanpai Expressway starts at Yantian Port and runs along Wutongshan Avenue, travelling northwest through the tunnel crossing Wutong Mountain. After intersecting with National Highway 205 and Shuiguan Expressway, it passes Paibang Interchange to connect with Jihe Expressway and Boshen Expressway, Dongguan, which is under planning.

With a total length of 15.2 km, Yanpai Expressway is a two-way six-lane expressway with a designed speed of 80 km/h. There are two blocks of tunnels on the expressway with a total length of 2,355 metres, seven bridges with a total length of 1,980 metres and two interconnecting interchanges at Henggang and Paibang. Total project sum is estimated at RMB1,149 million.

Yanpai Expressway is a subsidiary route of Jihe Expressway to Yantian Port. Following the rapid increase in container throughput and the full operation of Phase 3 Project at Yantian Port in the next year, Yanpai Expressway will become one of the most promising highway projects of the Company.

As at the end of the Reporting Period, 25% of the road foundation works, 51% of pillar foundation works and 8% of tunnel works for Yanpai Expressway were completed. The works completed was valued at RMB129 million, and represented 11.2% of the total estimated investment. The project commenced construction in July 2003, and is expected to be completed by the end of 2005.

### Shuiguan Extension

Shuiguan Extension starts at Bulong Interchange of Shuiguan Expressway and ends at the Qingshuihe Special Administration Zone check point newly set up in Shenzhen, connecting the two warehouse areas at Qingshuihe and Sungang in the urban area of Shenzhen. It has a total length of 5.25 km, and is invested and operated by Huayu Company in Shenzhen. Total investment of the project is estimated at RMB510 million. The Company has acquired 40% equity interests in Huayu Company at a consideration of RMB20 million. In July 2004, the registered capital of Huayu Company was increased from RMB50 million to RMB150 million. The additional capital will be applied to finance the construction of the project. The Company has contributed RMB40 million as increase in capital. The project commenced construction in 2003 and is expected to commence operation in 2005. After the completion of the project, it will be unitarily managed by Qinglong Company along with Shuiguan Expressway. The Company has 40% interests in both Qinglong Company and Huayu Company.

Shuiguan Extension connects Shuiguan Expressway with the urban area of Shenzhen. Stress in the traffic flow at Buji Check Point will be much relieved after operation commences. The traffic flow using NH 205 will be attracted to Shuiguan Expressway, which will further facilitate the growth in traffic flow of Shuiguan Expressway.

### Plans Under Preparation

New projects of the Company in Shenzhen also include preparation work for Nanguang Expressway and Yanba Expressway Section C. Nanguang Expressway connects the ports in western Shenzhen and the cross-harbour bridge in western Shenzhen. It is another trunk connecting northern and southern parts of western Shenzhen, with a total length of about 31.2 km. Total investment of the project was estimated at RMB2.8 billion. Yanba Expressway Section C will connect Yanba A and Yanba B and extends to the Nanhai Petrochemical Industrial Area in Huizhou and eastern Guangdong Province, with a total length of about 9.8 km and at an estimated investment of RMB562 million.

## FINANCIAL POSITION

The Company has adopted prudent financial policies. Analysis of investment, financing and cash management have been conducted in a scientific manner. Risk exposure has been tightly controlled, whilst a sound capital structure has been maintained. In light of the need for continuous development in future and the present internal resources capacity, the Company also adjusts its investment, financing and capital structure from time to time so as to maximise value for its shareholders.

### A. Capital liquidity

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

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

## B. Financial resources and capital commitments

	As at 30 June 2004 (RMB'000) (unaudited)	As at 31 Dec 2003 (RMB'000)
Cash and cash in bank	998,709	1,274,818
Bank and government borrowings	495,442	76,177
-short term borrowings	360,000	40,000
-long term borrowings (including loans which are repayable within 1 year)	135,442	36,177
Installment receivable upon transfer of title	1,071,109	1,071,109
Consolidated credit facilities granted by commercial banks in the PRC	3,630,000	4,050,000
Capital commitments	2,153,270	2,136,000

### 1. Cash and cash in bank

During the Reporting Period, cash included the balance of restricted cash being provided by the Shenzhen Municipal Government for undertaking the construction management of Nanping Project at an amount of RMB323,574,000. Cash decreased during the Reporting Period, which was mainly attributable to the payment of dividends for 2003, the profit tax arising from the transfer of titles of the two Class 1 toll highways and external investments.

### 2. Bank and government borrowings

During the Reporting Period, Renminbi denominated loans from commercial bank in the PRC increased by RMB420 million, whilst an amount of USD186,000 of the Spanish Government's loan was repaid.

### 3. Installments of the consideration of the disposal of assets

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

### 4. Consolidated credit facility

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

### 5. Capital commitments

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

### C. Management of foreign exchange risks

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

### D. Main sources and applications of cash flows items

Item	For the six months ended 30 June 2004 (RMB'000)
Net cash inflow from operating activities	134,987
Net cash outflow from investment activities	(695,058)
Net cash inflow from financing activities	30,388

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

#### 1. Cashflow from operating activities

All toll income of the Company were received in cash, which provided a stable stream of cashflow to the Company.

#### 2. Cashflow from investment activities

Cash inflow from investment activities comprised mainly dividends from jointly controlling entities and shareholders' loan at an aggregate amount of RMB56 million, term deposits of more than three months at an amount of RMB70 million, and interests received from deposits at an amount of RMB7 million. Cash outflow from investment activities comprised mainly capital expenditure paid for the construction of Yanpai Expressway and Yanba Expressway at an amount of RMB126 million; accrued profit tax arising from the transfer of titles in the two Class 1 highways at an amount of RMB105 million; and the considerations for the acquisitions of Yangmao Expressway, Jiangzhong Expressway, Nanjing Third Bridge, Shuiguan Extension and Guangzhou Western Second Ring Expressway at an amount of RMB604 million in aggregate.

#### 3. Cashflow from financing activities

During the Reporting Period, cashflow from financing comprised mainly an increase in denominated bank loans by RMB420 million and distribution of dividends for 2003 in the amount of RMB385 million.

## E. Capital structure

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

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

An analysis of the capital structure in terms of liquidity:

	As at 30 June 2004		As at 31 Dec 2003	
	Amount (RMB'000)	Proportion %	Amount (RMB'000)	Proportion %
Current liabilities	893,473	12.07	357,133	5.11
Long-term liabilities	582,713	7.87	499,804	7.15
Shareholders' equity	5,876,441	79.38	6,082,069	87.02
Minority interests	50,696	0.68	49,967	0.72
<b>Total</b>	<b>7,403,323</b>	<b>100</b>	<b>6,988,973</b>	<b>100</b>

Current liabilities increased by 1.5 times as compared to the end of last year, which was mainly attributable to increase in short-term borrowings, as well as the special project construction monies allocated by the Shenzhen Municipal Government for entrusting the construction management of Nanping Project which resulted in a current liability of RMB320 million.

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

An analysis of the capital structure in terms of interest rates composition:

	As at 30 June 2004		As at 31 Dec 2003	
	Amount (RMB'000)	Proportion %	Amount (RMB'000)	Proportion %
Floating rate liabilities	100,000	1.35	—	—
Fixed rate liabilities	395,442	5.34	76,177	1.09
Interest-free liabilities	980,744	13.25	780,760	11.17
Shareholders' equity	5,876,441	79.38	6,082,069	87.02
Minority interests	50,696	0.68	49,967	0.72
<b>Total</b>	<b>7,403,323</b>	<b>100</b>	<b>6,988,973</b>	<b>100</b>

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



Guangzhou Western Second Ring Expressway

## Guangzhou Western Second Ring Expressway

Guangzhou Western Second Ring Expressway starts from the Guangshan Expressway in Nanhai District, Foshan, and ends at Baiyun District, Guangzhou, connecting with Guangzhou Northern Second Ring Expressway, and is a section of the ring road surrounding Guangzhou City in the Pearl River Delta region. Upon completion, Guangzhou Western Second Ring Expressway will be connected with Guangzhou Northern Second Ring Expressway, Jingzhu Expressway etc., and is also the only route between Huadu International Airport and western Guangzhou. The expressway is expected to open to traffic in 2007.

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

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

## INVESTMENT AND DEVELOPMENT OF HIGHWAY PROJECTS

It is the development strategy of the Company to invest and develop toll expressways with Shenzhen as the base expanding throughout the PPRD region, whilst selectively acquiring expressway projects of quality in other regions of central and eastern PRC. The Company will capitalise on the opportunities as presented by Guangdong Province to dispose of equity rights in expressway projects, and use its best endeavours to increase its market share in trunk expressways of the Guangdong region.

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

Investment Project	Total investment RMB'000	Amount paid RMB'000	Proportion of interest
Yangmao Expressway	271,680	271,680	25%
Jiangzhong Expressway	308,270	169,500	25%
Guangzhou Western Second Ring Expressway	250,000	62,500	25%
Nanjing Third Bridge	270,000	81,000	25%

As these projects are located along strategic routes with apparent competitive advantages, the growth potentials have been relatively high and are expected to deliver steady returns. After the completion of acquisitions, the asset base of the Company was expanded, and is in line with the Company's business development strategies.

### Yangmao Expressway

On 5 March 2004, the Company entered into an agreement with Guangdong Expressway Company Limited for the acquisition of a 25% equity interest in Guangdong Yangmao Expressway Company Limited, at a consideration of RMB271,680,000. Upon completion of the acquisition, Guangdong Expressway Company Limited holds 60% of shares, and Guangdong Transportation Investment Company Limited holds 15% of shares. During the Reporting Period, the investment made as a result of equity transfer in the amount of RMB271,680,000 was settled in full by the Company. The Company's contribution to the capital amount of this project through equity transfer was thus fully paid up.

Yangmao Expressway in Guangdong Province is a section of the coastal National Trunk Expressway that begins from Tongjiang in Heilongjiang Province and ends at Sanya in Hainan Province. The section between Kaiping and Yangjiang Expressway was opened to traffic in 2003 and the expressway from Maoming to Zhanjiang was opened to traffic in 2001. The expressway is a two-way four-lane expressway with a total length of 79.76 kilometers. Total investment was estimated at RMB2,577 million. Upon completion of this project, the major East-to-West trunk expressway along the coastal line of Guangdong running from Shantou to Zhanjiang through Guangzhou will be completely opened to traffic. The expressway will be a convenient transportation route in Guangdong connecting Hainan, Guangxi and all southwestern provinces and commanding an excellent geographical location. The operation of Yangmao Expressway has a term of 25 years, and is anticipated to be opened to traffic by the end of 2004.

## Jiangzhong Expressway

On 7 April 2004, the Company entered into an agreement with Guangdong Province Highway Construction Company Limited to acquire a 25% equity interest in Guangdong Jiangzhong Expressway Company Limited at a consideration of RMB169,500,000. Upon completion of the acquisition, the Company will form a project company with Guangdong Province Highway Construction Company Limited which holds 60% shares and Yue Expressway Development Company Limited (廣東省高速公路發展股份有限公司) which holds 15% shares. The project company will be responsible for the investment, construction, operation and management of Jiangzhong Expressway. Apart from the payment of consideration to Guangdong Province Highway Construction Company Limited arising from the equity transfer, the Company may also contribute project funds to the project company at an amount of approximately RMB138,773,000 in accordance with work progress and in proportion to the Company's shareholding. RMB169,500,000 was paid by the Company on 14 June 2004 for the equity transfer referred to above.

Jiangzhong Expressway comprises the expressway between Zhongshan and Jiangmen and Phase II of the expressway between Jiangmen and Heshan. With an estimated investment at RM2,416 million, the expressway between Zhongshan and Jiangmen has a total length of 32.382 kilometers and will be fully opened to traffic by mid-2005. Phase II of Jianghe Expressway will be connected with the expressway between Zhongshan and Jiangmen which is under construction, as well as with Guangzhan Expressway through Phase I of Jianghe Expressway. Phase II of Jianghe Expressway has a total length of 6.414 kilometers. It will be fully opened to traffic by mid-2005, with an investment of approximately RMB449 million. Upon completion, Jiangzhong Expressway will form a trunk network of highway communication in the southwestern region of Guangdong together with Jianghe Expressway, Jingzhu Expressway Guangzhu Section, Humen Bridge and the expressway between Changping and Humen, and will significantly reduce the travelling distance between the eastern and western wings of the Pearl River Delta which has Guangzhou as its center (saving about 60 kilometers).

## Guangzhou Western Second Ring Expressway

On 24 May 2004, the Company entered into a joint venture agreement with Guangzhou Highway Development Company and Guangzhou Yue Peng Information Ltd., a wholly-owned subsidiary of GZI Transport Limited, to jointly invest in the construction and operation of Guangzhou Western Second Ring Expressway. About RMB3,003 million will be invested in total, of which RMB1,000 million will be registered capital. RMB250 million was contributed by the Company, representing 25% of the registered capital of the joint-venture company. The operation term will be 30 years commencing from the date of incorporation. During the Reporting Period, RMB62,500,000 was paid by the Company as the first installment of the investment pursuant to the joint venture agreement, and the balance will be contributed in accordance with work progress.

Guangzhou Western Second Ring Expressway starts from the Guangshan Expressway in Nanhai District, Foshan, and ends at Baiyun District, Guangzhou, connecting with Guangzhou Northern Second Ring Expressway, and is a section of the ring road surrounding Guangzhou City in the Pearl River Delta region. It is a two-way six-lane expressway with a total length of approximately 39.13 kilometers. It is expected to commence construction in August 2004, which will be completed and commence operation by 2007. Upon completion, Guangzhou Western Second Ring Expressway will be connected with Guangzhou Northern Second Ring Expressway, Jingzhu Expressway, Guanghua Expressway, New Airport Expressway, Guangsan Expressway and National Highways 324/321/105/106/107, and is also the only route between Huadu International Airport and western Guangzhou.

## Nanjing Third Bridge

In June 2004, the Company invested in 25% equity interest in Nanjing Third Bridge by way of participation, which involved an investment amount of RMB270 million. Upon completion of the acquisition, the Company, Nanjing Communications Construction and Investment Holdings Company Limited (南京市交通建設投資控股有限公司), Bright Oceans Corporation and Nanjing Pukou Economic Development Corporation (南京浦口經濟開發總公司) will hold 25%, 45%, 25% and 5% equity interests, respectively. During the Reporting Period, the Company paid RMB81 million as the first installment of investment pursuant to the capital increase agreement, and the balance will be paid within this year.



Nanjing Third Bridge in Jiangsu Province is a key construction project for the “Tenth Five-Year Plan” Period of the State. The bridge and its connecting line has a total length of 15.6 kilometers, and is built as a two-way six-lane passage. The total investment was estimated at RMB3,397 million, of which RMB1,080 million was registered capital. Construction works of Nanjing Third Bridge commenced in May 2003 and is expected to be completed and commence operation in 2006. During the Reporting Period, RMB506 million was invested, with an investment of RMB1,130 million completed in aggregate, representing 36.6% of the total estimated investment. It is intended that all the foundation works of the main bridge and all the underneath structural works of the bridge approach will be completed in 2004, with RMB1,000 million invested in works. Nanjing Third Bridge is the most convenient passage along the Shanghai-to-Chengdu national highway trunk crossing over Yangtze River at Nanjing. It will connect with Shanghai-Nanjing Expressway and Ninghe Expressway, thereby completing the whole Jiangsu portion of the expressway passage from Shanghai to Chengdu. It will contribute to the formation of the east-to-west highway trunk and will enhance the overall traffic network. As the economy of the Yangtze River Delta is developing rapidly, it is an excellent project with good profitability.

## ENTRUSTED CONSTRUCTION MANAGEMENT

Since the Company has accumulated more than ten years’ experience and good result in construction management of Meiguan Expressway, Jihe Expressway and Yanba Expressway, and has successfully achieved effective controls over the pricing and the warranty of high quality and schedule of construction, project construction management has become a core advantage of the Company. Such advantage has provided the Company with the opportunity of developing the project management business for highway engineering projects invested by the government, thereby building a new income base for the Company.

In February and April 2004 respectively, the Company was successfully appointed as project administrator for two construction projects, namely Nanping Project and Hengping Project, mainly responsible for the engineering tendering, construction management during the construction as well as the defect warranty period, cost control and monitoring over construction quality and construction safety.

### Nanping Project

On 11 February 2004, the Company entered into a project management agreement with the Shenzhen Communications Bureau on behalf of the Shenzhen Municipal Government, whereby the Company was appointed as project administrator for Nanping Freeway (Phase 1), which was responsible for the preparation of environmental assessment; preparation of project proposals; engineering tendering (including construction, monitoring, materials and equipment); management and coordination during the construction period and the defect warranty period; cost control and monitoring over construction quality and progress of works; but excluding the engagement and assessment of project planning designs, land requisitions and relocations, organising of submission for (completion) inspection, management and maintenance engagements as well as the organising, coordinating and approving functions which fall within the scope of the related departments of the Shenzhen Municipal Government.

Nanping Freeway is a key municipal construction project invested by the Shenzhen Municipal Government. Phase I work comprises a trunk expressway with a total length of 13.9 kilometers, with a feeder route of 4.17 kilometers in length. It begins from No. 9 Daxuecheng road, Tanglangshan and ends at the Longjing Interchange of Shuiguan Expressway. The construction period of the project is 12 months for the trunk expressway and 18 months for the feeder route, beginning from the date the construction commences for the last section of the project.

Construction sum of the project was estimated at approximately RMB2,268 million. The revenue from the construction management that the Company will be entitled to will be determined upon the saving achieved in construction expenses. If the construction expenses actually saved or over-spent are within 2.5% of the budget, the Company will be entitled to or assume all amount related. If the saving or over-spending exceeds 2.5% of the project budget, the excess amount shall be equally shared or assumed by the Company and the Shenzhen Communications Bureau. The Company shall be responsible for the budgeting of the construction expenses of the project, subject to approval by the Shenzhen Audit Bureau.



## Nanjing Third Bridge

# Nanjing Third Bridge

Nanjing Third Bridge in Jiangsu Province is a key construction project for the "Tenth Five-Year Plan" Period of the State and is expected to be completed and commence operation in 2006. Nanjing Third Bridge is the most convenient passage along the Shanghai-to-Chengdu national highway trunk crossing over Yangtze River at Nanjing. It will connect with Shanghai-Nanjing Expressway and Ninghe Expressway, thereby completing the whole Jiangsu portion of the expressway passage from Shanghai to Chengdu. It will contribute to the formation of the east-to-west highway trunk and will enhance the overall traffic network.

During the first half of this year, works commenced in full scale on eight of the contracted sections, with investment of approximately RMB97 million completed. It is expected that the construction works of the feeder route of Nanping Freeway and the starting point of the trunk up to the Meiling Inspection Station will be completed before 30 April 2005. It is thus assured that the whole project will be completed within the contract period. Subject to the macro-economic control measures introduced by the State, the prices of construction materials fell in April. The Company fundamentally eliminated the risks of up-surge in prices for construction materials. During the Reporting Period, tenders in respect of 9 contracted sections with total contract value of RMB860 million have been completed, with prices awarded on the contracts all falling within budget.

As at 30 June 2004, RMB400 million was received by the Company as the first installment of construction expenses from the Shenzhen Municipal Government. Construction expenses of RMB76,426,000 were paid in aggregate.

## Hengping Project

On 12 March 2004, the Company entered into a project management agreement with Longgang District Highway Office on behalf of the People's Government of Longgang District, Shenzhen, whereby the Company was appointed as project administrator for the construction of the western section of Hengping Class I Highway with a total length of 17.182 kilometers. The Company will be responsible for the preparation of the relevant application procedures of the construction commencement report; engineering tendering (including construction, monitoring, materials and equipment); construction management during the project construction stage (from commencement until delivery for inspection); management of the defect warranty period of the project; monitoring on construction quality and construction safety; survey, design and monitoring of construction blueprint and assisting in delivery inspections; but excluding engagement and assessment of project plan designs, land requisitions and reallocations, organising of submission for (completion) inspection, operation management, management and maintenance engagements as well as the organising, coordinating and approving functions which fall within the scope of the related departments of the Shenzhen Municipal Government.

Construction sum of the project was estimated at approximately RMB450 million. Management revenue that the Company will be entitled to will be determined upon the saving achieved. If there is saving or over-spending in the actual construction expenses of the project, the Company will be entitled to or assume any such saving or over-spending.

Hengping Class I Highway starts from the Henggang exit of Shuiguan Expressway, runs westward until the outbound road of Longgang City, and connects with Huiyian Expressway in the southwest. It consists of a main trunk with a total length of 45.842 kilometers, and a feeder route of approximately 4.546 kilometers. The construction period of the project starts from the date when all tenders with respect to road foundation and tunnel construction were completed and the notices of awards are issued to the winner. It will take 18 months to complete the construction of the main trunk.

During the first half of this year, tenders for the construction of road foundation and bridge culvert, tenders for monitoring and tenders for material supplies were completed. The Company aims at completing 30% of works with respect to road foundation and bridge culvert by the end of this year.

## PROSPECTS AND OUTLOOK

In 2004, the Company expects to see continued increase in traffic demand on the expressways operated by the Group, fueled by the full implementation of CEPA and Shenzhen's rapid economic growth - especially in terms of the continued growth in small vehicle ownership and in external trade. The fact that Guangdong Province aims to build expressways totalling 4,000 kilometres by 2007 and the establishment of the "9+2" PPRD Economic Zone will provide ample room for development as well as an excellent business environment for the Company's expressway operation. Meanwhile, the PRC Government tightened its macro-economic control measures during the first half of 2004, which indirectly created more acquisition opportunities for the Company. The Company will continuously improve the profitability, its investment return and its net asset return of its core business, bringing ever-improving returns to shareholders by adhering to its development strategy with toll road operation as its core business, its investment strategy expanding towards the PPRD as well as other economically developed regions in the PRC through establishing foothold in Shenzhen.

## OTHER MATTERS

### REPURCHASE OF H SHARES

The Company has obtained the approval of the China Securities Regulatory Commission to repurchase its H shares and has passed a resolution for the repurchase of H shares at a general meeting held on 30 May 2004.

The Company is well prepared for the repurchase pursuant to the relevant regulations and requirements. During the Reporting Period, there was no repurchase of shares by the Company.

### USE OF PROCEEDS

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

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

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

After Yanba B came into operation, it formed a local transportation network with Yanba A. This in turn enhanced the traffic volume and toll revenue from Yanba Expressway.

### MATERIAL CONTRACTS AND THEIR PERFORMANCE

As at 30 June 2004, the material contracts being performed by the Group included:

1. The Company entered into composite facility agreements with a few banks, with a consolidated credit facility of RMB4.09billion. During the Reporting Period, a facility limit of RMB460 million has been utilized.
2. **Pledge of assets**

Qinglong Company, a jointly controlled entity with 40% owned by the Group, has the following asset pledged to the bank:

Asset under pledge	Pledgee bank	Scope of security	Term of pledge
Toll collection rights of Shuiguan Expressway	Bank of China, Shenzhen Branch	550 million Principal and interests	up to full payment

In February 2004, Qinglong Company repaid in advance the loan obtained through the Communications Department of Guangzhou Province extended by the China Development Bank in the amount of RMB550 million with the pledge on the toll collection rights of Shuiguan Expressway as security. In February 2004, Qinglong Company entered into a loan agreement with the Bank of China, Shenzhen Branch, for a loan of RMB550 million with the pledge on the toll collection rights of Shuiguan Expressway as security. The term of loan was 12 months and the annual interest rate was 10% discount of the basis rate quoted by The People's Bank of China. The security was provided against the repayment of the principal and payment of interests with respect to the loan in the amount of RMB550 million, until such principal and interests were settled in full.

3. **Entrusted Construction Management**

During the Reporting Period, the Company entered into a project management agreement for the construction of Nanping Project with the Shenzhen Communications Bureau, where the Company was appointed as manager of the project.

During the Reporting Period, the Company entered into a project management agreement for part of the construction of Hengping Project with Longgang District Highway Office, where the Company was appointed as manager of the project.

## CONNECTED TRANSACTIONS

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

## EMPLOYEES, REMUNERATION AND TRAINING

As at 30 June 2004, the Group had a total of 1,073 employees, of whom 256 were administrative and technical staff, 817 were toll collection staff.

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

The Company places a lot of emphasis on staff training. During the Reporting Period, eight training courses covering seminars on corporate culture and human resources knowledge, performance administration, briefings on the “Construction Project Management Manual” and job training for new staff. A total of 688 attendees were benefited from the trainings. At the same time, many specific internal training sessions were carried out by various departments according to the annual training programme.

## DISTRIBUTION OF PROFITS FOR YEAR 2003

Approved in the 2003 annual general meeting, the plan for the distribution of profit for 2003 was: Based on the capital structure of the Company at a total of 2,180,700,000 shares at the close of 2003, a final dividend of RMB0.19 per share was to be distributed to all shareholders, aggregate of which would amount to RMB414,333,000. The plan was implemented before 6 May 2004.

## DISTRIBUTION OF PROFIT FOR THE INTERIM OF 2004

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

## PROFIT FORECAST

With the economic development and the increase in the rate of possession of motor vehicles in Shenzhen, it is estimated that the toll collection business of the expressways operated by the Company will grow further steadily. However, in accordance with the accounting standards of Hong Kong and the PRC, the profit generated from the transfer of two national highways has been recorded in the accounts of 2003. Therefore, it is estimated that the profit of the Group for the first three quarters of 2004 will be significantly less than that for the corresponding period of 2003.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

## COMPLIANCE WITH MODEL CODE

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

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

## AUDIT COMMITTEE

In line with good corporate governance practice, an Audit Committee has been established since August 1999, primarily responsible for the monitoring and reviewing of the Group's financial reporting quality and procedures, reliability of the internal control systems and effectiveness of the external audit process.

The current Audit Committee comprises experienced accounting, securities or financial professionals, whereas the majority of them also serve as the independent non-executive directors of the Company. The chairman of the Audit Committee, an independent director, is a fellow of both the Institute of Chartered Accountants in Australia and the Hong Kong Society of Accountants. He has 35 years of experience in the accounting profession.

At the date of this report, the Audit Committee has held four formal meetings principally to deal with, inter alia, the appointment of external auditors; the review of 2003 annual report, 2004 first quarter and interim reports and the performance of the Internal Audit Department.

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

## PURCHASE, SALE OR REDEMPTION OF SHARES

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

## DISCLOSURE OF INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

- (a) As at 30 June 2004, the interests and short positions (including deemed interest within the meaning of the Securities and Futures Ordinance) of the directors or supervisors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to divisions 7 and 8 of Part XV of the Securities and Futures Ordinance, or which are required to be entered into the register kept by the Company under section 352 of the Securities and Futures Ordinance, or are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code regarding directors' securities transactions, are set out as follows:

Number of units in the share appreciation right scheme collectively held by the senior management and management staff of the Company is 5,501,400. Subject to the approval of Human Resources and Nomination Committee of the Company, the following directors and supervisors may be granted part of the receipts from the exercise of such rights as incentives:

Name	Number of Units Involved	Exercise Price	Exercisable Date
Wu Ya De	2,750,700 (Note 3)	Note 1	16 March 2004
(Director)	2,750,700 (Note 3)	Note 2	16 March 2005
Zhang Rong Xing	2,750,700 (Note 3)	Note 1	16 March 2004
(Director)	2,750,700 (Note 3)	Note 2	16 March 2005
Yi Ai Guo	2,750,700 (Note 3)	Note 1	16 March 2004
(Supervisor)	2,750,700 (Note 3)	Note 2	16 March 2005

Notes:

- The receipts from exercise of the units represent the difference between RMB3.456 per unit and the arithmetic average of the closing price of the listed shares of the Company during the period of 16 March 2003 to 15 March 2004.
- The receipts from exercise of the units represent the difference between RMB3.456 per unit and the arithmetic average of the closing price of the listed shares of the Company during the period of 16 March 2004 to 15 March 2005.
- Number of units collectively held by the senior management and the management staff of the Company from the relevant date of exercise.

The aforesaid units collectively held by the senior management and the management staff of the Company from the relevant date of exercise were granted under the share appreciation right scheme approved by the shareholders on 6 March 2001 and amended by the shareholders on 30 October 2003. After the amendment, the units granted under such scheme are held by the senior management and management staff of the Company instead of holding by individual. The timing and the price of the exercise are amended to that the receipts from the exercise of the units represent the difference between issued price and the arithmetic average of the closing price of the listed shares of the Company during the period of exercise. And the receipts from exercise of the units shall be applied as special incentive fund and distributed by the Company according to the proposal putting forward by Human Resources and Nomination Committee.

- (b) Apart from those disclosed above:
- (i) As at 30 June 2004, there is no interests and short positions (including deemed interest within the meaning of the Securities and Futures Ordinance) of the directors or supervisors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which are required to be notified to the Company and the Hong Kong Stock Exchange under divisions 7 and 8 of Part XV of the Securities and Futures Ordinance, or which are required to be entered into the register kept by the Company pursuant to section 352 of the Securities and Futures Ordinance, or are required to be notified to the Company and the Hong Kong Stock Exchange.
  - (ii) No director has any direct or indirect interests in any assets purchased by or sold or leased to the Company or any of its member companies or proposed to be purchased by or sold or leased to the Company or any of its member companies from 31 December 2003 (the date of the latest audited accounts of the Group).
  - (iii) None of the directors has any material interests in any contracts or arrangements entered into by any member companies of the Group which as at the date of the report are still binding to and have material impacts on the business of the Group.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2004, shareholders directly or indirectly interested in 5% or more of the issued share capital of the Company as recorded in the register required to be kept by the Company under section 336 of the Securities and Futures Ordinance are as follows:

Name of substantial shareholder	Class of shares	Number of shares held	Percentage of the total issued share capital
Xin Tong Chan Development (Shenzhen) Company Limited	Legal Person shares	654,780,000	30.03%
Shenzhen Shen Guang Hui Highway Development Company	Legal Person shares	457,780,000	20.99%

Save as disclosed above, the register required to be kept under section 336 of the Securities and Futures Ordinance showed that the Company had not been notified of any interest or short positions in the shares and underlying shares of the Company.

By Order of the Board  
**Chen Chao**  
*Chairman*

Shenzhen, the PRC, 6 August 2004



## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004

		Unaudited Six months ended 30 June	
	Note	2004 RMB'000	2003 RMB'000 (Restated)
Turnover	3	218,610	207,357
Other revenues	3	50,311	33,038
Gain on disposal of assets	4	—	691,416
Depreciation		(42,247)	(40,359)
Staff costs	5	(12,727)	(15,828)
Road maintenance expenses		(1,246)	(2,805)
Other operating expenses		(17,034)	(13,172)
Operating profit		195,667	859,647
Finance costs		(803)	(8,494)
Share of profits less losses			
- Jointly controlled entities		54,152	38,901
- Associated companies		(221)	—
Profit before taxation		248,795	890,054
Taxation	6	(36,322)	(135,122)
Profit after taxation		212,473	754,932
Minority interests		(3,768)	(2,718)
Profit attributable to shareholders		208,705	752,214
Interim dividends	7	—	—
Earnings per share	8	RMB0.096	RMB0.345

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004 and 31 December 2003

	Note	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
<b>Non current assets</b>			
Goodwill	9	5,074	5,614
Fixed assets	9	3,269,794	3,306,899
Construction in progress	9	137,166	39,849
Interests in jointly controlled entities	10	1,303,358	1,319,175
Interests in associated companies	11	606,593	—
Long-term receivables	4	372,946	372,946
		<u>5,694,931</u>	<u>5,044,483</u>
<b>Current assets</b>			
Inventories		6,461	6,131
Amount due from a jointly controlled entity	12	1,095	637
Current portion of long-term receivables	4	667,220	649,330
Other receivables, prepayments and deposits	13	34,907	13,574
Restricted cash	13	323,574	—
Bank balances and cash		675,135	1,274,818
		<u>1,708,392</u>	<u>1,944,490</u>
<b>Current liabilities</b>			
Other payables and accrued expenses	13	488,549	192,760
Taxation payable		12,552	121,291
Current portion of long-term liabilities	14	3,082	3,082
Dividend payable		29,290	—
Short-term bank loans, unsecured		360,000	40,000
		<u>893,473</u>	<u>357,133</u>
<b>Net current assets</b>		<u>814,919</u>	<u>1,587,357</u>
<b>Total assets less current liabilities</b>		<u>6,509,850</u>	<u>6,631,840</u>
<b>Financed by:</b>			
Share capital		2,180,700	2,180,700
Reserves		3,127,484	3,127,484
Proposed dividend		—	414,333
Retained earnings		568,257	359,552
		<u>5,876,441</u>	<u>6,082,069</u>
Shareholders' funds		5,876,441	6,082,069
Minority interests		50,696	49,967
<b>Non-current liabilities</b>			
Long-term liabilities	14	200,814	102,389
Deferred tax liabilities	15	47,052	42,943
Deferred income	16	334,847	354,472
		<u>6,509,850</u>	<u>6,631,840</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Share capital RMB'000	Unaudited		Total RMB'000
		Reserves RMB'000	Retained earnings RMB'000	
At 1 January 2004	2,180,700	3,127,484	773,885	6,082,069
Profit for the period	—	—	208,705	208,705
Dividends declared for 2003	—	—	(414,333)	(414,333)
At 30 June 2004	<u>2,180,700</u>	<u>3,127,484</u>	<u>568,257</u>	<u>5,876,441</u>
As at 1 January 2003, as restated	2,180,700	2,938,740	325,841	5,445,281
Profit for the period, as restated	—	—	752,214	752,214
Dividends declared for 2002	—	—	(261,684)	(261,684)
Others	—	(900)	—	(900)
At 30 June 2003	<u>2,180,700</u>	<u>2,937,840</u>	<u>816,371</u>	<u>5,934,911</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	Unaudited	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Net cash inflow from operating activities	134,987	135,911
Net cash (outflow)/inflow from investing activities	(695,058)	188,060
Net cash inflow/(outflow) from financing activities	30,388	(620,526)
Decrease in cash and cash equivalents	(529,683)	(296,555)
Cash and cash equivalents at beginning of the period	1,204,818	760,736
Cash and cash equivalents at end of the period	675,135	464,181
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	675,135	654,181
Fixed bank deposits with maturity over 3 months	—	(190,000)
	675,135	464,181

## NOTES TO THE INTERIM ACCOUNTS

### 1 GENERAL

Shenzhen Expressway Company Limited (the “Company”) was established as a joint stock limited company in the People’s Republic of China (the “PRC”) on 30 December 1996. The principal activities of the Company and its subsidiaries (collectively the “Group”), jointly controlled entities and associated companies are the development, operation and management of toll highways and expressways in the PRC.

### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25: “Interim financial reporting”, issued by the Hong Kong Society of Accountants. This basis of accounting differs in certain material respects from that used in the preparation of the Group’s statutory accounts in the PRC. The PRC statutory accounts of the Group have been prepared in accordance with applicable accounting principles and financial regulations in the PRC. Appropriate restatements have been made to the PRC statutory accounts to conform with the accounting principles generally accepted in Hong Kong (“HK GAAP”). Differences arising from the restatements are not incorporated in the Group’s accounting records.

These interim accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2003 except that the Group has adopted SSAP 10 – “Accounting for Investment in Associates” following the acquisitions of interests in associated companies during the period. Details of the relevant policies are as follows:

#### Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group’s share of the results of associated companies for the period, and the consolidated balance sheet includes the Group’s share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group’s interest in the associated companies; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### 3 TURNOVER AND REVENUE

Revenues recognised during the period are as follows:

	Note	Six months ended 30 June	
		2004 RMB'000	2003 RMB'000
Turnover	(a)		
Income from toll roads		230,619	218,731
Less: taxes related to toll income	(b)	(12,009)	(11,374)
		<u>218,610</u>	<u>207,357</u>
Other revenues			
Interest income from bank deposits		7,053	5,239
Interest income from a long-term loan		—	8,447
Imputed interest income on instalments	4	17,890	—
Income from construction management services		1,385	1,471
Government subsidies	16	19,625	15,501
Others		4,358	2,380
		<u>50,311</u>	<u>33,038</u>
Total revenues		<u>268,921</u>	<u>240,395</u>

(a) No segment information is presented as all turnover of the Group is toll income derived from toll roads in the PRC.

(b) Taxes related to toll income are as follows:

- PRC business tax at 5% on toll income
- City development tax at 1% of the PRC business tax
- Education supplementary tax at 3% of the PRC business tax

### 4 DISPOSAL OF ASSETS

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

The consideration and extra compensation are recorded as long-term receivables. Since certain portions of the consideration and the extra compensation are to be settled by instalments, the Company calculated the present value of the total consideration by discounting the expected future receipts using an imputed rate of interest of 3.5% per annum, being the prevailing rate for a similar financial instrument issued by an issuer in the PRC with a similar credit rating. The imputed interest income is recognised as other revenue over the instalment period.

## 5 STAFF COSTS

	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000
Wages and salaries	9,391	11,660
Pension costs - defined contribution plans	627	804
Other staff welfare benefits	2,709	3,364
	<u>12,727</u>	<u>15,828</u>

## 6 TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000 (Restated)
Current taxation		
- PRC enterprise income tax	23,805	18,906
- PRC enterprise income tax on disposal of assets	—	105,144
Deferred taxation	4,109	3,880
	<u>27,914</u>	<u>127,930</u>
Share of taxation attributable to jointly controlled entities	8,408	7,192
	<u>36,322</u>	<u>135,122</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the location of the Company as follows:

	Six months ended 30 June	
	2004 RMB'000	2003 RMB'000 (Restated)
Profit before taxation	<u>248,795</u>	<u>890,054</u>
Calculated at a taxation rate of 15% (2003: 15%)	37,319	133,508
Effect of different taxation rates in other locations	765	717
Income not subject to taxation	(5,627)	(18,242)
Expenses not deductible for taxation purposes	1,595	16,427
Unrecognised tax losses	3,323	2,914
Share of preferential tax benefits of jointly controlled entities	(1,053)	(202)
Taxation charge	<u>36,322</u>	<u>135,122</u>

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

## 7 DIVIDENDS

The directors do not recommend the payment of an interim dividend for the period (2003: Nil).

## 8 EARNINGS PER SHARE

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

## 9 CAPITAL EXPENDITURES

	Goodwill RMB'000	Fixed assets RMB'000	Construction in progress RMB'000
Opening net book amount as at 1 January 2004	5,614	3,306,899	39,849
Transfer of construction in progress to fixed assets	—	2,378	(2,378)
Other additions	—	4,288	100,031
Disposals	—	(1,261)	—
Depreciation/amortisation charge	(540)	(42,247)	—
Others	—	(263)	(336)
	<u>5,074</u>	<u>3,269,794</u>	<u>137,166</u>
Closing net book amount as at 30 June 2004	<u>5,074</u>	<u>3,269,794</u>	<u>137,166</u>

## 10 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Note	30 June 2004 RMB'000	31 December 2003 RMB'000
Share of net assets other than goodwill	(a)	368,245	354,998
Goodwill on acquisition less accumulated amortisation	(b)	10,734	10,773
Provision for impairment of goodwill	(b)	(9,060)	(9,060)
		<u>369,919</u>	<u>356,711</u>
Advances to jointly controlled entities	(c)	933,439	962,464
Loans to a jointly controlled entity	(d)	46,464	46,464
Provision for doubtful loans	(d)	(46,464)	(46,464)
		<u>933,439</u>	<u>962,464</u>
Interests in jointly controlled entities		<u>1,303,358</u>	<u>1,319,175</u>



## 10 INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

- (a) As at 30 June 2004, all jointly controlled entities companies were incorporated and operating in the PRC. Details of these companies are set out as below:

Name	Nature of legal entity	Principle activities	Interest held directly
Qinglong Company	Sino-foreign cooperative enterprise	Construction, operation and management of expressways	40%
Shenzhen Jihe Expressway (Eastern Section) Company Limited ("Airport-Heao Eastern")	Sino-foreign cooperative enterprise	Construction, operation and management of expressways	55%
Shenchang Company	Limited liability company	Construction, operation and management of expressways	51%
Yungang Company	Sino-foreign cooperative enterprise	Construction, operation and management of bridges	42%
Wutongling Ropeway	Limited liability company	Construction, operation and management of a cable car project	40%

- (b) The goodwill arising from the acquisition of Wutongling Ropeway in 1999 amounting to Rmb9,060,000 had been fully provided for impairment loss in prior years. The goodwill arising from the acquisition of Qinglong Company in 2002 amounted to RMB1,791,000. The amortisation charge of such goodwill during this period was RMB39,000 and the accumulated amortisation as at the period end was RMB117,000.
- (c) The advances are unsecured, non-interest bearing and are repayable out of the funds to be generated from the respective toll road projects. In the opinion of the directors, there is no recoverability problem associated with the advances.
- (d) The loans were advanced to Wutongling Ropeway and secured by various equipment and operating facilities of Wutongling Ropeway. The loans are interest bearing at prevailing bank loan borrowing rates in the PRC and have no fixed terms of repayment. Full provision for impairment loss against the loans had been made in prior years as Wutongling Ropeway did not commence operation as originally scheduled.

## 11 INTERESTS IN ASSOCIATED COMPANIES

	30 June 2004 RMB'000	31 December 2003 RMB'000
Share of net assets other than goodwill	529,748	—
Goodwill on acquisition	76,845	—
	<u>606,593</u>	<u>—</u>

As at 30 June 2004, all associated companies were incorporated and operating in the PRC with limited liabilities. Details of these companies are set out as follows:

Name	Principal activities	Interest held directly
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong")	Construction, management and operation of expressways	25%
Guangzhou West Ring 2 Expressway Company Limited (" West Ring 2")	Construction, management and operation of expressways	25%
Shenzhen Huayu Expressway Investment Co., Ltd. ("Huayu")	Development, investment and operation of expressways	40%
Shenzhen Expressway Project Consulting Co., Ltd. ("Project Consulting") (note (a))	Consulting service on project management and engineering; sales of engineering materials	30%
Nanjing Yangtz River No.3 Bridge Co., Ltd. ("Nanjing No.3 Bridge")	Construction, management and operation of bridges	25%
Guangdong Yangmao Expressway Company Limited. ("Yangmao")	Construction, management and operation of expressway	25%

- (a) During the period, the equity interest of Project Consulting held by the Company decreased from 70% to 30% following the addition of a new investor and as a result, the Company reduced its control over Project Consulting. Therefore, the Company's interest in Project Consulting is reclassified from subsidiary to associated company.
- (b) Except for Project Consulting, the above associated companies were incorporated/acquired during the period and have not yet commenced operation.

## 12 AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount mainly represents net amount of toll income collected by a jointly controlled entity, Airport-Heao Eastern, on behalf of the Group against the amount collected by the Group on behalf of Airport-Heao Eastern. The amount is unsecured, interest free and settled on a monthly basis. The age of the balance was within one month.

## 13 OTHER RECEIVABLES, OTHER PAYABLES AND RESTRICTED CASH AT BANK

During the period, the Company entered into two project construction management agreements with the Shenzhen Longgang Road Bureau and Shenzhen Communications Bureau, respectively. The Company was appointed as the project manager for these projects and it undertakes to enter into construction contracts with other suppliers on behalf of these government departments (note 17(b)). As at 30 June 2004, both of these projects were only at their preliminary stages of planning and construction. Consequently, no fee revenue or losses were determinable for inclusion in this interim accounts for the six months then ended.

Pursuant to one of the relevant agreements, the Company has paid RMB15,000,000 to the Shenzhen Longgang Road Bureau as guarantee deposits. In addition, advance totalling RMB293,000 was made by the Company on behalf of the bureau for the relevant project. These amounts were recorded as other receivables in the balance sheet.

For another project, the Company received a sum of RMB400,000,000 from the Shenzhen Communications Bureau during the period and settled RMB76,426,000 on its behalf. The remaining balance was recorded as other payables and reflected as restricted cash in the balance sheet.

## 14 LONG-TERM LIABILITIES

	30 June 2004 RMB'000	31 December 2003 RMB'000
Bank loans		
- Secured	35,442	36,177
- Unsecured	100,000	—
Other long-term payables	54,000	54,000
Advance from a minority shareholder	14,454	15,294
	<u>203,896</u>	<u>105,471</u>
Current portion of long-term liabilities	(3,082)	(3,082)
	<u>200,814</u>	<u>102,389</u>

At 30 June 2004, the Group's bank loans and other borrowings were repayable as follows:

	Bank loans		Other borrowings	
	30 June 2004 RMB'000	31 December 2003 RMB'000	30 June 2004 RMB'000	31 December 2003 RMB'000
Within 1 year	360,000	40,000	3,082	3,082
In the second to fifth year	100,000	—	19,401	19,401
After the fifth year	—	—	81,413	82,988
	<u>460,000</u>	<u>40,000</u>	<u>103,896</u>	<u>105,471</u>

## 15 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 15%(2003 : 15%).

The movements of the deferred tax liabilities account are as follows:

	Note	Six months ended 30 June 2004 RMB'000	Year ended 31 December 2003 RMB'000
At the beginning of the period/year		42,943	36,754
Charged to profit and loss account	6	4,109	6,189
At the end of the period/year		47,052	42,943

## 16 DEFERRED INCOME

	Six months ended 30 June 2004 RMB'000	Year ended 31 December 2003 RMB'000
At beginning of the period/year	354,472	240,312
Transferred from other long-term payables	—	150,000
Income recognised for the period/year	(19,625)	(35,840)
At end of the period/year	334,847	354,472

Deferred income represents government grants provided to the Company in relation to subsidies for toll revenue of the Yanba Expressway Section A and Section B and is recognised in the profit and loss account over the period for which the Company is granted the right to operate the related expressway.

## 17 COMMITMENTS AND CONTINGENT LIABILITIES

- (a) As at 30 June 2004, the Group had the following capital commitments for construction of expressways and related investments:

	30 June 2004 RMB'000	31 December 2003 RMB'000
Capital commitments		
- contracted but not provided for	510,000	328,000
- authorised but not contracted for	<u>1,088,000</u>	<u>1,197,000</u>
	1,598,000	1,525,000
Investment commitments		
- contracted but not provided for	555,270	—
- authorised but not contracted for	<u>—</u>	<u>611,000</u>
	<u>2,153,270</u>	<u>2,136,000</u>

- (b) As detailed in Note 13, the Company had entered into two construction project management agreements with two government departments. Pursuant to the agreements, construction contracts will be entered into by the Company with suppliers on behalf of these government departments, while the government departments will provide funds for financing the projects. As at 30 June 2004, the Company had the following commitments for contracts entered into with suppliers:

	30 June 2004 RMB'000	31 December 2003 RMB'000
Contracted but not provided for	<u>1,133,649</u>	<u>—</u>

According to the above agreements, the Company is responsible for cost overrun arising from the projects. For the project with a total budget contract sum of about RMB450 million, the Company has to bear all the expenditures exceeding the assigned budget. For another project with a total budget sum of about RMB2,268 million, if the final costs exceed the budget by less than 2.5%, the Company has to bear all of the overrun; and if the final costs exceed the budget by more than 2.5%, the Company will share the overrun with the government department of the portion exceeding 2.5% of the budget.

## 18 RELATED PARTY TRANSACTIONS

Related party transactions during the period are as below:

- (a) The Company acquired 25% equity interest in Yangmao at a consideration of RMB271,680,000 from Guangdong Expressway Company Limited, a fellow subsidiary of a shareholder of the Company – Guangdong Roads and Bridges Development Company (“Guangdong Roads and Bridges Company”).
- (b) The Company acquired 25% equity interest in Jiangzhong at a consideration of RMB169,500,000 from Guangdong Roads Construction Company Limited, a fellow subsidiary of Guangdong Roads and Bridges Company.

## 19 COMPARATIVES

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

	For the six months ended 30 June 2003			As at 1 January 2003	
	Taxation	Minority interests	Profit attributable to shareholders	Reserves	Retained earnings
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As previously reported	128,344	2,758	758,952	2,951,138	373,415
Effect of adopting SSAP 12 (Revised)	6,778	(40)	(6,738)	(12,398)	(47,574)
As restated	<u>135,122</u>	<u>2,718</u>	<u>752,214</u>	<u>2,938,740</u>	<u>325,841</u>

## SUPPLEMENTARY INFORMATION

### RECONCILIATION OF ACCOUNTS

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

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



In this report, the following expressions have the meanings set out below unless the context requires otherwise:

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 Renminbi and are listed on SSE
Advertising Company	Shenzhen Expressway Advertising Company Limited
The Board	The board of directors of the Company
Changsha Ring Road	The northwestern section of the ring road surrounding Changsha City in Hunan Province
The Company, Company	Shenzhen Expressway Company Limited
CSRC	China Securities Regulatory Commission
The directors	The directors of the Company
Engineering Consulting Company	Shenzhen Expressway Engineering Consulting Company Limited
Geputan Bridge	Hubei Geputan Bridge, located in Yungang Town
The Group, Group	Shenzhen Expressway Company Limited and its subsidiaries
Guangdong Roads	Guangdong Roads and Bridges Construction Development Company Limited
Guangzhou Western Second Ring Expressway	The western section of the ring expressway surrounding Guangzhou City in Pearl River Delta Region, running from Xiaotang to Maoshan
H Shares	Overseas listed Foreign Share(s) of nominal value of RMB1.00 each in the capital of the Company which are listed on the Stock Exchange and subscribed for in HK dollars
Hengping Project	Western section of Hengping Class 1 Highway in Longgang District of Shenzhen City
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administration Region
HKEX	The Stock Exchange of Hong Kong Limited
Huajian Centre	Huajian Transportation and Economic Development Centre
Huayu Company	Shenzhen Huayu Expressway Investment Company Limited, operating Shuiguan Extension

Jiangzhong Expressway	The expressway from Zhongshan City to Jiangmen City and the second phase of the expressway from Jiangmen City to Heshan City in Guangdong province
Jihe East	Shenzhen Jihe Expressway (Eastern Section)
Jihe Expressway	Shenzhen Jihe Expressway comprising the eastern and western sections
Jihe West	Shenzhen Jihe Expressway (Western Section)
Meiguan Expressway	Shenzhen Meiguan Expressway
Mei Wah Company	Mei Wah Industrial (Hong Kong) Limited, which owns a 42% equity interest in Yungang Company
Nanjing Third Bridge	Nanjing-Yangtze Third Bridge, located 19km upper-stream of the Nanjing-Yangtze Bridge and connected with Shanghai-Nanjing Expressway and Ninghe Expressway
Nanping Project	Phase 1 works of Nanping Freeway in Shenzhen City
NH107	National Highway 107 (Shenzhen Section)
NH205	National Highway 205 (Shenzhen Section)
The Reporting Period	Six months ended 30 June 2004
Qinglong Company	Shenzhen Qinglong Expressway Company Limited, operating Shuiguan Expressway
RMB	Renminbi, the lawful currency of the PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shenchang Company	Changsha Shenchang Expressway Company Limited, operating Changsha Ring Road
Shen Guang Hui Company	Shenzhen Shen Guang Hui Highway Development Company, a major shareholder of the Company
Shuiguan Expressway	The expressway from Shuijing Village in Shenzhen Buji Town to Longgang Town, also referred to as the "No. 2" Longgang Passage
Shuiguan Extension	An extension to the Shuiguan Expressway running from Qingshuihe Checkpoint to Longgang Interchange
SSE	The Shanghai Stock Exchange

Wutongling Ropeway	Shenzhen Wutongling Ropeway Company Limited
Xin Tong Chan Company	Xin Tong Chan Development (Shenzhen) Company Limited, a major shareholder of the Company
Yanba A	Shenzhen Yantian-Bagang Expressway (Section A)
Yanba B	Shenzhen Yantian-Bagang Expressway (Section B)
Yanba Expressway	Shenzhen Yantian-Bagang Expressway
Yangmao Expressway	A section of the national trunk road from Tongjiang to Sanya Expressway, running from Guangdong Yangjiang City to Maoming City in Guangdong Province, with a length of 79.76km in total
Yanpai Expressway	Shenzhen Yanpai Expressway, running from Shenzhen Yantian Port to Paibang Interchange (Also known as Jihe Expressway Yantian Subsidiary road)
Yungang Company	Hubei Yungang Transportation Development Company Limited, constructing and operating Geputan Bridge

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

**Directors:**

Chen Chao (Chairman)  
Wu Ya De (Director & General Manager)  
Zhang Rong Xing (Director & Company Secretary)  
Clifton Chiu Chi Cheong  
Zhong Shan Qun  
Tao Hong  
Lin Xiang Ke  
Zhang Yang

**Independent directors:**

Denis Ho Pak Cho  
Li Zhi Zheng  
Zhang Zhi Xue  
James K.L. Poon

### SUPERVISORS

Wang Ji Zhong (Chairman)  
Yang Qin Hua  
Yi Ai Guo

### COMPANY SECRETARY

Zhang Rong Xing

### LEGAL ADDRESS

19/F, Tower A, United Plaza  
5022 Binhe Road North  
Shenzhen 518033  
PRC  
Tel: 86-755-82945880  
Fax: 86-755-82910696  
Website: <http://www.sz-expressway.com>

### LISTING EXCHANGES

H Shares:  
The Stock Exchange of Hong Kong Limited  
Stock Code: 0548  
A Shares:  
Shanghai Stock Exchange  
Stock Code: 600548

### PLACE OF BUSINESS IN HONG KONG

Suite 2911-2912, 29th Floor  
Two International Finance Centre  
No.8 Finance Street  
Central  
Hong Kong  
Tel: 852-25430633  
Fax: 852-25439996

### AUDITORS

**International Auditor:**

PricewaterhouseCoopers  
Certified Public Accountants  
22nd Floor, Prince's Building  
Central, Hong Kong

**Statutory Auditor:**

PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd.  
11/F PricewaterhouseCoopers Centre,  
202 Hubin Road, Shanghai

### LEGAL ADVISERS

**Hong Kong Adviser:**

Loong & Yeung, Solicitors  
In association with Rodyk & Davidson  
Suites 2911-2912, 29th Floor  
Two International Commercial Building  
8 Finance Street  
Central, Hong Kong

**PRC Legal Adviser:**

Guangdong Junyan Law Firm  
16/F, B Tower  
International Commercial Building  
First Fuhua Road  
Shenzhen, PRC

### INVESTOR RELATIONS CONSULTANT

Rikes Communications Limited  
Room 1312, Wing On Centre  
111 Connaught Road Central  
Hong Kong

### SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Hong Kong Registrars Limited  
Rooms 1901-1905, 19th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

### PRINCIPAL BANKERS

The Industrial and Commercial Bank of China,  
Futian Sub-branch  
China Merchants Bank,  
Huanggang Sub-Branch