

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the six months ended 30th June 2003

	Note	Unaudited Six months ended 30th June	
		2003 RMB'000	2002 RMB'000 (Restated)
Turnover	3	207,357	250,011
Other revenues	3	33,038	37,974
Gain on disposal of assets	4	691,416	—
Depreciation and amortisation		(40,359)	(44,939)
Staff costs	5	(15,828)	(20,719)
Road maintenance expenses		(2,805)	(8,527)
Other operating expenses		(13,172)	(19,612)
Operating profit	6	859,647	194,188
Finance costs		(8,494)	(15,137)
Share of profits less losses of jointly controlled entities		38,901	31,194
Profit before taxation		890,054	210,245
Taxation	7	(128,344)	(24,315)
Profit after taxation		761,710	185,930
Minority interests		(2,758)	(2,730)
Profit attributable to shareholders		758,952	183,200
Dividends	8	261,684	218,070
Earnings per share	9	RMB34.80 cents	RMB8.40 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2003 and 31st December 2002

	Note	Unaudited 30th June 2003 RMB'000	Audited 31st December 2002 RMB'000
Fixed assets		3,337,137	4,205,215
Interests in jointly controlled entities	10	1,437,720	1,264,234
Long-term receivables	11	1,022,276	—
Construction in progress		23,555	269,146
Current assets			
Inventories		5,864	5,892
Amount due from a jointly controlled entity	12	460	1,124
Other receivables, prepayments and deposits		559,503	16,179
Bank balances and cash		654,181	962,736
		1,220,008	985,931
Current liabilities			
Other payables and accrued charges		240,172	145,484
Taxation payable		112,873	4,563
Short-term bank loans, secured		—	480,000
Short-term bank loans, unsecured		205,000	130,000
		558,045	760,047
Net current assets		661,963	225,884
Total assets less current liabilities		6,482,651	5,964,479
Financed by:			
Share capital		2,180,700	2,180,700
Reserves		2,950,238	2,951,138
Retained earnings	13	870,683	111,731
Proposed final dividend	13	—	261,684
Shareholders' funds		6,001,621	5,505,253
Minority interests		52,209	51,288
Long-term liabilities		204,010	167,626
Deferred income	14	224,811	240,312
		6,482,651	5,964,479

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2003

	Unaudited	
	Six months ended 30th June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Net cash inflow from operating activities	<u>135,911</u>	198,348
Net cash inflow/(outflow) from investing activities	<u>188,060</u>	(49,057)
Net cash outflow from financing activities	<u>(620,526)</u>	(269,338)
Decrease in cash and cash equivalents	(296,555)	(120,047)
Cash and cash equivalents at 1st January	<u>760,736</u>	900,813
Cash and cash equivalents at 30th June	<u>464,181</u>	<u>780,766</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	654,181	817,766
Fixed bank deposits with maturity over 3 months	<u>(190,000)</u>	<u>(37,000)</u>
	<u>464,181</u>	<u>780,766</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30th June 2003

	Unaudited			Total <i>RMB'000</i>
	Share capital <i>RMB'000</i>	Reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	
At 1st January 2003	2,180,700	2,951,138	373,415	5,505,253
Profit for the period	—	—	758,952	758,952
Dividends	—	—	(261,684)	(261,684)
Other decrease	—	(900)	—	(900)
At 30th June 2003	<u>2,180,700</u>	<u>2,950,238</u>	<u>870,683</u>	<u>6,001,621</u>

	Unaudited			Total <i>RMB'000</i>
	Share capital <i>RMB'000</i>	Reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	
At 1st January 2002	2,180,700	2,827,448	355,244	5,363,392
Profit for the period, as previously reported	—	—	199,118	199,118
Effect of restatement of income tax (note 17)	—	—	(15,918)	(15,918)
Profit for the period, as restated	—	—	183,200	183,200
Dividends	—	—	(218,070)	(218,070)
At 30th June 2002	<u>2,180,700</u>	<u>2,827,448</u>	<u>320,374</u>	<u>5,328,522</u>



NOTES TO THE CONDENSED 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 30th December 1996. The principal activities of the Company and its subsidiaries (collectively the "Group") and its jointly controlled entities, are the development, operation and management of toll highways 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.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2002 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2003:

SSAP 12 (revised): Income tax

There is no significant financial effect arising from the adoption of the above revised standard.

These interim accounts should be read in conjunction with the 2002 annual accounts.

Condensed Interim Accounts

3. Turnover and revenue

Revenues recognised during the period are as follows:

		Six months ended 30th June	
		2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Turnover	(a)		
Income from toll roads		218,731	263,723
Less: taxes related to toll income	(b)	<u>(11,374)</u>	<u>(13,712)</u>
		<u>207,357</u>	<u>250,011</u>
Other revenues			
Interest income from bank deposits		5,239	6,162
Interest income from a long-term loan		8,447	9,148
Government subsidies (note 14)		15,501	18,109
Investment income from other investments		—	826
Income from construction management services		1,471	2,413
Other income		<u>2,380</u>	<u>1,316</u>
		<u>33,038</u>	<u>37,974</u>
Total revenues		<u>240,395</u>	<u>287,985</u>

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

(b) Taxes related to toll income comprise:

- PRC Business Tax at 5% on toll income
- City Development Tax at 1% of PRC Business Tax
- Education Supplementary Tax at 3% of PRC Business Tax

4. Gain on disposal of assets

(a) Pursuant to a transfer agreement (the "Transfer Agreement") dated 18th March 2003 by the Company and the Shenzhen Communications Bureau, an authorised representative of the Shenzhen Municipal Government, the Company transferred all its rights and interests in National Highway No. 107

(Shenzhen Section) ("NH107") and National Highway No. 205 (Shenzhen Section) ("NH205") to Shenzhen Communications Bureau at a consideration of RMB1.93 billion. Shenzhen Communications Bureau took over these two highways on 19th March 2003.

- (b) The consideration for the disposal of above assets is satisfied by cash in the following manners:
- (1) 25% of the total consideration, being the first installment amounting to RMB482.5 million, is payable within 10 days after the signing of the Transfer Agreement;
 - (2) 25% of the total consideration, being the second installment amounting to RMB482.5 million, is payable before 31st December 2003;
 - (3) 30% of the total consideration, being the third installment amounting to RMB579 million, is payable before 31st December 2004; and
 - (4) the balance of the consideration, being the final installment amounting to RMB386 million, is payable before 31st December 2005.

As at 30th June 2003, the Company has already received the first installment of the consideration of RMB482.5 million.

- (c) The gain on disposal of assets is calculated as follows:

	<i>RMB'000</i>
<hr/>	
Total consideration per the Transfer Agreement	1,930,000
Assets Disposal Extra Compensation*	106,109
Imputed interest of long-term portion of consideration**	<u>(48,833)</u>
	1,987,276
Stamp duty on assets disposal	(965)
Book value of assets disposed	<u>(1,294,895)</u>
Gain on disposal of assets	<u><u>691,416</u></u>

* The Company has already paid stamp duty of RMB965,000 and provided PRC enterprise income tax of RMB105,144,000 for this assets disposal transaction (see note 7). Total taxes arising from this assets disposal transaction amounted to RMB106,109,000. Pursuant to the Transfer Agreement, the Shenzhen Communications Bureau will also grant an amount to the Company in 2004, equivalent to the tax payments to be made by the Company to relevant tax authorities arising from this assets disposal transaction, as a subsidy to the Company for compensating the impact on the principal activities of the Company as a result of the disposal of the toll roads ("Assets Disposal Extra Compensation"). Such extra compensation is recognised in the Company's account during the period.

Condensed Interim Accounts

** As certain portions of consideration and Assets Disposal Extra Compensation will be paid by installment after 2003, the Company has calculated the future consideration by discounting the future receipts using an imputed rate of interest of 3.5% per annum, being the prevailing rate for a similar instrument of an issuer in the PRC with a similar credit rating.

- (d) Total income arising from disposal of assets will be recognised in the Company's accounts for the year ended 31 December:

	<i>RMB'000</i>
2003: Gain on disposal of assets	691,416
PRC enterprise income tax on disposal of assets	<u>(105,144)</u>
Net gain arising from disposal of assets	586,272
2004: Imputed interest of long-term portion of consideration	35,779
2005: Imputed interest of long-term portion of consideration	<u>13,054</u>
Total	<u><u>635,105</u></u>

5. Staff costs

	Six months ended 30th June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Wages and salaries	11,660	13,659
Provision for Share Appreciation Right Scheme	—	3,090
Pension costs — defined contribution plans	804	935
Other staff welfare benefits	<u>3,364</u>	<u>3,035</u>
	<u><u>15,828</u></u>	<u><u>20,719</u></u>

Condensed Interim Accounts

6. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
<hr/>		
<u>Crediting</u>		
Unrealised gains on other investments	—	826
<u>Charging</u>		
Provision for doubtful debts	—	5,650
Realised losses on other investments	—	2,319
Auditors' remuneration	596	550
Loss on disposal of fixed assets	149	—
Net exchange loss	155	317
	<u>155</u>	<u>317</u>

7. Taxation

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

	Six months ended 30th June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i> <i>(Restated)</i> <i>(note 17)</i>
<hr/>		
PRC enterprise income tax	18,906	20,626
PRC enterprise income tax on disposal of assets (note 4)	105,144	—
Share of taxation attributed to jointly controlled entities	4,294	3,689
	<u>128,344</u>	<u>24,315</u>

- (a) The Company is subject to PRC enterprise income tax at a rate of 15% (2002: 15%), the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, as compared with the standard rate of 33%.
- (b) No provision for Hong Kong profits tax has been made for the period in the accounts as the Group has no income assessable to Hong Kong profits tax.

Condensed Interim Accounts

- (c) No provision for deferred taxation has been made in the accounts as the effect of timing differences is not material to the Group.

8. Dividends

	Six months ended 30th June	
	2003 RMB'000	2002 RMB'000
2002 final dividend, paid, of RMB0.12 (2001 final dividend: RMB0.10) per ordinary share	261,684	<u>218,070</u>

The directors do not recommend the payment of a dividend for the period (2002: Nil).

9. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of RMB758,952,000 (2002: RMB183,200,000) and 2,180,700,000 (2002: 2,180,700,000) ordinary shares in issue during the period.

As shown in note 18, certain comparative figures have been restated resulting in a decrease in profit attributable to shareholders for the six months ended 30th June 2002 of RMB15,918,000 and a decrease in earnings per share for that period of RMB0.73 cents.

10. Interests in jointly controlled entities

	Note	30th June 2003 RMB'000	31st December 2002 RMB'000
Share of net assets other than goodwill		409,707	406,589
Goodwill on acquisition	(a)	11,280	9,060
Provision for impairment	(a)	(9,060)	(9,060)
		411,927	406,589
Advances to jointly controlled entities	(b)	694,219	526,374
Loans to a jointly controlled entity	(c)	43,727	43,424
Provision for doubtful debts	(c)	(18,153)	(18,153)
Interests in jointly controlled entities — direct		1,131,720	958,234
Interests in jointly controlled entities — indirect			
Long-term loan	(d)	306,000	306,000
Total		1,437,720	1,264,234

- (a) Shenzhen Wutongling Ropeway Company Limited (“Wutongling”), a jointly controlled entity of the Company, has not commenced operation as originally planned, provision for impairment of RMB9,060,000 was made against goodwill on acquisition of this entity.

Goodwill arising from the acquisition of Shenzhen Fountain Infrastructure Corporation (“Shenzhen Fountain”) in December 2002 amounted to RMB2,269,000 and amortisation of such goodwill during the period was RMB49,000. The Group’s share of the post-acquisition results of Shenzhen Fountain was insignificant in 2002 and thus the accounts of this jointly controlled entity were only equity accounted for by the Group commencing from 1st January 2003.

- (b) Advances of RMB410,050,000 (2002: RMB416,374,000) and RMB284,169,000 (2002: RMB110,000,000) were made to Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited and Shenzhen Fountain respectively. They are unsecured, non-interest bearing and are repayable out of the funds to be generated from their respective toll road projects.

- (c) The loans were advanced to Wutongling, including an amount of RMB25,000,000 in respect of the repayment of bank loans guaranteed by the Company made by the Company on behalf of Wutongling. The loans are interest bearing at bank loan interest rate prevailing in the PRC and have no fixed terms of repayment.

Since Wutongling has not commenced operations as originally planned, provision for doubtful loans totaling RMB18,153,000 has been made in previous years.

Pursuant to a preliminary agreement entered into between Shenzhen Zhongmin Investment Service Company ("Zhongmin Company"), a joint venture partner of Wutongling, and the Company in April 2003, the Company has agreed to purchase 55% equity interest in Wutongling at a consideration of RMB2,520,000 from Zhongmin Company. Detailed terms of the acquisition are still under negotiation.

- (d) This represents a long-term loan of RMB306,000,000 (2002: RMB306,000,000) made to Changsha Ring Road Construction and Development Co., Ltd ("Ring Road Co."), the joint venture partner of Changsha Shenchang Expressway Company Limited ("Shenchang"). On 22nd July 1998, the Company entered into an agreement with Ring Road Co. to establish Shenchang to construct, manage and operate a highway, Changsha Ring Road. The total investment of Shenchang is RMB800 million, out of which the registered capital is RMB200 million. The balance of RMB600 million was entirely advanced by Ring Road Co.. Pursuant to the agreement, a long-term loan of RMB306 million representing 51% of RMB600 million was required to be advanced by the Company to Ring Road Co. which in turn was applied by Ring Road Co. towards financing part of its advance to Shenchang for construction of the underlying road project. The loan is unsecured and interest bearing at over five years' loan interest rate quoted by the People's Bank of China from time to time. Ring Road Co. has pledged its 49% equity interest in Shenchang to the Company to secure its payment obligations on the interest of the loan. The loan itself will be refinanced to Shenchang entirely by the Company as a fulfillment for its commitment to loan the same amount to Shenchang in 2007.

11. Long-term receivables

This represents the long-term portion of consideration of RMB919,755,000 to be received in 2004 and 2005, and Assets Disposal Extra Compensation of RMB102,521,000 to be received in 2004 in respect of the disposal of assets pursuant to the Transfer Agreement dated 18th March 2003. Details of the disposal transaction are summarised in note 4.

12. Amount due from a jointly controlled entity

The amount mainly represents toll income collected by the Group on behalf of a jointly controlled entity net of toll income collected by the jointly controlled entity on behalf of the Group. The amount is unsecured, interest free and settled on a monthly basis.

During the period, toll income collected by the Group on behalf of the jointly controlled entity amounted to RMB32,299,000 (2002: RMB33,090,000), and toll income collected by the jointly controlled entity on behalf of the Group amounted to RMB34,833,390 (2002: RMB29,777,000). All toll income collected is wholly repaid to each other without any handling charges.

13. Retained earnings

	Retained earnings RMB'000
<hr/>	
Six months ended 30th June 2003	
At 1st January 2003	373,415
2002 final dividend paid	(261,684)
Profit for the period	<u>758,952</u>
At 30th June 2003	<u><u>870,683</u></u>
Company and subsidiaries	849,050
Jointly controlled entities	<u>21,633</u>
At 30th June 2003	<u><u>870,683</u></u>
Year 2002	
At 1st January 2002	355,244
2001 final dividend paid	(218,070)
Profit for the year	359,931
Transfer to reserves	<u>(123,690)</u>
At 31st December 2002	<u><u>373,415</u></u>
Representing:	
Retained earnings at 31st December 2002	111,731
2002 final dividend proposed	<u>261,684</u>
At 31st December 2002	<u><u>373,415</u></u>
Company and subsidiaries	349,922
Jointly controlled entities	<u>23,493</u>
At 31st December 2002	<u><u>373,415</u></u>

Condensed Interim Accounts

14. Deferred income

	30th June 2003 RMB'000	31st December 2002 RMB'000
At beginning of the period/year	240,312	273,294
Government subsidy income recognised for the period	(15,501)	(32,982)
At end of the period/year	<u>224,811</u>	<u>240,312</u>

Deferred income represents government grants provided to the Company as subsidies for compensation of toll revenue of the Yanba Expressway Section A ("Yanba Expressway"), the traffic volume of which was anticipated to be low due to its early construction in compliance with the Shenzhen Municipal Government overall town planning requirements. Pursuant to a circular No. Shenjitouzi [2001]764 issued by the Shenzhen Municipal Government dated 21st November 2001, Shenzhen Municipal Government approved the non-repayment of long-term advances totalling RMB300,000,000 previously provided to the Company, and the conversion of these advances to subsidies for compensation of toll revenue to the Company. Such government grants are recognised in the profit and loss account over the period for which the Company is granted the right to operate the expressway.

15. Commitments

As at 30th June 2003, the Group had the following capital commitments for investment of expressways:

	30th June 2003 RMB'000	31st December 2002 RMB'000
Contracted but not provided for	86,500	252,630
Authorised but not contracted for	<u>2,037,000</u>	<u>496,000</u>
	<u>2,123,500</u>	<u>748,630</u>

The jointly controlled entities had no material capital commitment as at 30th June 2003 (2002: Nil).

16. Related party transactions

Save as those disclosed in other notes to these accounts, the Group had no material transactions with its related parties during the period.



17. Comparative figures

The Company, one of its subsidiaries and one of its jointly controlled entities were originally entitled to an exemption from PRC enterprise income taxes for the first five years in which they record assessable profits and a 50% reduction of the PRC enterprise income taxes for the five consecutive years thereafter. Pursuant to the new regulations issued by the relevant tax authorities subsequent to the publication of the Group's interim results for 2002, effective from 1st January 2002, such tax incentives were withdrawn and these companies were subject to the PRC enterprise income tax at 15%, the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, from 1st January 2002 onwards. Accordingly, certain comparative figures have been restated in this condensed interim accounts to reflect the change in such preferential tax policies. Details are as follows:

	PRC enterprise income tax <i>RMB'000</i>	Minority interests <i>RMB'000</i>
For the six months ended 30th June 2002, as previously reported	8,211	2,916
Effect of restatement of PRC enterprise income tax	<u>16,104</u>	<u>(186)</u>
For the six months ended 30th June 2002, as restated	<u><u>24,315</u></u>	<u><u>2,730</u></u>

The restatement of comparative figures as mentioned above in aggregate resulted in a decrease in the profit attributable to shareholders for the six months ended 30th June 2002 of RMB15,918,000.

SUPPLEMENTARY INFORMATION

Reconciliation of accounts

The Group has prepared a separate set of accounts for the period ended 30th June 2003 in accordance with PRC accounting standards. The major differences between the accounts prepared under PRC and HK accounting standards are summarised as follows:

	Profit attributable to shareholders for the six months ended 30th June 2003 RMB'000	Net assets as at 30th June 2003 RMB'000
As per PRC statutory accounts	707,454	5,866,866
Impact of HK GAAP adjustments:		
Amortisation of land use rights and depreciation of fixed assets	(5,778)	77,479
Assets Disposal Extra Compensation	106,109	106,109
Imputed interest adjustment on long-term portion of consideration and Assets Disposal Extra Compensation	<u>(48,833)</u>	<u>(48,833)</u>
Net amount of adjustments	<u>51,498</u>	<u>134,755</u>
As restated after HK GAAP adjustments	<u><u>758,952</u></u>	<u><u>6,001,621</u></u>