



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
	Total	218,610	168,564	29.69	183,686	145,594	26.16
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
	Total	87,268	66,605	31.02	54,152	38,901	39.20

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 ^{note}	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)

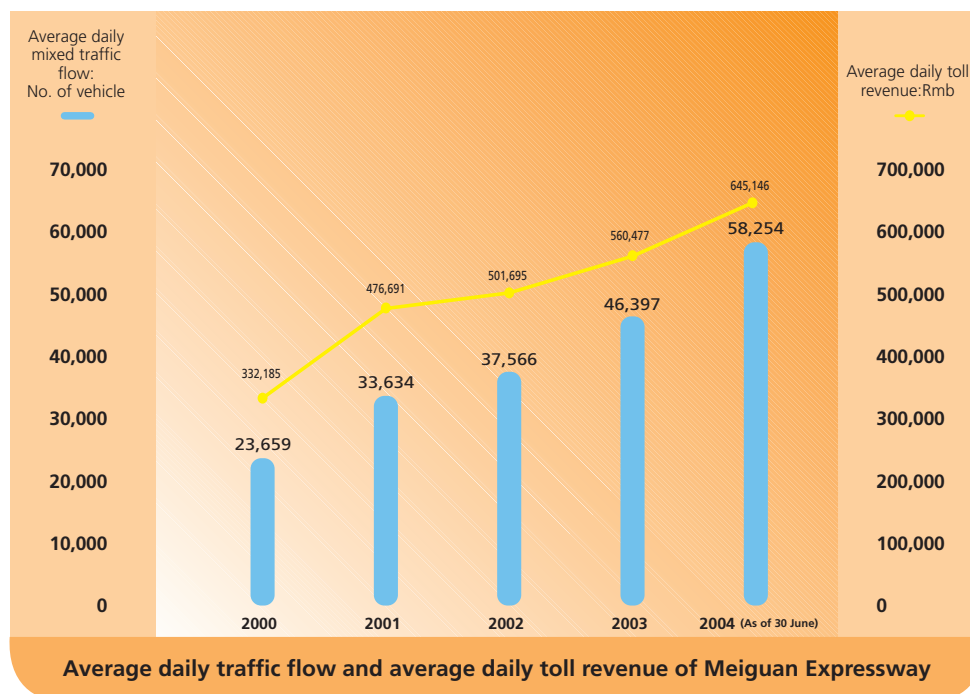


Chart 2: Comparison on traffic flow and average daily toll revenue of Jihe West (2000-2004)

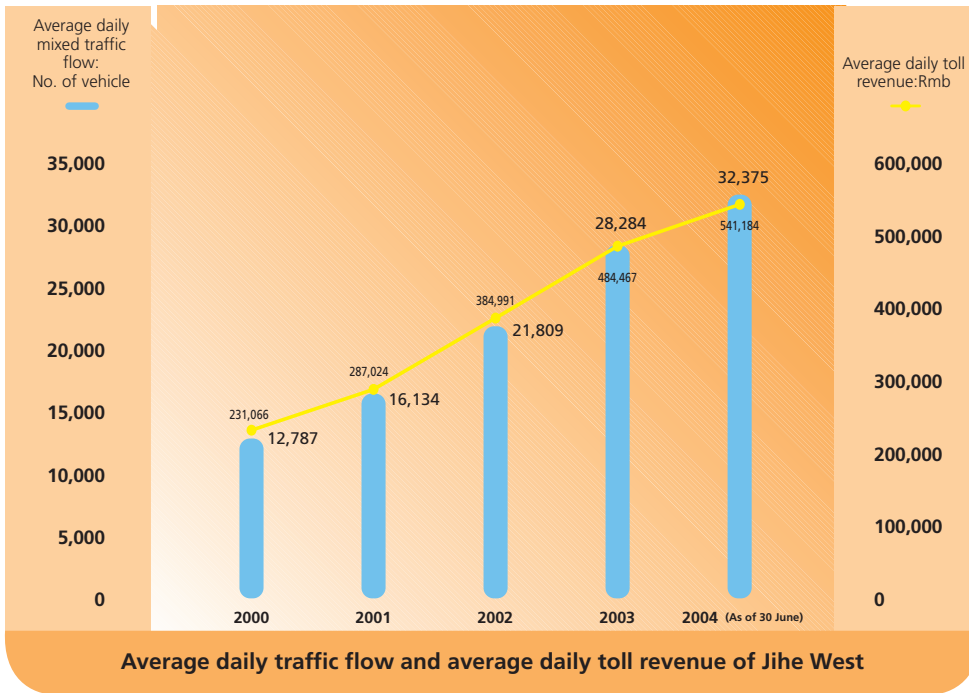
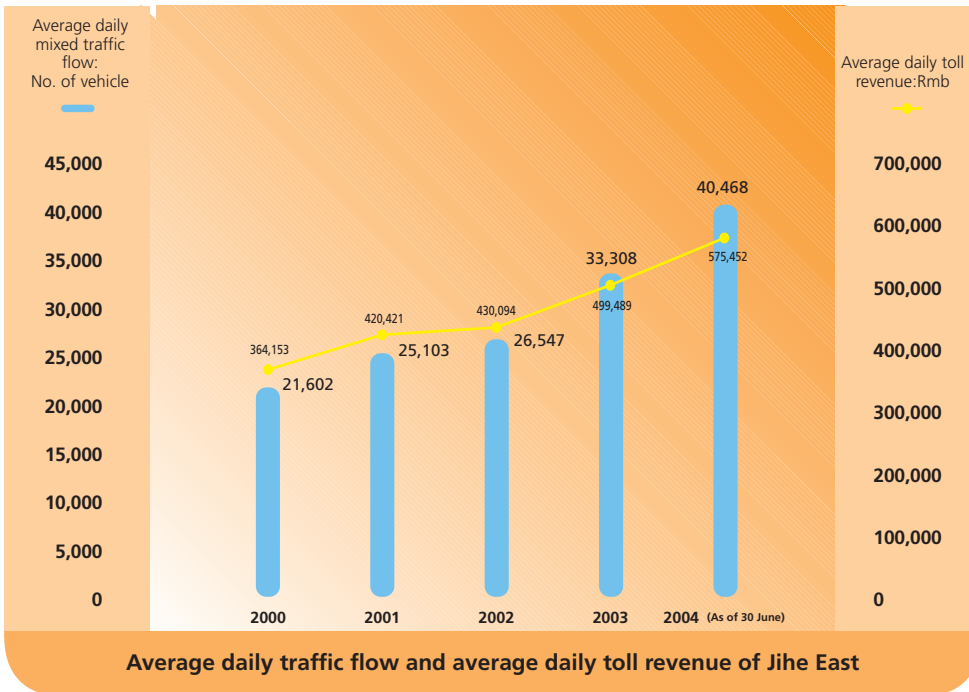


Chart 3: Comparison on traffic flow and average daily toll revenue of Jihe East (2000-2004)





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
Total	7,403,323	100	6,988,973	100

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
Total	7,403,323	100	6,988,973	100

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.