SHENZHEN EXPRESSWAY COMPANY LIMITED

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

Gaining Opportunities
Gaining Mileage

Interim Report 2005

Striving for the Best, not the Biggest!

Corporate Mission and Objectives

The mission of Shenzhen Expressway Company Limited is to provide safe, convenient, comfortable and environment-friendly infrastructure facilities and services to the public; to create increasing value to shareholders and the community at large; and to cultivate for its staff a good environment for work and development.

With our full commitment and continuous pursuit for excellence, we strive for:

- Building and sustaining an unwavering corporate system leadership
- Providing ever-improving customer service
- Fulfilling the objectives set by the Company and the government
- Establishing good business partnerships
- Valuing mutual respect and development for staff

Our goal is to develop into a highly competitive infrastructure facilities developer and operator in China, an enterprise which is market-driven, commercially prudent and with good corporate governance. We aim to develop and manage world-class toll highways and related businesses, with a view to enhancing value for the Company and its shareholders.

Contents

Corporate Profile

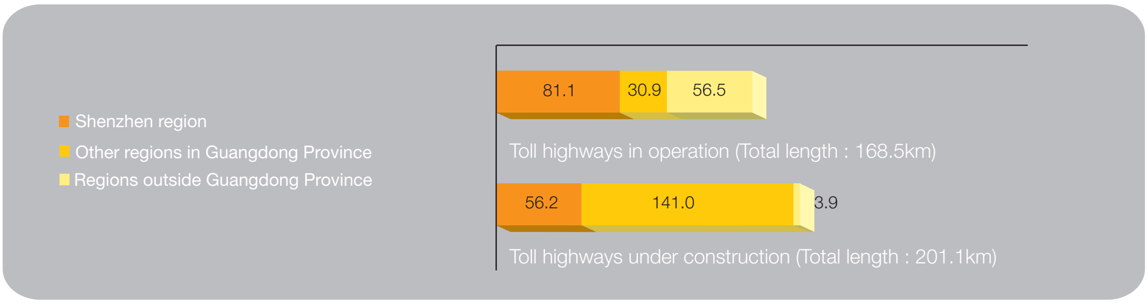
The Company is principally engaged in the investment, construction, operation and management of toll highways and roads.

The Company adheres to the development strategy of focusing on toll operations as its core business and the investment strategy of expanding towards the Pearl River Delta region as well as other economically developed regions in the PRC through establishing a foothold in Shenzhen. It aims at bringing ever-improving returns to its shareholders and providing premier and efficient services to the public and government at reasonable costs.

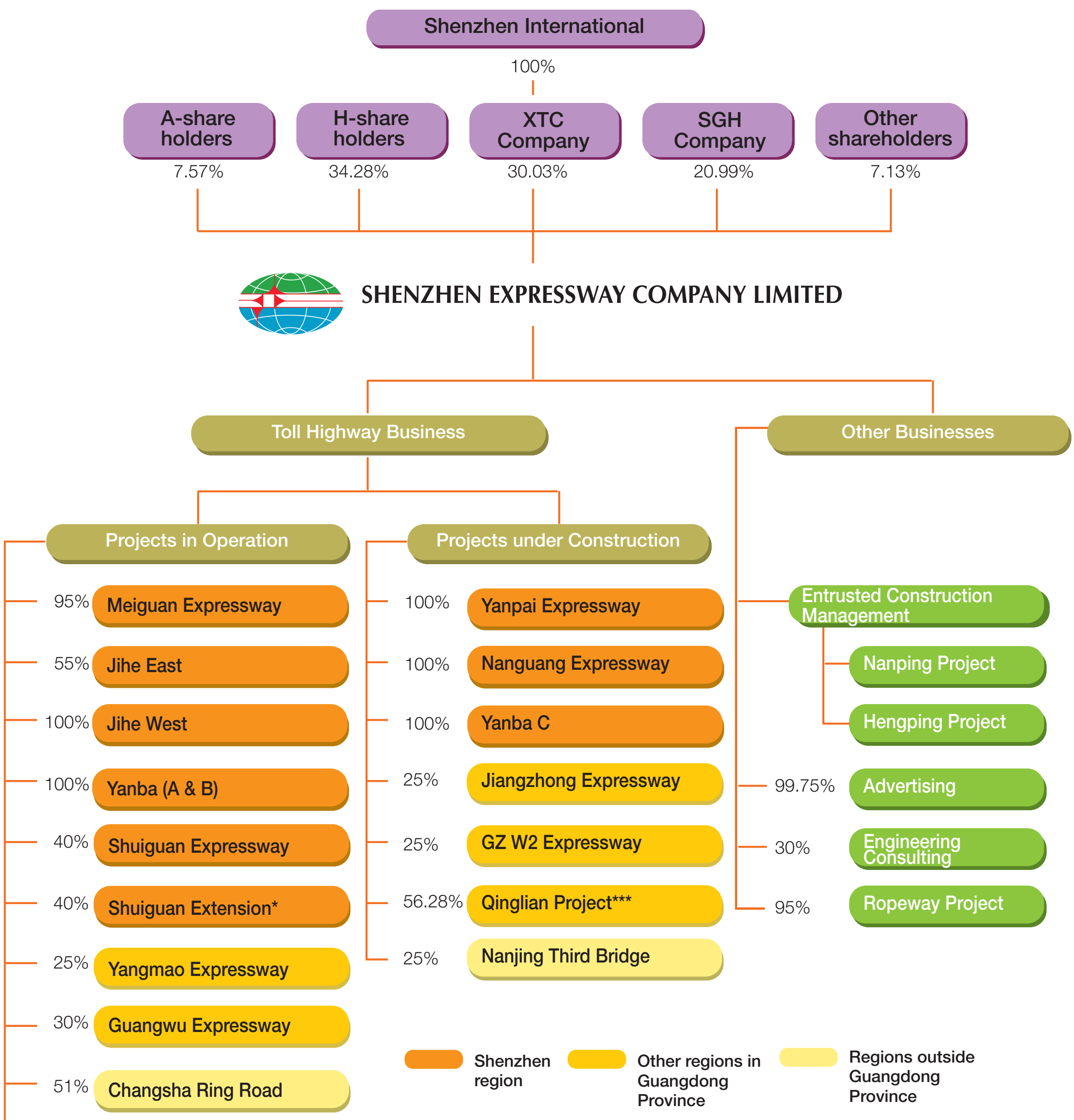
The Company was established on 30 December 1996 with a total share capital of RMB1,268,200,000. In March 1997, the Company issued 747,500,000 overseas-listed foreign shares (H Shares), which were listed on HKEX on 12 March 1997 (stock code: 0548). In December 2001, the Company issued 165,000,000 Renminbi-denominated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

The toll highways in Shenzhen City and other regions of Guangdong Province operated and invested by the Group are major components of the national or provincial trunk highway networks. These toll highways not only connect the main ports, the airport, customs checkpoints and industrial zones that form a complete road network in Shenzhen, but also constitute part of the major road passages between Shenzhen and Hong Kong leading towards the Pearl River Delta region. They have become important infrastructures especially after the implementation of CEPA and the establishment of the "9+2" Pan Pearl River Delta Economic Zone.

As at the date of this report, the total length of toll highways, calculated on the basis of interests held by the Group, is as follows:



Group and Business Structure:



* Shuiguan Extension opened to traffic in July 2005.

** Acquisition of interests in Wuhuang Expressway has been completed in August 2005.

*** Qinglian Class 1 Highway is planned to be reconstructed into an expressway from 2005.

Financial Highlights

1. Prepared in Accordance with Hong Kong Accounting Standards (Unaudited)

Results Highlights

(For the six months ended 30 June)

(RMB'000)	**2005**	2004 (Restated*)	Change (%)
Turnover	**399,499**	320,627	24.60
Earnings before interests, taxation, depreciation and amortisation	**358,143**	314,482	13.88
Profit before interests and taxation	**287,936**	252,623	13.98
Profit attributable to equity holders of the Company	**218,445**	206,131	5.97
Basic earnings per share for profit attributable to equity holders of the Company (RMB)	**0.10**	0.09	5.97

Assets Highlights

(RMB'000)	**As at 30 June 2005**	As at 31 Dec 2004 (Restated*)	Change (%)
Total assets	**9,640,508**	7,516,421	28.26
Total liabilities	**3,600,205**	1,458,998	146.76
Minority interests	**45,996**	41,700	10.30
Equity attributable to equity holders of the Company	**5,994,307**	6,015,723	-0.36
Net assets per share to equity holders of the Company (RMB)	**2.75**	2.76	-0.36

Principal Financial Ratios**

(For the six months ended 30 June)

	2005	2004 (Restated*)	Change
Operating profit ratio	**71.51%**	78.85%	decrease 7.34pct.pt.
Toll road operating profit ratio	**74.98%**	76.11%	decrease 1.13pct.pt.
Return on equity attributable to equity holders of the Company	**3.64%**	3.54%	increase 0.10pct.pt.
Interest covered multiple	**13.49**	36.42	-22.93

	As at 30 June 2005	As at 31 Dec 2004 (Restated)	Change
Gross liabilities-to-equity ratio	**59.60%**	24.09%	increase 35.51pct.pt.
Net borrowings-to-equity ratio	**28.86%**	N/A	N/A

2. Financial Highlights for the Past Five Years

Results Highlights

(For the year ended 31 Dec)

(RMB'000)	**2004 (Restated*)**	2003 (Restated*)	2002 (Restated*)	2001 (Restated*)	2000 (Restated*)
Turnover	**705,776**	598,137	646,128	604,519	515,396
Earnings before interest, taxation, depreciation and amortisation	**653,633**	1,204,275	558,372	575,303	464,499
Profit before interests and taxation	**522,458**	1,084,412	428,695	458,172	382,183
Profit before taxation	**498,725**	1,058,433	403,768	416,525	347,988
Profit for the period	**422,706**	910,882	343,974	404,645	335,725
Profit attributable to equity holders of the Company	**414,888**	904,484	338,230	398,402	333,615
Basic earnings per share for profit attributable to equity holders of the Company (RMB)	**0.19**	0.41	0.16	0.20	0.17
Dividends per share to equity holders of the Company (RMB)	**0.11**	0.19	0.12	0.10	0.10

Assets Highlights

(As at 31 Dec)

(RMB'000)	**2004 (Restated*)**	2003 (Restated*)	2002 (Restated*)	2001 (Restated*)	2000 (Restated*)
Total assets	**7,516,421**	7,184,338	6,957,138	7,032,522	5,944,167
Total liabilities	**1,458,998**	1,116,098	1,530,468	1,727,499	1,464,816
Equity attributable to equity holders of the Company	**6,015,723**	6,026,510	5,384,616	5,264,456	4,463,496
Total equity	**6,057,423**	6,068,240	5,426,670	5,305,023	4,479,351
Net assets per share to equity holders of the Company (RMB)	**2.76**	2.76	2.47	2.41	2.21

Financial Highlights

Principal Financial Ratios**

(For the year ended 31 Dec)

	2004 **(Restated*)**	2003 (Restated*)	2002 (Restated*)	2001 (Restated*)	2000 (Restated*)
Operating profit ratio	**74.15%**	181.29%	66.35%	75.79%	74.15%
Return on equity attributable to equity holders of the Company	**6.88%**	15.01%	6.28%	7.57%	7.50%
Interest covered multiple	**22.01**	41.74	17.20	11.00	11.18

(As at 31 Dec)

	2004 **(Restated*)**	2003 (Restated*)	2002 (Restated*)	2001 (Restated*)	2000 (Restated*)
Gross liabilities-to-equity ratio	**24.09%**	18.39%	28.20%	32.56%	32.70%

* In 2005, the Group adopted certain new or revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are relevant to its operations. The comparative figures in previous years have been restated in accordance with the relevant requirements.

** Description of Principal Financial Ratios:
Operating profit ratio = Operating profit/Turnover
Toll road operating profit ratio = Operating profit from toll roads/Turnover from toll roads
Return on equity = Profit attributable to equity holders of the Company/Shareholders' funds
Interest covered multiple = Profit before interests and taxation/Interest expenses
Net borrowings-to-equity ratio = (Total amount of borrowings - Cash and cash equivalents)/Total equity
Gross liabilities-to-equity ratio = Total liabilities/Total equity

Management Discussion and Analysis

During the first half-year of 2005, the Group continued with its market-oriented business strategies to attract greater traffic flow, leveraging the market opportunity resulted from road users' ever-increasing expectations for accessibility and quality of highways. The Group also continued to embark on the strategy of investing in the Pearl River Delta and other economically developed regions in China while taking Shenzhen as the base. As a result, the Group achieved favourable results both in expanding its market share and creating new profit bases.

Driven by rapid economic growth in the Pearl River Delta region as well as the gradual implementation of both CEPA and the Pan Pearl River Delta Economic Zone, the growth of the Group's toll highway business has been fuelled by sharp increases in automobile ownership, trade and commerce, cargo transportation and people's travelling. During the first half of 2005, the toll highways operated and invested by the Group inherited the growth momentum in 2004 and achieved rapid increases in both traffic flow and toll revenue, scoring average growth rates of 28% and 25% respectively.

During the Reporting Period, the Group made substantial progress in its external investments. In February and March 2005, the Group successively signed contracts to invest in the Qinglian Project and Wuhuang Expressway respectively. The Qinglian Project is a main highway trunk connecting Hunan Province and Guangdong Province with a total length of over 200 km. Wuhuang Expressway is one of the main transport trunks of Hubei Province and is an important component of the Hurong (Shanghai-Chengdu) National Highway. With favourable geographic locations, the two projects are expected to command considerable development potential in further strengthening the Company's core businesses and building a solid foundation for continued growth of the Company's future profits.

The Board is pleased to announce the unaudited results for the Reporting Period prepared in accordance with accounting principles generally accepted in Hong Kong. During the Reporting Period, the Group recorded toll revenue of RMB399,499,000 (2004: RMB320,627,000), representing an increase of 24.6% as compared to the corresponding period of the previous year. Profit attributable to equity holders of the Company amounted to RMB218,445,000 (2004: RMB206,131,000), representing an increase of 5.97% as compared to the corresponding period of the previous year. Basic earnings per share was RMB0.10 (2004: RMB0.09).

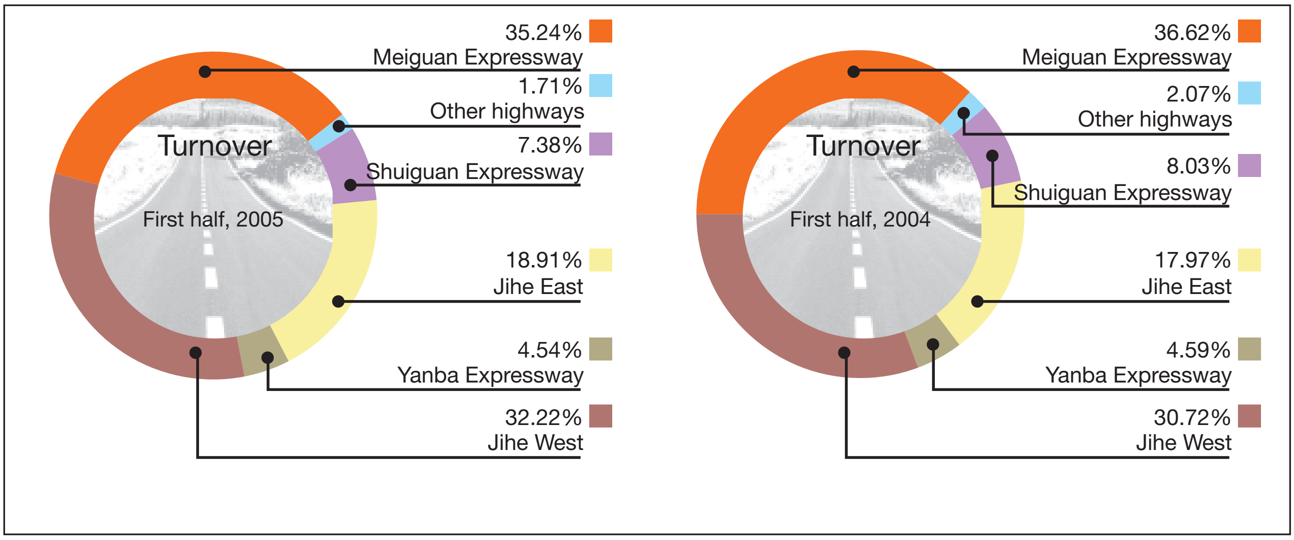
I. Analysis of Operating Results

Major financial indicators (Unit: RMB' 000)	Jan~June 2005	Jan~June 2004	Change
Turnover	399,499	320,627	24.6%
Operating expenses	133,307	103,111	29.3%
Operating profit	285,665	252,844	13.0%
Share of profit/(loss) of associates	2,271	(221)	N/A
Finance costs	21,349	6,937	207.8%
Profit attributable to equity holders of the Company	218,445	206,131	5.97%

Turnover

During the Reporting Period, the Group recorded turnover of RMB399,499,000, representing an increase of 24.60% as compared to the corresponding period of the previous year. Among such increase, Meiguan Expressway, Jihe West, Yanba Expressway, Jihe East, Shuiguan Expressway and Changsha Ring Road recorded increases of 19.89%, 30.69%, 23.28%, 31.13%, 14.43% and 8.96% respectively as compared to the corresponding period of the previous year.

Composition of Turnover



During the Reporting Period, the source of growth in the Group's turnover was mainly from the increase in traffic flow on the toll highways, which stemmed from the continued economic growth and proliferating number of automobiles in China. Due to the slight increase in the proportion of passenger cars among tolled vehicles of the Group as compared to the corresponding period of the previous year and the mild decrease in the toll coefficient for Category 5 vehicles in Guangdong Province since 1 June 2005, the average toll revenue per vehicle for the Group's toll highways dropped slightly by 2.49% as compared to the corresponding period of the previous year. As a result, the growth rate of the Group's turnover was slightly lower than that of traffic flow for the Reporting Period. An analysis of the operating performance of the Group's major toll highways is set out in the section entitled "Business Review" from pages 16 to 21 of this report.

Toll Highway	Average Toll Per Vehicle (RMB) Jan~June 2005	Jan~June 2004	Change	Change of Daily Average Mixed Traffic Flow	Change of Daily Average Toll Revenue
Meiguan Expressway	10.62	11.08	-4.15%	25.69%	20.55%
Jihe West	16.34	16.72	-2.27%	34.46%	31.42%
Yanba Expressway	9.78	9.33	4.82%	18.20%	23.96%
Jihe East	13.99	14.22	-1.62%	33.98%	31.85%
Shuiguan Expressway	9.12	9.82	-7.13%	23.85%	15.06%
Changsha Ring Road	11.15	12.49	-10.73%	22.71%	9.56%
Geputan Bridge	7.42	7.97	-6.90%	-6.69%	-13.17%
Total	**12.12**	**12.43**	**-2.49%**	**27.80%***	**24.68%**

* Total daily average mixed traffic flow of all toll highways in the first half of 2005 / Total daily average mixed traffic flow of all toll highways in the first half of 2004

Taxes on turnover

In accordance with the "Notice Concerning Policy regarding Business Tax on Toll Fee Income of Expressway Operation Enterprise by the Ministry of Finance and the State Administration of Taxation" jointly promulgated by the Ministry of Finance and the State Administration of Taxation, starting from 1 June 2005, the business tax on the Group's toll revenue derived from expressways has been reduced to 3% (before adjustment: 5%), and hence during the Reporting Period, the rate of increase in business tax and surcharges was lower than the rate of increase on turnover.

Operating Expenses

Due to the growth in traffic volume on various toll highways and the increase in new project activities during the Reporting Period, the Group recorded total operating expenses of RMB133,307,000, representing an increase of 29.28% as compared to the corresponding period of the previous year, among which:

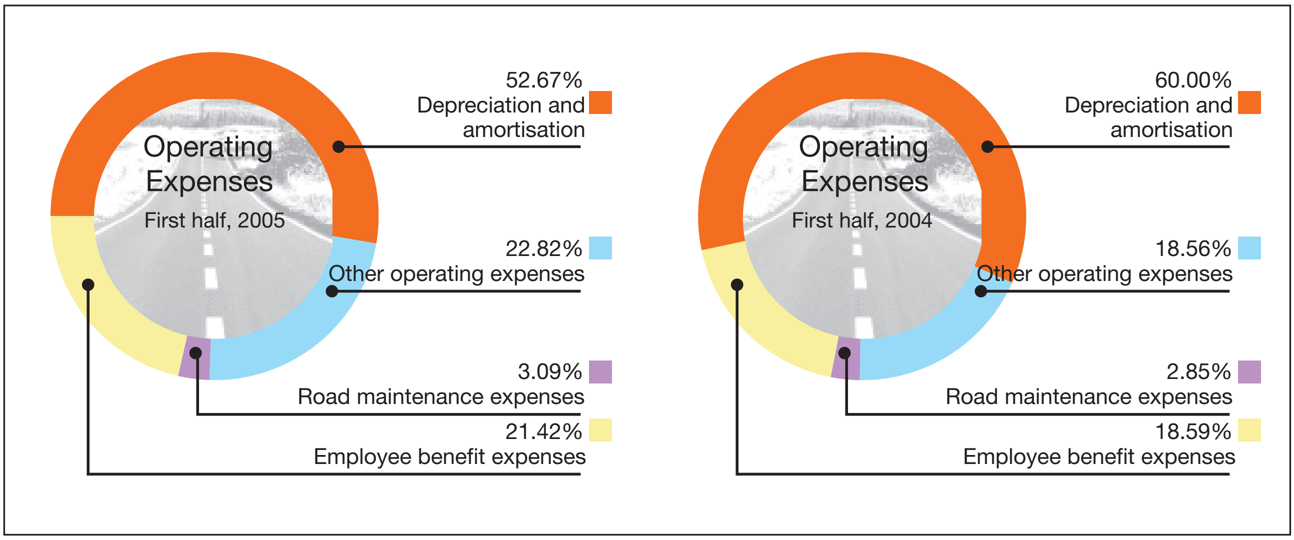
- as a result of traffic growth, depreciation charges increased by 13.50% as compared to the corresponding period of the previous year to RMB70,207,000;

- employee benefit expenses increased by 48.93% to RMB28,556,000, mainly due to increases in toll stations and toll collection staff as a result of traffic growth, and the provision of incentive cash bonus under the share appreciation rights scheme of RMB4,412,000 during the Reporting Period;

- road maintenance expenses increased by 40.24% to RMB4,123,000 as compared to the corresponding period of the previous year, mainly due to the growth of traffic volume and aging of roads, which led to more resources put on maintenance to ensure good road conditions and traffic environment. However, maintenance expenses in general account for only a small percentage of toll revenue. Currently, various toll highways of the Group are in good conditions and no major overhaul is expected in the coming two to three years;

- other operating expenses increased by 58.95% to RMB30,421,000, mainly due to the increase in settlement service charges for the new inter-road network toll collection system of Guangdong Province during the Reporting Period and the increase in business expenses on new projects as compared to the corresponding period of the previous year.

Structure of Operating Expenses



Other Gains

During the Reporting Period, the Group's other gains decreased by 25.63% to RMB38,602,000, mainly represented by:

- A bank deposit interest income of RMB4,815,000, representing a decrease of 33.98% as compared to the corresponding period of the previous year;

- Interest income of RMB6,527,000 in respect of long-term receivables discounted in connection with the disposal of two Class 1 highways;

- A discounted interest income of RMB2,954,000 derived from advances made to Qinglong Company;

- Income of RMB15,835,000 recognised during the Reporting Period in respect of government subsidies for Yanba Expressway (2004: RMB19,625,000);

- An income of RMB1,611,000 recognised during the Reporting Period in respect of the entrusted construction management service provided to the Nanping Project. As no reliable estimates could be made in respect of the management results for the Nanping Project during the Reporting Period but the Directors believe that future reimbursements of administration expenses incurred relating to this project were probable, the Company recognised income and expenses for the Nanping Project on the basis of actual administration expenses incurred during the Reporting Period. No profit was accounted for during the Reporting Period.

Operating Profit

During the Reporting Period, the Group recorded an operating profit of RMB285,665,000, representing an increase of 12.98% as compared to the corresponding period of the previous year. During the Reporting Period, operating profit margin from toll highway operations and operating profit margin before depreciation were 74.98% and 91.20% respectively, representing decreases of 1.13 percentage-points and 2.62 percentage-points respectively as compared to the corresponding period of the previous year. Such decreases were mainly attributable to the increases in employee benefit expenses and new project development expenses as well as the new service charges for the new inter-road network toll collection system of Guangdong Province during the Reporing Period.

Share of Profit of Associates

During the Reporting Period, the Group's share of profit of associates amounted to RMB2,271,000, including the share of after-tax profits/ losses of Yangmao Company, Guangyun Company, Jiangzhong Company, Consulting Company and Qinglian Company.

Earnings Before Interest and Taxation ("EBIT")

During the Reporting Period, contributions by the Group's principal activities to EBIT were as follows:

(Unit:RMB'000)

Principal Business	Jan~June 2005	Jan~June 2004	Change (amount)	Change (%)
Meiguan Expressway	105,708	89,877	15,831	17.61%
Jihe West	100,710	76,869	23,841	31.02%
Jihe East	57,698	41,875	15,823	37.79%
Yanba Expressway	13,803	18,606	(4,803)	-25.81%
Shuiguan Expressway	16,620	15,401	1,219	7.92%
Other highways (Note 1)	3,401	504	2,897	574.80%
Highway related businesses (Note 2)	20,714	29,875	(9,161)	-30.66%
Sub-total	**318,654**	**273,007**	**45,647**	**16.72%**
Unallocated expenses of the Group	(30,718)	(20,384)	(10,334)	50.69%
Total	**287,936**	**252,623**	**35,313**	**13.98%**

Note 1: Other highways include Changsha Ring Road, Geputan Bridge and highways operated by associates.

Note 2: Income from highway-related businesses consisted of income on project management fees from government-entrusted construction management services, Advertising Company income, discounted interest income from installment payment collections, bank deposit interest income and other incomes.

Finance Costs

During the Reporting Period, the Group's finance costs amounted to RMB21,349,000, representing an increase of 207.77% as compared to the corresponding period of the previous year. Such increase was mainly attributable to the increased scale of borrowings as compared to the previous year. At the end of the Reporting Period, the Group had additional loans of RMB1,653,459,000.

The principal activities of the Group are carried out in China. Other than the payment of H share dividends, the Group's operating revenues and expenses and capital expenditures are mainly denominated in RMB. Therefore, the Group's bank loans are primarily in RMB. As at the end of the Reporting Period, the balances of the Group's loans and deposits in foreign currencies were insignificant, and therefore the fluctuations in foreign exchange rates had no material impact on the Group's results.

Change of Accounting Policies

During the Reporting Period, the Group has changed certain accounting policies in accordance with the new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") that are effective for accounting periods commencing on or after 1 January 2005. The major impact of the changes to the accounting policies of the Group and the adoption of such new policies are as follows:

- Adoption of HKAS 17 "Leases": The land use rights are reclassified as operating leases and are amortised over their useful lives using the straight-line method. In the previous years, the land use rights were classified as fixed assets and were depreciated using the units-of-usage method. According to the requirement of the standard, such change in accounting policy is required to be applied retrospectively and the retained earnings at 31 December 2004 is therefore reduced by RMB59,541,000.

- Adoption of HKAS 31 "Interests in Joint Ventures": The proportionate consolidation approach is adopted to account for the interests in jointly controlled entities, the financial statements of which are consolidated based on the equity interest percentages. In the previous years, jointly controlled entities of the Group were accounted for using the equity method. After the adoption of the new policy, the Group has restated the financial statements at the beginning of the year and also the comparative items of the corresponding periods of the previous years. However, earnings per share and retained earnings remain unaffected.

- Adoption of HKAS 39 "Financial Instruments": Recognition and Measurement": The accounting policies in respect of financial assets and liabilities such as loans and receivables have been changed such that these instruments are initially stated at fair values and subsequently measured at amortised costs using the effective interest method. According to the standard, the recognition, derecognition and measurement of the financial assets and liabilities are not applied retrospectively. The amount of resulting adjustments is recognised as an adjustment of the retained earnings at the beginning of the Reporting Period. The remaining sum of the long-term advance to the jointly controlled entity – Qinglong Company – after proportionate consolidation and elimination as stated in the consolidated balance sheet has been measured according to this accounting policy. The retained earnings at the beginning of the year is reduced by RMB11,342,000 with reference to the difference between the original carrying amount and the amortised cost at 1 January 2005.

- Adoption of HKFRS 3 "Business Combinations": The amortisation on goodwill ceased and an assessment is made annually to determine whether there is impairment. In the previous years, goodwill was amortised using the straight-line method based on its estimated useful life or 20 years, whichever is shorter. The change of this accounting policy is applied prospectively. The retained earnings at the beginning of the period remains unaffected.

2. Financial Position

Non-current Assets

The Group is principally engaged in the operation of toll highways and its non-current assets mainly comprise fixed asset investments and equity investments in high-grade toll highways. As at 30 June 2005, the Group's non-current assets amounted to RMB8,040,583,000, representing an increase of 38.57% over the year-end of 2004. This is primarily attributable to the additional investment expenditures for the Qinglian Project, Guangwu Expressway, Jiangzhong Expressway, GZ W2 Expressway and Yanpai Expressway with an aggregate amount of RMB1,929,425,000. New investments made during the Reporting Period will become new sources of profit growth for the Group in the future.

Current Assets and Liabilities

As at 30 June 2005, the Group's current assets amounted to RMB1,599,925,000 (31 December 2004: RMB1,714,003,000), including cash and cash equivalents of RMB624,188,000, restricted cash of RMB515,993,000 and inventories and accounts receivable of RMB459,744,000. At the end of the Reporting Period, the restricted cash represented mainly a guarantee deposit placed for financing the acquisition of 55% interests in Wuhuang Expressway by the Group.

The cash of the Group is generally placed in commercial banks as current or short-term fixed deposits. No deposit is placed with financial institutions other than banks or used for securities investment.

As at 30 June 2005, the Group's current liabilities amounted to RMB2,127,373,000 (31 December 2004: RMB883,556,000), including RMB1,220,000,000 as short-term borrowings, RMB103,082,000 as long-term liabilities due within one year, RMB391,714,000 as consideration payable for the acquisition of the interests in Qinglian Company, RMB162,818,000 as bidding deposits received from contractors, and RMB158,631,000 as construction costs and deposits. The increase of the Group's current liabilities was mainly attributable to the increase in short-term borrowings. The Group reported net current liabilities of approximately RMB527,448,000 as at 30 June 2005. The Directors of the Company made an assessment and concluded that there is no going concern issue of the Group based on the facts that the Group has been generating positive and increasing operating cash flow and it has maintained good relationship with banks that it has not experienced any difficulty in renewing its banking facilities. In addition, the Group had unutilised available banking facilities of approximately RMB6,405,000,000 at 30 June 2005 in order to meet its obligations and commitment. Consequently, the interim financial information has been prepared by the Directors of the Company on a going concern basis. Details are set out in the section below with the heading of "Financing Activities".

Shareholders' Equity

As at 30 June 2005, shareholders' equity of the Company amounted to RMB5,994,307,000, a decrease of RMB21,416,000 as compared to the year end of 2004. The decrease was mainly due to the distribution of final dividends for the year 2004 of RMB239,877,000, and the retrospective restatement of amortisation charges of land use rights in accordance with the revised HKAS 17 "Leases", which resulted in the retained earnings as of 31 December 2004 being reduced by RMB59,541,000.

Non-current Liabilities

As at 30 June 2005, non-current liabilities of the Group amounted to RMB1,472,832,000, which included the following:

Long-term liabilities amounted to RMB1,052,295,000 including long-term borrowings of RMB1,015,000,000, the Spanish government loans of RMB29,278,000 and minority shareholders' advance of RMB8,017,000.

Deferred income tax liabilities amounted to RMB63,608,000, comprising mainly deferred tax liabilities of RMB65,486,000 arising from the temporary differences between the carrying amounts of assets and liabilities and their tax bases in respect of toll highways depreciation, net of deferred tax assets of RMB1,878,000 in respect of the provision for impairment loss for investment in the Wutongling Ropeway project.

The balance of government subsidies amounted to RMB356,929,000, which included the subsidies of RMB302,929,000 paid by the relevant government bodies to subsidise insufficient traffic flow of Yanba Expressway owing to its early completion in accordance with the overall township planning requirements of the Shenzhen Government. This subsidised income is recognised annually in the income statement pursuant to the accounting policy of the Group within the duration of the operation franchise of Yanba Expressway. The government subsidies also included a fund provided for Yanba Expressway by the Ministry of Communications amounting to RMB54,000,000 that is non-interest bearing with no fixed repayment terms.

Contingent Liabilities

According to the construction management contracts of the Nanping Project and the Hengping Project, the Company shall bear the administrative responsibility for cost overrun. For the Hengping Project, the Company shall be liable for all the costs exceeding the estimated construction costs of the project. For the Nanping Project, if the actual construction costs exceed the estimated construction costs by 2.5% or less, the Company shall bear all the costs exceeding such estimated costs of the project. If the overrun portion is more than 2.5%, the Company together with the government department shall bear the portion that exceeds the 2.5% threshold. In addition, pursuant to the requirements of the contracts, at the end of the Reporting Period, the Company has provided the Shenzhen Longgang Highway Bureau and the Shenzhen Communications Bureau with irrevocable letters of bank guarantee in the amounts of RMB30,000,000 and RMB100,000,000 respectively. A deposit of RMB15,000,000 has been paid to the Shenzhen Longgang Highway Bureau to guarantee the achievement of the agreed progress of construction, quality and safety management of the Hengping Project.

Cash Flow of the Group

As at 30 June 2005, cash and cash equivalents of the Group amounted to RMB624,188,000 (31 December 2004: RMB1,241,838,000), representing a decrease of RMB617,650,000 over the year end of 2004. During the Reporting Period, the Group's net operating cash inflow amounted to RMB266,740,000 (2004: RMB195,992,000). The net increase in borrowings amounted to RMB1,653,459,000.

During the Reporting Period, major cash outflows comprised capital expenditures used in investing activities for Yanpai Expressway, Nanguang Expressway, Qinglian Project, Jiangzhong Expressway, GZ W2 Expressway and Guangwu Expressway amounting to RMB1,929,425,000; guarantee deposit for the borrowing to finance the acquisition of Wuhuang Expressway and prepaid deposit amounting to RMB516,243,000; dividends distribution amounting to RMB239,877,000; and interests payments amounting to RMB21,349,000.

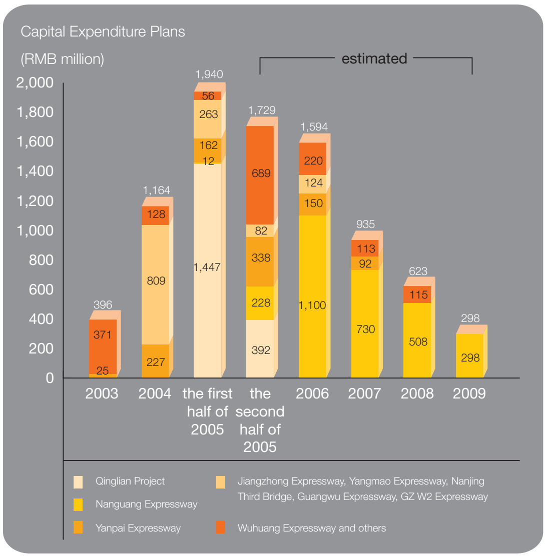
The highway business is a capital-intensive business characterised by a relatively long period for investment return. Because of this, the Group has consistently adopted a prudent approach in financial management to prevent the risks arising from cash flow problems, which is particularly essential in the current stage when the Company is undergoing heavy capital expenditure growth. Over the years, the Company has developed a rigorous model for financial forecasts and estimates to evaluate investments in new projects in light of the Company's financial resources. All investments of the Company are stringently evaluated and prioritised on the basis of required levels of returns on capital, turnover of cashflow and capital costs. A sensitivity analysis must be conducted based on all important assumptions and parameters. The major assumptions for the above-said model are reviewed in detail and updated by the Company on an annual basis to ensure that they comply with the latest conditions. Meanwhile, the Company has deployed different types of financing tools and maintained a balanced debt portfolio, taking into account the repayment terms, interest rates and foreign exchange risks, with a view to diversifying debt risks, maintaining sufficient financing facilities and lowering capital costs.

Capital Structure

As at 30 June 2005, the Group's debt-to-asset ratio (total liabilities/total assets) was 37.34% (31 December 2004: 19.41%); net borrowings-to-equity ratio ((total borrowings – cash and cash equivalents)/equity) was 28.86% (31 December 2004: inapplicable, net borrowings amounted to -RMB527,937,000); interest covered multiple (profit before interests and taxation/interest expenses) during the Reporting Period was 13.49 times (2004: 36.42 times). At the end of the Reporting Period, the proportion of liabilities of the Group increased significantly as compared to the beginning of 2005, though still maintained at a secure level.

Capital Expenditures and Financing Capability

As at 30 June 2005, the Group's capital expenditure plans comprised mainly construction expenditure incurred for Yanpai Expressway, Nanguang Expressway and Yanba C and investment amounts in acquiring the interests of Qinglian Project, GZ W2 Expressway, Jiangzhong Expressway and Wuhuang Expressway. Capital expenditures to be incurred for the next five years are estimated to amount to RMB5,179,000,000.



Due to the large amount of capital expenditures of the Group for the coming five years, the Company plans to fund the aforesaid amounts by both internal resources and bank borrowings. At present, according to the assessment of the Directors, the Group is able to meet various expected capital expenditures given the Group's financial resources and financing capabilities.

Financing Activities

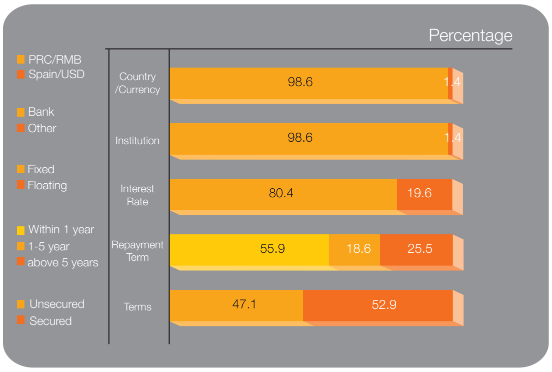
With the backing of steady growth in cash flow, a sound credit record and an excellent industry reputation, the Group has been granted an AAA credit rating for three consecutive years up to 2005 by a recognised institution of the People's Bank of China. A good credit rating is beneficial for the Company's financing activities and allows the Company to continue to enjoy prime rates under the interest rate policy of the People's Bank of China.

As of 30 June 2005, the Group's bank loans and government indirect lending amounted to RMB2,367,360,000, representing an increase of RMB1,653,459,000 as compared to the year-end of 2004, which amount was primarily used for investment in the new projects.

During the Reporting Period, with the increase in the scale of the Company's borrowings, adjustments have been made in the borrowing structure such that there was an increased proportion of long-term borrowings and fixed-interest borrowings for the purpose of reducing various financial risks. The average borrowing cost during the Reporting Period was 5%, slightly higher than the 4.78% of the previous year. The Group guarded against the risk of interest rate fluctuations by deploying a reasonable combination of fixed and floating interest rates, and sought to control the risks of rising interest rates through taking appropriate interest rate swap contracts with regard to market changes. During the Reporting Period, the Group had no interest-rate swap option contracts.

On 12 August 2005, the Board passed a resolution on the proposal for issuing not more than RMB2.4 billion short-term commercial papers by the Company. The proposal will be submitted for approval by shareholders at an extraordinary general meeting to be convened on 10 October 2005. As the interest rate of short-term commercial papers is lower than that of bank loans with similar maturities, the successful issuance of these commercial papers will be beneficial for improving the Company's debt structure and reducing its financing costs.

Borrowing Structure (as at 30 June 2005)



During the Reporting Period, the Group capitalised on both the favourable internal and external conditions to negotiate new financing facilities and agreements with banks. As at 30 June 2005, total credit facilities amounted to RMB8.55 billion, of which utilised and unutilised credit facilities amounted to RMB2.145 billion and RMB6.405 billion respectively. From the date of balance sheet to the date of this report, new credit facilities amounting to RMB2.58 billion were obtained. As of the date of this report, the Group's total credit facilities amounted to RMB11.13 billion of which unutilised credit facilities amounted to RMB7.715 billion. The credit facilities available to the Group will meet the need of capital requirements for the Company's future development.

3. Business Review

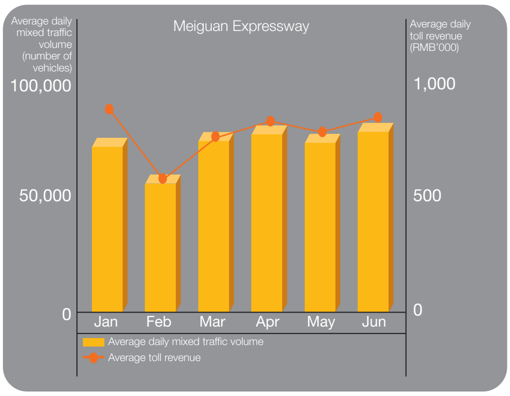
Operating Performance

During the Reporting Period, driven by robust economic growth and tremendous increase in the number of automobiles, the Group's toll highways continued to enjoy rapid growth in traffic volume. Average daily mixed traffic volume increased by 28%.

1. Details of the operations of the Group's toll highways during the Reporting Period were as follows:

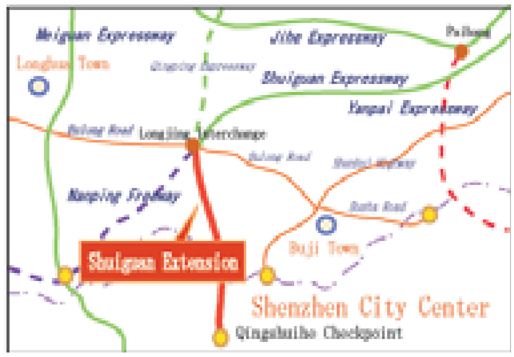
	Average daily mixed traffic volume (number of vehicles)		
Major Toll Highway	**Jan~June 2005**	**Jan~June 2004**	**Change (%)**
Meiguan Expressway	73,217	58,254	25.7
Jihe East	54,218	40,468	34.0
Jihe West	43,532	32,375	34.5
Yanba A and B	10,241	8,664	18.2
Shuiguan Expressway	44,626	36,032	23.9

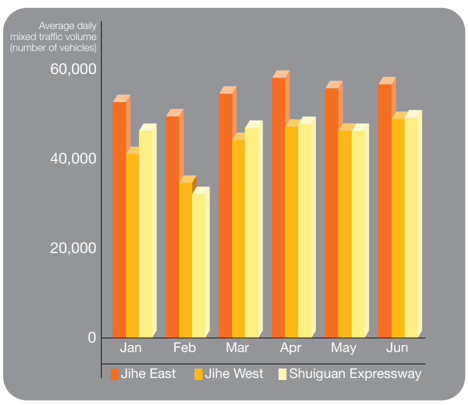
Trade and commerce and people's travelling between Hong Kong, Shenzhen and Dongguan were the driving forces for traffic growth on Meiguan Expressway. During the Reporting Period, traffic volume on Meiguan Expressway sustained rapid and stable growth. Average daily mixed traffic volume increased by 25.7%, of which Category 1 vehicles increased by more than 30% over the corresponding period of the previous year, resulting in an increase in total traffic volume. During the Reporting Period, the opening of the South China Logistics Exit on Meiguan Expressway has effectively smoothened the traffic flow of South China International Logistic Center and its surrounding areas, thereby alleviating congestion on the peripheral driveways and resulting in increased traffic volume.

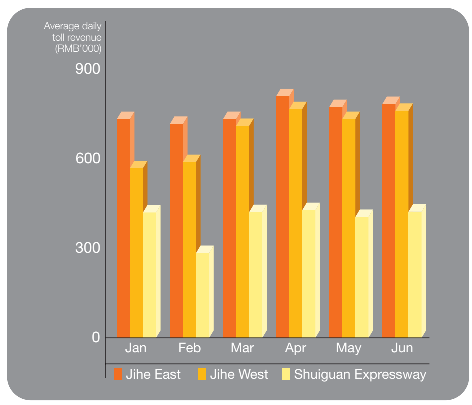


Passenger vehicles travelling between the city centre of Shenzhen and other nearby districts accounted for the largest share of traffic on Jihe Expressway, one of the outer-ring roads of Shenzhen. Meanwhile, expedited construction of logistics parks and trade centres in the surrounding areas of Jihe Expressway has further fuelled the rapid traffic growth on Jihe Expressway. During the Reporting Period, traffic volumes of Category 1, 4 and 5 vehicles on Jihe Expressway increased by more than 35%, 30% and 60%, respectively, over the corresponding period of the previous year.

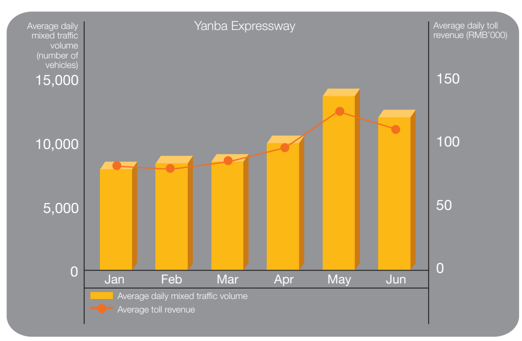
Given the rapid development of the Longgang Industrial Zone and the fast-growing population and logistics activities in the satellite counties and towns surrounding Shenzhen, traffic volume on Shuiguan Expressway has increased rapidly. Shuiguan Extension was completed and opened to traffic in July 2005, connecting Shuiguan Expressway with the two largest warehousing areas in Shenzhen city centre, i.e. Qingshuihe and Sungang. Shuiguan Extension links up with Shuiguan Expressway, Bulong Highway and the nearly completed Nanping Freeway. This network will provide highly efficient road networking effect, guiding traffic on highways such as Shuiguan Expressway to the city centre through the Longjing Interchange. This will not only foster the development of the Industrial Zone of Shenzhen and the Baolong Industrial Zone and facilitate the formation and growth of the Pinghu Logistics Zone, but will also be conducive to the growth of traffic volume on Shuiguan Expressway. With the approval from the relevant authorities, the toll coefficients for Category 1 to 5 vehicles on Shuiguan Extension will be 1, 1.5, 2, 3 and 3.5 respectively, and the toll rate for Category 1 vehicle is fixed at RMB0.6/km.







Currently, Yanba Expressway's under-par performance in toll revenue in the short term was attributable to the absence of a holistic road network in the eastern part of Shenzhen. During the Reporting Period, the strong marketing efforts carried out by the Company, together with increasingly active construction works in that area, provided more traffic flow for Yanba Expressway, and the traffic volumes of Category 3, 4 and 5 vehicles increased by more than 45%, 80% and 95%, respectively, over the corresponding period of the previous year. As Shenzhen and Huizhou will intensify the development of the eastern area and as the road network continues to improve, traffic volume on Yanba Expressway is expected to further increase.



2. Projects of Associated Companies

During the Reporting Period, Yangmao Expressway has already achieved good operating performance even at its initial stage of opening and realised an average daily toll revenue of approximately RMB600,000. Meanwhile, the average daily toll revenue on Guangwu Expressway was approximately RMB149,000, a figure within the Company's expectation. The traffic volume on this road will improve after Guangwu Expressway Phase 2 (under planning) commences operation. During the Reporting Period, a 3.44-km section of Jiangzhong Expressway was opened to traffic.

3. Toll Rate Adjustments

According to the "Notice Concerning Adjustment of the Toll Rate of Vehicles on Expressway" jointly issued by the Guangdong Provincial Price Index Bureau and the Guangdong Provincial Communications Department, the toll rates of expressways in Guangdong Province were adjusted, effective 1 June 2005. Of the adjustments, the toll coefficient for Category 5 vehicles of Meiguan Expressway and Jihe Expressway has been lowered from 6 to 5; that of Yanba Expressway, Shuiguan Expressway, Yangmao Expressway and Guangwu Expressway has been lowered from 4 to 3.5; and the toll coefficients for Category 1 to 4 vehicles have remained the same. According to the Company's estimation, assuming unchanged traffic volumes, such adjustments may lead to a slight decrease of approximately 1% in toll revenues of the Group. But since the lowered toll rates will attract more traffic flow, overall speaking such toll rate adjustments will not have significant impact upon the Group's operation.

In order to prevent and minimise the risks resulted from toll rate adjustments, the Company has now applied more stringent assumptions for toll rate adjustments in the analysis of new project investments so as to build in stronger risk resilience. On the other hand, the Company will continue to adopt cost reduction measures, including the lowering of construction costs and operating costs, to ensure greater profitability for shareholders even if toll rates will remain at the same level. Meanwhile, the Company also maintains good cooperative relationships and proactive communication with government authorities and fellow highway operators, with a view to fostering accurate and pragmatic understanding of the highway business among parties concerned, and gaining more desirable toll rates in future.

Project Acquisitions

Guangwu Expressway

On 8 December 2004, the Company entered into an agreement with GDRB Company to acquire a 30% equity interests in Guangyun Company (which operates Guangwu Expressway) at a consideration of RMB179,180,000. In accordance with the Listing Rules of HKEX, the transaction constituted a connected transaction of the Company. On 18 February 2005, such acquisition was approved by shareholders at the Company's extraordinary general meeting, with connected parties and their associates abstaining from voting. In June 2005, the Company appointed two Directors and the financial controller to Guangyun Company, so as to enable the Company to exert material influence thereon. Guangyun Company is accounted for as an associate. From the completion date of acquisition till the end of the Reporting Period, the project has incurred a net loss of RMB924,000 to the Company. In August 2005, the procedures for industry and commerce registration change in relation to the acquired equity have been completed.

Qinglian Project

On 3 February 2005, the Company and Mei Wah Company entered into agreements with other parties concerned to acquire a 56.28% interests in Qinglian Company at a consideration of RMB1,839,200,000. In accordance with the Listing Rules of HKEX, the transaction constituted a connected transaction of the Company. On 23 May 2005, such acquisition was approved by shareholders at the Company's extraordinary general meeting, with connected parties and their associates abstaining from voting. As at 30 June 2005, the subject equity interest of the agreement had been transferred and the procedure for the transfer of the loan has been completed. The Company has appointed to Qinglian Company nine Directors and certain key management including the general manager and the chief financial officer. Other arrangements pursuant to the agreement are being executed at present. From the completion date of acquisition to the end of the Reporting Period, the project has incurred a net loss of RMB221,000 to the Company.

Qinglian Class 1 Highway, owned by Qinglian Company, is a 215.85 km arterial highway in Guangdong Province, connecting the northern and southern highway backbones in the province and enhancing the trading and economic activities from the Pearl River Delta region to the central areas. It is also an essential corridor to link up the Pearl River Delta region with the central and northern parts of Guangdong Province, Hunan Province and other central regions. With a view to enhancing the efficiency of the existing route and bringing the capacity of the major trunk highway into full play, plans are underway to re-construct Qinglian Class 1 Highway into an expressway. To date, the project management headquarters has already been established for the reconstruction work, and various aspects of preparation work are in active progress.

Wuhuang Expressway

On 19 March 2005, the Company and Mei Wah Company entered into agreements with other parties concerned to acquire a 55% interests in Magerk Company (which owns the operating right of Wuhuang Expressway) at a consideration of HK$653,632,000. Since the joint investor of the remaining 45% equity interests in Magerk Company, Flywheel Investments Limited, is a wholly-owned subsidiary of Shenzhen International which is a connected party, the transaction constituted a connected transaction of the Company in accordance with the Listing Rules of HKEX and SSE. There are no connected relationships between the Company and the sellers. The transaction price and other terms were agreed upon by all parties concerned after arm's length negotiation with reference to the valuation of Magerk Company performed by an independent professional valuer appointed in Hong Kong (On 31 December 2004, the net book value of 55% interests in Magerk Company was about RMB150 million and its valuation was about RMB700 million). On 3 June 2005, such acquisition was approved by shareholders at the Company's extraordinary general meeting, with connected parties and their associates abstaining from voting.

To facilitate a successful completion of the acquisition, the Company and Mei Wah Company entered into a supplementary agreement with other parties concerned on 12 July 2005. Pursuant to the provisions in the supplementary agreement, the Company has arranged Mei Wah Company to directly acquire the 55% interest in Jade Emperor Limited (which sole business is to own and operate Magerk Company), and paid the consideration for the acquisition as well as completing the relevant transfer procedures on 5 August 2005.

Wuhuang Expressway, measuring 70.3 kilometers, forms a well-established network with neighbouring highways. As a major route connecting Wuhan and Huangshi and a major trunk for accessing eastern Hubei, it is an important road pivot within the transportation network of eastern Hubei and constitutes a major part of the Hurong National Highway within the national expressway network. Indeed, Wuhuang Expressway commands an important location with strategic advantages. In the first half of 2005, traffic volume and toll revenue on Wuhuang Expressway maintained steady growth as compared to the corresponding period of the previous year.

The acquisition has further strengthened the assets scale and the income base of the Company. In addition, as the Wuhuang Expressway has already recorded favourable operating results, the Company did not have to face various risks during the construction of a toll highway and the risk of having lower-than-expected traffic flow after its opening, and as such the overall risk level of the entire investment was controlled at a relatively low level. This acquisition is consistent with the overall business strategy of the Company in toll highway investment, and will enrich the investment and management experience and skills of the Company in other economically developed regions of the PRC, as well as enhancing the future profitability and cash flow of the Company through the acquisition.

Projects under Construction

Jiangzhong Expressway, located in southwestern Guangdong and with a total length of 38.82 kilometers, comprises Zhongjiang (between Zhongshan and Jiangmen) Expressway and Phase 2 of Jianghe (between Jiangmen and Heshan) Expressway. The Company owns 25% interests in Jiangzhong Expressway. As per the progress of the physical completion of the expressway, an accumulated amount of RMB2.387 billion (approximately 75% of the estimated investment) had been utilised as construction costs as at 30 June 2005, and completion is scheduled for October 2005. Upon completion, with the peripheral road network, Jiangzhong Expressway will form part of the trunk highway network in southwestern Guangdong. With Guangzhou as the centre, it will reduce the traffic distance between the eastern and western wings of the Pearl River Delta by nearly 60 km.

Nanjing Third Bridge is located in Nanjing of Jiangsu Province with a total length of 15.6 kilometers. As at 30 June 2005, the major parts of Nanjing Third Bridge have been jointed and as per the progress of the physical completion of the bridge, an accumulated amount of RMB 2.470 billion had been utilised as construction costs which accounted for about 75% of the estimated investment. The whole project is expected to be completed by October 2005. Nanjing Third Bridge will be the most convenient passage along the Hurong National Highway crossing over Yangtze River at Nanjing. The Company owns 25% interests in Nanjing Third Bridge.

Yanpai Expressway, located in eastern Shenzhen and connected with Jihe Expressway, will be linked up with Shenzhen Baoan International Airport in the west and Yantian Port in the east, constituting a major trunk of the outer-ring roads of Shenzhen. Yanpai Expressway is an express passage for prompt traffic diversion at Yantian Port, playing a significant role in relieving traffic pressure caused by the rapid growth of container throughput at Yantian Port upon the full operation of Phase 3 Project at Yantian Port. The Company owns 100% interests in Yanpai Expressway, which measures 15.2 kilometers. As at 30 June 2005, as per the progress of the physical completion of the expressway, an accumulated amount of RMB 540 million which accounted for about 47% of the estimated investment had been utilised as construction costs. As work progress has been affected by the coordination work with the Municipal Government's other complementary projects as well as by the weather, the whole project is scheduled for completion in the first half of 2006.

Located in Guangzhou area, GZ W2 Expressway, measuring 39.13 kilometers, is part of the Pearl River Delta Ring Expressway and a ring highway surrounding Guangzhou City. When GZ W2 Expressway commences operation, it will link up various expressways and national highways surrounding Guangzhou. It also serves as the only passageway running from western Guangzhou to Huadu International Airport. The Company owns 25% interests in GZ W2 Expressway. As at 30 June 2005, as per the progress of the physical completion of the expressway, an amount of RMB826 million had been utilised as construction costs, accounting for approximately 28% of the estimated investment. The whole project is expected to be completed by the first half of 2007.

In addition to the aforesaid projects, the Company has been actively preparing for the construction work of two expressways, Nanguang Expressway and Yanba C in the Shenzhen area. As at 30 June 2005, the preliminary designs of Nanguang Expressway were assessed and approved, and tenders have been started for some contract sections. The whole project is expected to be completed by the end of 2007. The Company is now proceeding with the preliminary preparation work for the construction of Yanba C. It is reported that the Shenhui Coastal Expressway (between Shenzhen and Huizhou), located in eastern Huizhou and to be connected with Yanba Expressway, has commenced construction in July 2005.

In the next two to three years, the Group will be undertaking a number of large-scale highway construction projects, namely the construction of Yanpai Expressway, Nanguang Expressway and Yanba C and the re-construction work of Qinglian Class 1 Highway. Due to fluctuations in the prices of materials, increasing difficulties in land requisition and demolition work, changing construction plans, etc, these projects may face the risks of rising construction costs, project delay and affected quality. The Company's core expertise and extensive experience in highway construction and management will be the cornerstone for managing such risks. The Company has formulated a full set of management rules and risk control measures to counteract possible adverse impacts associated with fluctuations in materials prices and workers' wages, project delay, lack of management resources, and so forth. In addition, the Company has entered into appropriate insurance contracts and project construction agreements so as to reasonably and effectively transfer such risks.

Entrusted Construction Management Services

Having been involved in construction management for more than ten years, the Company has accumulated substantial experience in project construction management. It has earned a reputation on reliable quality, and it possesses strong expertise in budget and work schedule controls. The Company was appointed as the project administrator of the Nanping Project and the Hengping Project in 2004, which marked the beginning of the entrusted construction management business of the Company. This will further broaden the Company's scope of business and create a new profit source for the Company.

As at 30 June 2005, as per the progress of the physical completion of the Nanping Project, an amount of RMB1.213 billion accounting for approximately 53% of the estimated investment had been utilised as construction costs. The project is scheduled for completion in the first half of 2006 according to the centralised deployment and arrangement of the government.

As at 30 June 2005, as per the progress of the physical completion of the Hengping Project, an amount of RMB68 million accounting for approximately 15% of the estimated investment had been utilised as construction costs. The land requisition and demolition work related to the Hengping Project is lagging behind the schedule and the whole project is scheduled for completion at the end of 2006. As the Company is not required by the agreement to be responsible for land requisition and demolition, the Company's performance in accordance with construction schedules as stipulated in the agreement will not be affected.

4. Outlook

The Pearl River Delta region is a frontier of reforms and a "window" for foreign investments. Underpinned by a massive clustering of manufacturing bases and thriving flow of goods, the region has been one of the fastest growing regions in China for many years, as well as a passage connecting Hong Kong and Macau with other provinces and cities. The Pearl River Delta region commands a leading position in terms of urbanisation, individuals' income level and per capita automobile ownership. With the accelerating integration of the regional economy, bourgeoning commerce and business activities and ever-increasing growth in people's travelling, road users' demand for road capacity and quality will be greater and greater, thereby providing a major driver for the development of the toll highway industry.

In order to fulfill the needs of economic development, the State and local governments have formulated comprehensive forward-looking plans for China's transportation networks. To alleviate the existing situation of insufficient government resources and excessive bank borrowing, the highway industry will be exploring more diversified options in future in terms of the investment and financing structure. Tolls from highway users will remain as a key source of returns for investors, which will in turn lead to more development opportunities for the industry.

Robust economic growth coupled with effective policy support has provided the Company with a strategic opportunity for rapid, sustainable development. Meanwhile, the Board and the management of the Company are fully aware of the risks confronting the Group in the financial, marketing and operational aspects. Reviews will be conducted on an ongoing basis and relevant preventive measures will be taken. The Group will carry out the following pro-active business strategies:

(1) Strengthening the operational management of the toll projects under operation to ensure a steady growth of income;

(2) Enhancing the construction management of the key projects under development to ensure that the projects will be completed within budgets and in accordance with schedules;

(3) Maintaining a reasonable debt structure, broadening sources of funds and lowering financial costs; and

(4) Fostering the building, development and management of human resources to fulfill the Company's continuous development needs.

Looking ahead, the Company will continue to focus on the toll highway operation as its principal business and development path. It will leverage its competitive advantages in the investment, construction, operational management of highways and in its innovative strengths, while capitalising on every opportunity and dealing with the challenges constructively. It will continue to strengthen its core competitiveness and further enhance its standards in corporate governance, with a view to achieving greater profitability and risk resilience. This way, the Company will grow rapidly but steadily on all fronts, enabling itself to reward all shareholders with promising returns.

Other Matters

1. Dividend Distribution

(1) Dividend distribution for the interim of 2005

The Board of the Company does not recommend payment of any interim dividend for the six months ended 30 June 2005 (2004:Nil), nor does it recommend any transfer of capital reserves to share capital.

(2) Dividend distribution scheme of 2004 and its implementation

Pursuant to the approval at the 2004 annual general meeting, the Company paid a final dividend of RMB 0.11 per share on the basis of the total share capital comprising 2,180,700,000 shares as at the year end of 2004, totalling RMB239,877,000. Such dividend distributions were completed by 30 June 2005.

2. Elections and Changes of Directors, Supervisors and Senior Management

(1) On 8 April 2005, Mr. Chen Chao, Mr. Zhong Shan Qun and Ms. Tao Hong resigned as Directors of the Company and Mr. Wang Ji Zhong resigned as supervisor of the Company. Mr. Yang Hai, Mr. Li Jing Qi and Mr. Wang Ji Zhong have been appointed as Directors of the Company and Mr. Chen Chao has been appointed as supervisor of the Company, and Mr. Yang Hai has been elected as the Chairman of the Company and Mr. Chen Chao has been elected as the Chairman of the supervisory committee of the Company.

(2) The Company has applied for, and HKEX has granted to the Company, a conditional waiver from strict compliance with Rule 3.24 of the Listing Rules for a period of 3 years from 15 April 2005. The Company has appointed Ms. Gong Tao Tao as the Qualified Accountant of the Company accordingly. The Company has also engaged Ms. Yuki Wong to provide assistance to Ms. Gong Tao Tao to discharge her duties as the Qualified Accountant.

(3) Mr. Ho Pak Cho, Denis Morgie resigned as an independent non-executive Director of the Company on 3 June 2005 and Mr. Wong Kam Ling has been appointed as an independent non-executive Director of the Company with effect from the same date.

3. Disclosure of Interests

As at 30 June 2005, none of the Directors, supervisors or senior management has interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which are required to be entered into the register maintained by the Company under section 352 of the SFO (including deemed interests and short positions under such provisions of the SFO) or which are required to be notified to the Company and HKEX pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

4. Profile Of Shareholders

(1) As at 30 June 2005, the Company had 35,081 shareholders in total, including 4 unlisted legal person shareholders, 483 H Shareholders and 34,594 A Shareholders.

(2) As at 30 June 2005, so far as is known to the Directors, supervisors and senior management of the Company, the interests and short positions of shareholders, other than a Director, supervisor or senior management of the Company, in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the domestic shares of the Company:

	Number of domestic shares (Note1)	**Approximate percentage of total issued domestic share capital** (%)	**Approximate percentage of total issued capital** (%)
XTC Company (Note2)	654,780,000	45.68	30.03
SGH Company (Note3)	457,780,000	31.94	20.99
Huajian Centre (Note3)	91,000,000	6.35	4.17

Long Positions in the H Shares of the Company:

	Number of H shares (Note4)	**Approximate percentage of total issued H share capital** (%)	**Approximate percentage of total issued capital** (%)
Value Partners Limited	37,402,000 (Note5)	5.00	1.72
Cheah Cheng Hye	37,402,000 (Note6)	5.00	1.72
J.P. Morgan Chase & Co.	63,376,000 (Note7)	8.48	2.91
Sumitomo Mitsui Asset Management Company, Limited	67,036,000 (Note8)	8.97	3.07
Sumitomo Life Insurance Company	67,036,000 (Note9)	8.97	3.07

4. Profile Of Shareholders (continued)

Notes:

(1) Unlisted shares.

(2) XTC Company is a limited company incorporated under the laws of the PRC and is a wholly owned subsidiary of Shenzhen International which shares are listed on the main board of HKEX.

(3) State-owned company incorporated under the laws of the PRC.

(4) Shares listed on the main board of HKEX.

(5) These 37,402,000 H Shares were held by Value Partners Limited as investment manager.

(6) These 37,402,000 H Shares were held through Value Partners Limited, in which Mr. Cheah Cheng Hye had a controlling interest

(7) The capacity of J.P. Morgan Chase & Co. and its associates in holding the 63,376,000 H Shares was, as to 70,000 H Shares, as beneficial owner, as to 28,858,000 H Shares, as investment manager and as to 34,448,000 H Shares, as approved lending agent.

(8) These 67,036,000 H Shares were held by Sumitomo Mitsui Asset Management Company, Limited as investment manager

(9) These 67,036,000 H Shares were held through Sumitomo Mitsui Asset Management Company, Limited, in which Sumitomo Life Insurance Company had a controlling interest.

Save as disclosed above, the register required to be kept under section 336 of Part XV of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 30 June 2005.

(3) As at 30 June 2005, the top ten holders of shares in circulation of the Company based on the shareholders' registers supplied by the share registrar and the transfer offices of Hong Kong and PRC were as follows:

Name of Shareholder (Full Name)	Number of shares held at the end of Period	Type
HKSCC Nominees Limited (Note)	728,265,398	H-Share
Shenyin Wanguo-HSBC-Merrill Lynch International	6,978,168	A-Share
Yu Long Securities Investment Fund	4,752,093	A-Share
HSBC Nominees (Hong Kong) Limited	3,832,000	H-Share
Guotai Junan-CCB-HSBC	3,565,725	A-Share
ARSENTON Nominees Limited	3,000,000	H-Share
China Galaxy Securities Company Limited	2,973,371	A-Share
Bank Of China-Harvest Fund Management Co. Ltd.	2,863,550	A-Share
China Merchant Securities-Chartered-ING Bank N.V.	2,340,776	A-Share
Xing He Securities Investment Fund	1,903,198	A-Share

Note: The H shares held by HKSCC Nominees Limited were held on behalf of several clients.

5. Alteration of Company's Enterprise Type

The Company was established as a joint stock limited company in the PRC in 1996. On 23 April 2004, the shareholders convened the annual general meeting which approved the alteration of the Company to a foreign invested joint-stock limited company. Pursuant to the "Provisional Regulations in relation to Certain Questions for Establishment of Foreign-invested Joint Stock Limited Company"(關於設立外商投資股份有限公司若干問題的暫行規定), on 7 June 2005, the Ministry of Commerce of the PRC approved the Company to change into a foreign-invested joint stock limited company. As at the date of this report, the relevant industry and commerce registration procedures for alteration are still in progress.

6. Purchase, Sale or Redemption of Shares

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

With the main purposes to protect shareholders' and investors' interests and to enhance the confidence of investors, the Company had made a plan since 2002 to seek authorisation and approval from the shareholders and regulatory authorities in respect of the repurchase of H Shares of the Company ("Repurchase of H Shares").

The application in relation to the Repurchase of H shares has been approved by the CSRC. On 8 April 2005, a special resolution was passed by the shareholders of the Company to authorise once again the Directors to execute the Repurchase of H Shares. Pursuant to the approval by the shareholders, the Board may repurchase H Shares in the open market traded on HKEX, of not more than 10% of the nominal value of the issued share capital of H Shares in the relevant period.

Currently, the Company has completed all the requisite preparatory work for the Repurchase of H Shares in accordance with the relevant laws and regulations. After fully considering various factors such as the price of H Shares and the capital expenditure of the Company, the Company has not yet repurchased any H Shares up to the date of this report.

7. Use of Proceeds

The Company raised RMB604 million from the issue of A shares in 2001. During the Reporting Period, the Company applied such proceeds in the construction of Yanba B in strict compliance with the undertakings as made in the prospectus. The construction of Yanba B began in June 2001 and was opened to traffic for toll collection in June 2003.

An amount of RMB15,056,000 was applied during the Reporting Period and the cumulative amount of proceeds applied was RMB429,056,000. As at 30 June 2005, proceeds in the amount of RMB174,944,000 remained unutilized and were mainly held as short-term fixed deposits with banks in the PRC to be used for the settlement of remaining project payments for Yanba B. After the commissioning of Yanba B, traffic flow and toll revenue of Yanba Expressway had been significantly enhanced with the formation of a local traffic network with Yanba A.

8. Mortgage and Pledge of Assets

As at the date of this report, the Group had the following assets mortgaged or pledged to the banks:

Asset	Type	Bank	Scope of security	Terms
95% equity interests of Meiguan Company	Pledge	China Development Bank	RMB1.4 billion principal and interests	Until repayment of all indebetedness by the Company under the contract of the loan
Toll collection rights of Shuiguan Expressway	Pledge*	Bank of China	RMB550 million principal and interests	Until repayment of all indebetedness by Qinglong Company under the contract of the loan
154,000,000 shares of Jade Emperor Limited	Mortgage**	Industrial and Commercial Bank of China (Asia) Limited	HKD680 million principal and Interests	Unitl repayment of all indebetedness by Mei Wah Company under the contract of the loan

* Pledged by Qinglong Company, a jointly controlled entity of the Company

** Mortgaged on 5 August 2005 by Mei Wah Company, a wholly owned subsidiary of the Company

9. Ongoing Disclosure under the Listing Rules

The following information is provided in accordance with the requirements under the Listing Rules in respect of ongoing disclosure obligations:

(1) Pursuant to Rule 13.16 of the Listing Rules:

During the Reporting Period, the Group acquired 56.28% interest in Qinglian Company. The Group has also inherited, in proportion to its equity interests, the loans and related interests of Qinglian Company from the original equity holders in the amount of RMB958,883,000. The amount thereof is unsecured, non-interest bearing and has no fixed term of repayment. The amount will be repayable by funds generated from Qinglian Company's highway operation. After the acquisition, loans made to Qinglian Company by the Group and other shareholders of Qinglian Company are proportionate to their respective equity interests. The Directors intend to capitalise such loans as additional capital to Qinglian Company. This proposal is pending the approvals by Qinglian Company's board of Directors and by the relevant government authorities.

9. Ongoing Disclosure under the Listing Rules (continued)

(2) Pursuant to Rule 13.22 of the Listing Rules:

Set out below is the unaudited balance sheet of Qinglian Company as at 30 June 2005 prepared in accordance with generally accepted accounting principles in Hong Kong:

Balance sheet

	30 June 2005 RMB'000
Assets:	
Property, plant and equipment	3,835,808
Construction in progress	3,665
Current assets	83,236
Total assets	3,922,709
Liabilities:	
Long-term loans	587,852
Advances from equity holders	1,690,623
Current liabilities	79,604
Total liabilities	2,358,079
Net assets	**1,564,630**

10. Connected Transactions

(1) Details of the connected transactions of the Company during the Reporting Period are set out in the section of "Project Acquisitions" under "Business Review" on pages 18 to 20 of this report.

(2) Advances and liabilities or guarantees related to the connected parties (as defined in the relevant regulations of the PRC):

During the Reporting Period, no event in relation to the appropriation of Company's funds by its controlling shareholders was found. The transactions among the Company and its subsidiaries, joint venture and other connected parties (as defined in the relevant regulations of the PRC) comprised mainly the agency collection and reimbursement of toll income, advance payment of operating expenses and costs, long-term equity investments and the advance payments. In March 2005, Mei Wah Company entered into a loan agreement with China Merchants Bank in respect of the acquisition of Wuhuang Expressway, which was secured by a standby letter of credit issued by Hua Xia Bank in favour of Mei Wah Company. The Company opened a special premium account of RMB505,600,000 with Hua Xia Bank as security to counter-guarantee a standby letter of credit as granted. After 30 June 2005, the related letter of credit was discharged and a discharge of the premium guarantee concerned was being processed since the relevant agreement and guarantees had not been executed. In addition, the loan in a sum of US$3,909,850 from the Spanish Government through China Construction Bank was secured by a major shareholder of the Company, XTC Company.

To facilitate the completion of the acquisition of Wuhuang Expressway, the Company applied to the Shenzhen Branch of Industrial and Commercial Bank of China ("ICBC") for issuing a letter of credit in favour of Mei Wah Company as a collateral for Mei Wah Company's application for a HK$680 million loan. The Company provided a corporate guarantee to the Shenzhen Branch of ICBC for the inssurance of such letter of credit.

11. Employees, Remuneration and Training

In line with its development strategies, the Company recruits more professional and technical staff at all levels, while enhancing the staff's overall qualities and work competence through various training programmes at different levels.

As of 30 June 2005, the Company had 1,290 employees, of whom 7%, 4%, 14% and 75% were administrative, financial, technical and toll collection staff respectively. 31% of the total number of employees held tertiary or above qualifications, while the ratio for administrative, financial and technical staff reached 81%.

In April 2004, the Company adopted the "Management Rules for Employee's Remuneration and Benefits". The employee's remuneration is divided into three parts, namely monthly salary, year-end performance bonus and statutory and non-statutory benefits provided by the Company. The remuneration is determined in accordance with an overall performance appraisal and salary and performance bonus are determined with reference to the staff's position and performance respectively so that the Company will maintain competitiveness. In addition, the Group has provided relevant social insurance protection to its employees in accordance with statutory requirements.

11. Employees, Remuneration and Training (continued)

The Company has implemented a shares appreciation rights scheme as approved by the shareholders since 2001 which was subsequently amended at the extraordinary general meeting held on 30 October 2003. Pursuant to the amended shares appreciation rights scheme, the Board of the Company approved during the Reporting Period the Company to exercise, as authorised by the general meeting, Phase-3 and Phase-4 shares appreciation rights amounting to 5,501,400 shares collectively held by the management team. An amounted of RMB4,412,000 from exercising such rights shall be used as a special incentive fund and distributed to the management team in accordance with the proposal put forward by the General Manager and the Remuneration Committee of the Company. As at 30 June 2005, the shares appreciation rights granted by the general meeting were fully exercised. The special incentive fund from the scheme has not yet been distributed during the Reporting Period.

During the Reporting Period, the Company organised various training programmes including communication of company strategies, specific training for department representatives, continuing education for financial staff, on-the-job training for file management staff and orientation courses for toll collection staff. Furthermore, individual departments organised a number of specific internal training programmers on their own according to the annual training plan.

Looking towards the second half of 2005, the Company will continue to carry out comprehensive management skills training for senior management, recruit and develop new management specialists and provide more incentives to its employes, in order to enhance the execution abilities of both management and staff, and to meet the Company's needs for quality people on its course towards continueous development.

12. Corporate Governance

(1) Compliance with the Code on Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance. During the Reporting Period, the Company has fully complied with the provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules of HKEX, save as:

— During the Reporting Period, the Company has yet to arrange independent non-executive Directors to attend general meeting that was convened to approve connected transactions. The Company will ensure compliance with such provision of the Code after the Reporting Period. As a transitional arrangement during the Reporting Period, an independent financial advisor appointed by the committee of independent non-executive Directors attended the above-mentioned general meeting to respond to questions from shareholders.

— The Group plans to issue a written document in the third quarter of 2005 to employees in setting out official guidelines and procedures for the dealing of the Company's shares by relevant employees.

12. Corporate Governance (continued)

(2) Audit Committee

The Audit Committee comprises three Directors, all of whom are senior professionals in the fields of accounting, securities or finance with two of them being independent non-executive Directors. The Chairman of the Committee is an independent non-executive Director. During the Reporting Period, the Audit Committee has amended their terms of reference according to the provisions of the Code and the terms of reference have been duly approved by the Board on 26 August 2005.

The Audit Committee of the Company has reviewed and endorsed the Interim Results Announcement and Interim Report for the six months ended 30 June 2005 and the relevant financial information has not been audited.

(3) Remuneration Committee and Nomination Committee

Since November 2001, the Company established a dedicated committee to oversee the remunerations and nominations of the Board. During the Reporting Period, the Board approved to split the committee into two, namely the Remuneration Committee and the Nomination Committee to deal with their respective responsibilities. As at the date of this report, the Remuneration Committee and the Nomination Committee have formulated their respective terms of reference in accordance with the Code and these terms of reference have been duly approved by the Board.

Each of the Remuneration Committee and the Nomination Committee comprises three Directors, two of whom are independent non-executive Directors and the Chairman is an independent non-executive Director.

(4) Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted Appendix 10 of the Listing Rules entitled "Model Code for Securities Transactions by Directors of Listed Issuers" as rules for securities transactions initiated by the Directors and the supervisors. After specifically inquiring with all the Directors and the supervisors, the Company confirms that its Directors' and supervisors' securities transactions have been fully complied with the standard laid down in the said rules.

13. Name of Directors

As at the date of this report, the Directors of the Company are Mr. Yang Hai (Chairman of the Board); Mr. Wu Ya De (Director and General Manager); Mr. Zhang Rong Xing (Director); Mr. Lin Xiang Ke (Director); Ms. Zhang Yang (Director); Mr. Chiu Chi Cheong, Clifton (Director); Mr. Li Jing Qi (Director); Mr. Wang Ji Zhong (Director); Mr. Li Zhi Zheng (Independent Non-executive Director); Mr. Zhang Zhi Xue (Independent Non-executive Director); Mr. Poon Kai Lueng, James (Independent Non-executive Director) and Mr. Wong Kam Ling (Independent Non-executive Director).

By order of the Board
Yang Hai
Chairman

Shenzhen, PRC, 26 August 2005

Condensed Consolidated Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 30 June 2005 (Unaudited)	As at 31 December 2004 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	6	**4,076,960**	4,130,363
Construction in progress	6	**489,300**	286,584
Land use rights	6	**377,648**	386,468
Intangible assets	6	**6,815**	6,815
Interest in associates	8	**2,975,689**	870,698
Deferred income tax assets	13	**8,116**	9,473
Loan to a jointly controlled entity	9	**106,055**	112,017
		8,040,583	5,802,418
Current assets			
Inventories		**6,895**	7,367
Amount due from a jointly controlled entity	25(a)	**1,859**	1,904
Current portion of long-term receivables	10	**379,473**	372,946
Other receivables, prepayments and deposits		**71,517**	33,960
Restricted cash	11	**515,993**	55,988
Cash and cash equivalents		**624,188**	1,241,838
		1,599,925	1,714,003
Total assets		**9,640,508**	7,516,421
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**2,180,700**	2,180,700
Reserves		**3,247,868**	3,247,852
Proposed final dividend		**—**	239,877
Retained earnings		**565,739**	347,294
		5,994,307	6,015,723
Minority interest		**45,996**	41,700
Total equity		**6,040,303**	6,057,423

Condensed Consolidated Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 30 June 2005 (Unaudited)	As at 31 December 2004 (Restated)
LIABILITIES			
Non-current liabilities			
Long-term liabilities	12	**1,052,295**	142,911
Deferred income tax liabilities	13	**63,608**	59,767
Government grants	14	**356,929**	372,764
		1,472,832	575,442
Current liabilities			
Other payables and accrued expenses	15	**783,302**	283,443
Current income tax liabilities		**20,989**	17,031
Current portion of long-term liabilities	12	**103,082**	3,082
Borrowings	12	**1,220,000**	580,000
		2,127,373	883,556
Total liabilities		**3,600,205**	1,458,998
Total equity and liabilities		**9,640,508**	7,516,421
Net current (liabilities)/assets		**(527,448)**	830,447
Total assets less current liabilities		**7,513,135**	6,632,865

Condensed Consolidated Income Statement

(All amounts in RMB thousands unless otherwise stated)

		Unaudited	
		Six months ended 30 June	
	Note	**2005**	2004
			(Restated)
Turnover	16	**399,499**	320,627
Other gains	17	**38,602**	51,909
Taxes on turnover	16	**(19,129)**	(16,581)
Depreciation and amortisation		**(70,207)**	(61,859)
Employee benefit expenses	18	**(28,556)**	(19,173)
Road maintenance expenses		**(4,123)**	(2,940)
Other operating expenses		**(30,421)**	(19,139)
Operating profit		**285,665**	252,844
Finance costs	19	**(21,349)**	(6,937)
Share of profit/(loss) of associates		**2,271**	(221)
Profit before income tax		**266,587**	245,686
Income tax expenses	20	**(43,846)**	(35,821)
Profit for the period		**222,741**	209,865
Attributable to:			
Equity holders of the Company		**218,445**	206,131
Minority interest		**4,296**	3,734
		222,741	209,865
Earnings per share for profit attributable to the equity holders of the Company during the period			
- **Basic** (expressed in RMB per share)	21	**0.10**	0.09
Dividends	22	**—**	—

Condensed Consolidated Statement of Changes in Equity

(All amounts in RMB thousands unless otherwise stated)

		Unaudited				
		Attributable to equity holders of the Company				
	Note	Share capital	Reserves	Retained earnings	Minority interest	Total
Balance at 1 January 2004, as previously reported as equity		2,180,700	3,127,484	773,885	—	6,082,069
Balance at 1 January 2004, as previously separately reported as minority interest		—	—	—	49,967	49,967
Adjustment for amortisation of land use rights for the adoption of HKAS 17	3(a)(i)	—	—	(55,559)	(7,743)	(63,302)
Balance at 1 January 2004, as restated		2,180,700	3,127,484	718,326	42,224	6,068,734
Profit for the period, as restated		—	—	206,131	3,734	209,865
Disposal of a subsidiary		—	—	—	(915)	(915)
Dividend relating to 2003		—	—	(414,333)	(2,124)	(416,457)
Balance at 30 June 2004		2,180,700	3,127,484	510,124	42,919	5,861,227
Balance at 1 January 2005, as previously reported as equity		**2,180,700**	**3,247,852**	**658,054**	**—**	**6,086,606**
Balance at 1 January 2005, as previously separately reported as minority interest		**—**	**—**	**—**	**50,066**	**50,066**
Adjustment for amortisation of land use rights for the adoption of HKAS 17	3(a)(i)	**—**	**—**	**(59,541)**	**(8,366)**	**(67,907)**
Opening adjustment for the adoption of HKAS 39	3(a)(iv)	**—**	**—**	**(11,342)**	**—**	**(11,342)**
Balance at 1 January 2005, as restated		**2,180,700**	**3,247,852**	**587,171**	**41,700**	**6,057,423**
Currency translation differences		**—**	**16**	**—**	**—**	**16**
Profit for the period		**—**	**—**	**218,445**	**4,296**	**222,741**
Total recognised income for the six months ended 30 June 2005		**—**	**16**	**218,445**	**4,296**	**222,757**
Dividend relating to 2004		**—**	**—**	**(239,877)**	**—**	**(239,877)**
Balance at 30 June 2005		**2,180,700**	**3,247,868**	**565,739**	**45,996**	**6,040,303**

Condensed Consolidated Cash Flow Statement

(All amounts in RMB thousands unless otherwise stated)

	Unaudited	
	Six months ended 30 June	
	2005	2004 (Restated)
Net cash generated from operating activities	**266,740**	195,992
Net cash used in investing activities	**(2,289,086)**	(738,410)
Net cash generated from financing activities	**1,404,702**	14,147
Net decrease in cash and cash equivalents	**(617,644)**	(528,271)
Cash and cash equivalents at 1 January	**1,241,838**	1,247,391
Exchange losses on cash and cash equivalents	**(6)**	(515)
Cash and cash equivalents at 30 June	**624,188**	718,605
Analysis of balances of cash and cash equivalents:		
Cash at bank and in hand	**384,616**	498,155
Short-term bank deposits	**239,572**	220,450
	624,188	718,605

Notes to the Condensed Consolidated Financial Information

(All amounts in RMB thousands unless otherwise stated)

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 and jointly controlled entities (collectively the "Group"), and associates are the development, operation and management of toll highways and expressways in the PRC.

The address of the registered office of the Company is 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, the PRC.

The Company has its H shares and A shares listing on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange of the PRC respectively.

This condensed consolidated financial information is presented in thousands of units of Renminbi ("RMB'000") which is the functional currency of the Company, unless otherwise stated. This condensed consolidated financial information has been approved for issue by the Board of Directors on 26 August 2005.

2 Basis of preparation and presentation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. This basis of accounting differs in certain respects from that used in the preparation of the Group's statutory financial statements in the PRC. The PRC statutory financial statements of the Group have been prepared in accordance with accounting principles and financial regulations applicable to the Group in the PRC ("PRC GAAP"). Appropriate restatements have been made to the PRC statutory financial statements 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.

This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively "new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

(All amounts in RMB thousands unless otherwise stated)

2 Basis of preparation and presentation and accounting policies (Continued)

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information (August 2005). The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group's accounting policies and the effects of adopting these new policies are set out in note 3 below.

The Group reported net current liabilities of approximately RMB527,448,000 as at 30 June 2005. The Directors of the Company made an assessment and concluded that there is no going concern issue of the Group based on the facts that the Group has been generating positive and increasing operating cash flow and it has maintained good relationship with banks that it has not experienced any difficulty in renewing its banking facilities. In addition, the Group had unutilised available banking facilities of approximately RMB6,405,000,000 at 30 June 2005 in order to meet its obligations and commitment. Consequently, the interim financial information has been prepared by the Directors of the Company on a going concern basis.

3 Changes in accounting policies

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements

(All amounts in RMB thousands unless otherwise stated)

3 Changes in accounting policies (Continued)

(a) Effect of adopting new HKFRS (Continued)

HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 20, 21, 23, 24, 27, 28, 33 and 37 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

- HKASs 2, 7, 8, 10, 12, 16, 18, 19, 20, 23, 27, 28, 33 and 37 had no material effect on the Group's policies.

- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for their respective entity financial statements.

- HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at cost, as part of the property, plant and equipment balance, less accumulated depreciation and accumulated impairment losses. Depreciation had been provided using the units-of-usage method based on the proportion of actual traffic volume for a particular period over the total projected traffic volume throughout the periods within which the Group is granted the rights to operate those roads.

3 Changes in accounting policies (Continued)

(a) Effect of adopting new HKFRS (Continued)

The Group adopted the proportionate consolidation under HKAS 31 "Interests in Joint Ventures" to account for its interests in jointly controlled entities. In prior years, the Group's interests in jointly controlled entities were accounted for using the equity method. The adoption of the proportionate consolidation approach under HKAS 31 represents a change in accounting policy.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets and the accounting policy relating to the measurement of loans and long-term liabilities. As a transitional provision, the measurement of the loans and long-term liabilities according to the new standard is not required to be applied retrospectively and the amount of the resulting adjustment is recognised as an adjustment of retained earnings as at 1 January 2005. The impact of such adjustment made on the loan is stated in note 3(a)(iv). The impact of applying the new standard on long-term liabilities was assessed to be insignificant by the Directors of the Company to the Group's financial statements and no adjustment has been made (note 12(c)).

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments in relation to the Share Appreciation Right Scheme (the "Scheme") of the Company, under which share appreciation rights ("Rights") are granted to management employees to obtain benefits, which is determined as the difference between the pre-determined price of the Rights under the Scheme and the share price of the Company. Until 31 December 2004, the amounts paid and payable under the Scheme are expensed in the income statement as employee benefit expenses in the year the Rights were exercised. Effective on 1 January 2005, the Group measures the services acquired and the liability incurred at the fair value of the liability and until the liability is settled, the fair value of the liability at each reporting date and at the date of settlement is remeasured, with any changes in fair value recognised in the income statement. As a transitional provision, the policy is applied retrospectively to the comparative information relating to a period or date after 7 November 2002 (note 3.11). As the amount of resulting adjustments relating to periods prior to 1 January 2005 was considered by the Directors of the Company to be immaterial to the Group's results and financial position, the opening retained earnings for 2005 and the comparative information were thus not restated.

3 Changes in accounting policies (Continued)

(a) Effect of adopting new HKFRS (Continued)

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight-line basis over its estimated useful life or 20 years whichever is shorter; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (note 3.6):

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 16 - the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 21 - prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 - does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The adjustments required for the accounting differences for the adoption of HKAS 39 are determined and recognised at 1 January 2005;
- HKFRS 2 - only retrospective application for liabilities arising from share-based payment transactions existing at 1 January 2005 and with the comparative information relates to a period or date after 7 November 2002; and
- HKFRS 3 - prospectively after the adoption date.

(All amounts in RMB thousands unless otherwise stated)

3 Changes in accounting policies (Continued)

(a) Effect of adopting new HKFRS (Continued)

(i) The adoption of revised HKAS 17 resulted in a decrease in opening retained earnings at 1 January 2004 by RMB55,559,000.

	As at	
	30 June 2005	31 December 2004
Decrease in property, plant and equipment	**457,841**	465,092
Increase in land use rights	**377,648**	386,468
Decrease in deferred income tax liabilities	**10,952**	10,717
Decrease in minority interest	**8,368**	8,366
Decrease in retained earnings	**60,873**	59,541

	For the year ended 31 December 2004	For the six months ended	
		30 June 2005	30 June 2004
Increase in depreciation and amortisation	4,721	**1,569**	3,068
Decrease in income tax expenses	708	**235**	460
Decrease in basic earnings per share (RMB per share)	0.002	**0.0006**	0.001

The jointly controlled entities of the Group adopted HKAS 17 for the preparation of their financial information for the six months ended 30 June 2005 under HK GAAP. The effect of adopting HKAS 17 in relation to the classification and amortisation of the land use rights of the jointly controlled entities, to the extent which is attributable to the Group, has been included in the effect of applying proportionate consolidation under HKAS 31 adopted by the Company in the accounting for its interests in the jointly controlled entities as presented below.

(All amounts in RMB thousands unless otherwise stated)

3 Changes in accounting policies (Continued)

(a) Effect of adopting new HKFRS (Continued)

(ii) The adoption of HKAS 31 resulted in:

	As at	
	30 June 2005	31 December 2004
Decrease in interests in jointly controlled entities	**1,193,693**	1,224,720
Increase in other non-current assets	**1,413,078**	1,436,488
Increase in current assets	**30,513**	44,573
Increase in long-term liabilities	**16,254**	15,541
Increase in current liabilities	**233,644**	240,800

	For the year ended 31 December	For the six months ended	
	2004	**30 June 2005**	30 June 2004
Decrease in share of profit of jointly controlled entities	99,893	**62,057**	44,468
Increase in turnover and other gains	201,019	**115,927**	91,606
Increase in expenses	101,126	**53,870**	47,138

There was no impact on basic earnings per share from the adoption of HKAS 31 and there has been no impact on opening retained earnings at 1 January 2004.

(All amounts in RMB thousands unless otherwise stated)

3 Changes in accounting policies (Continued)

(a) Effect of adopting new HKFRS (Continued)

(iii) The adoption of HKFRS 3 and HKAS 38 resulted in:

	As at 30 June 2005
Increase in intangible assets - amortisation of goodwill	**256**
Increase in interest in associates	**1,545**
Increase in retained earnings	**1,801**

	For the six months ended 30 June 2005
Decrease in depreciation and amortisation	**256**
Increase in share of profit of associates	**1,545**
Increase in basic earnings per share (RMB per share)	**0.001**

There has been no impact on opening retained earnings at 1 January 2004 on the adoption of HKFRS 3.

(iv) The adoption of HKAS 39 resulted in:

	As at	
	30 June 2005	31 December 2004
Decrease in loan to a jointly controlled entity	**8,388**	11,342
Decrease in retained earnings	**8,388**	11,342

	For the six months ended 30 June 2005
Increase in other gains	**2,954**
Increase in basic earnings per share (RMB per share)	**0.001**

This represents the impact for the measurement of the loan to a jointly controlled entity at amortised cost using the effective interest method under HKAS 39. As a transitional provision, the amount of resulting adjustment has been recognised in the opening retained earnings at 1 January 2005.

3 Changes in accounting policies (Continued)

(b) New accounting policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30 June 2005 are the same as those set out in note 2 to the 2004 annual financial statements except for the following:

3.1 Acquisition of subsidiaries and associates

The cost of an acquisition of a subsidiary is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (note 3.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

For acquisition of an associate, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associate is included in the carrying amount of the investment (note 3.6). Appropriate adjustments to the Group's share of the profits or losses after acquisition are made to account based on their fair values at the date of acquisition.

3.2 Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the Group's purchase of assets from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

3 Changes in accounting policies (Continued)

(b) New accounting policies (Continued)

3.3 Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3 Changes in accounting policies (Continued)

(b) New accounting policies (Continued)

3.4 Property, plant and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.5 Land use rights

The up-front prepayments made for land use rights are expensed in the income statement on a straight-line basis over the lease or where there is impairment, the impairment is expensed in the income statement.

3.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

3.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

3 Changes in accounting policies (Continued)

(b) New accounting policies (Continued)

3.8 Investments

From 1 January 2005 onwards, the Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. During the period, the Group only held investments in the category of loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in loans, trade and other receivables in the balance sheet (note 3.9).

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

3.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

3 Changes in accounting policies (Continued)

(b) New accounting policies (Continued)

3.10 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.11 Share-based compensation

The Company operates the Scheme, which is a cash-settled, share-based compensation plan. The fair value of the employee services received in exchange for the Rights is recognised as an expense. The liability incurred is measured, initially and at each reporting date until settled, at the fair value of the Rights, taking into account the terms and conditions on which the Rights were granted, and the extent to which the employees have rendered service to date. Any changes in fair value are recognised in the income statement for the period.

3.12 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired (other than covered by provision for doubtful debts), the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

4 Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest risk), liquidity risk and cash flow interest-rate risk.

(a) Currency risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. It did not have significant exposure to foreign exchange risk in the PRC, except for certain cash at bank balances of RMB26,863,000 and other borrowings of RMB32,360,000 at 30 June 2005, which were denominated in Hong Kong dollars ("HKD") and United States dollars ("USD"), respectively. Nevertheless, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by arranging banking facilities and other external financing.

The Group reported a net current liabilities position as at 30 June 2005. As the Group had unutilised available banking facilities of approximately RMB6,405 million at 30 June 2005, the Directors of the Company believe that such facilities would enable the Group to meet its obligations and commitments as and when they fall due.

(c) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk during the period.

4.2 Fair value estimation

The nominal values less any estimated credit adjustment for financial assets and liabilities with a maturity of less than one year, if any, are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

5 Critical accounting estimates

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Depreciation of toll roads and recognition of deferred income

In accordance with the Group's accounting policies, depreciation of toll roads is calculated to write off their costs on a units-of-usage basis whereby depreciation is provided based on the proportion of actual traffic volume for a particular period over the total projected traffic volume throughout the periods within which the Group is granted the rights to operate those roads.

The Group recognises a government grant initially as deferred income (note 14(b)) and the subsidies recognised in the income statement of a period is the attributable portion of the total government grants, which is computed based on the actual traffic volume of a period over the total projected traffic volume throughout the period during which the Group is granted the rights to operate such toll road.

Both depreciation of toll roads and recognition of deferred income are calculated based on the total projected traffic volume throughout the operating periods of the respective toll roads ("Total Projected Traffic Volume"), which is a critical accounting estimate of the Group. Material adjustment may need to be made to the carrying amounts of toll roads and deferred income should there be a material difference between the Total Projected Traffic Volume and the actual figures. As a Group policy, the Total Projected Traffic Volume is reviewed regularly. If it is considered appropriate, independent professional traffic studies will be performed and appropriate adjustment will be made should there be material changes. According to the assessment made by the Directors of the Company, the current estimates on Total Projected Traffic Volume should not be materially different from the actual results.

(b) Estimate of fair value of acquired investment

The Group acquired equity interests in certain associates during the period, which should be measured at fair value on the acquisition. The best evidence of fair value is current prices in an active market for similar transactions. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including the business value as reported in the business valuation report of the associates, if available and applicable.

After an assessment is made by the Directors of the Company, the fair value of the acquired equity interests was determined to be the purchase consideration paid and payable by the Group in the acquisitions, which has been negotiated and agreed between knowledgeable, willing parties in arm's length transactions.

(All amounts in RMB thousands unless otherwise stated)

6 Capital expenditure

	Property, plant and equipment (note (a))	Construction in progress	Land use rights	Intangible assets-goodwill (note (b))
Opening net book amount as at 1 January 2005	**4,130,363**	**286,584**	**386,468**	**6,815**
Transfer of construction in progress to property, plant and equipment	**3,951**	**(3,951)**	**—**	**—**
Other additions	**4,122**	**206,699**	**—**	**—**
Disposals	**(89)**	**(32)**	**—**	**—**
Depreciation/amortisation charge	**(61,387)**	**—**	**(8,820)**	**—**
Closing net book amount as at 30 June 2005	**4,076,960**	**489,300**	**377,648**	**6,815**
Opening net book amount as at 1 January 2004	4,200,699	39,849	404,107	7,328
Transfer of construction in progress to property, plant and equipment	2,378	(2,378)	—	—
Other additions	4,536	100,377	—	—
Disposal of a subsidiary	(262)	—	—	—
Other disposals	(3,166)	(336)	—	—
Depreciation/amortisation charge	(52,783)	—	(8,820)	(256)
Closing net book amount as at 30 June 2004	4,151,402	137,512	395,287	7,072
Acquisition of a subsidiary	—	2,543	—	945
Transfer of construction in progress to property, plant and equipment	43,645	(43,645)	—	—
Other additions	1,222	191,610	—	—
Disposals	(5,153)	(1,436)	—	—
Depreciation/amortisation charge	(60,753)	—	(8,819)	(257)
Impairment charge	—	—	—	(945)
Closing net book amount as at 31 December 2004	4,130,363	286,584	386,468	6,815

(All amounts in RMB thousands unless otherwise stated)

6 Capital expenditure (Continued)

(a) The Group has been granted by the local relevant government authorities the rights to operate respective toll roads. The relevant toll roads assets will be returned to the government authorities when the operating rights expire.

(b) The balance as at 31 December 2004 represented the unamortised amount of the goodwill arising from the acquisition of a subsidiary, Mei Wah Industrial (Hong Kong) Limited ("Mei Wah"), and a jointly controlled entity, Shenzhen Qinglong Expressway Company Limited, of RMB5,179,000 and RMB1,636,000, respectively. In accordance with HKFRS 3 and HKAS 38 the Group ceased amortisation of goodwill on 1 January 2005 and goodwill is tested annually for impairment, as well as when there is indication of impairment. During the period, no impairment loss had been recognised.

7 Interest in jointly controlled entities

As at 30 June 2005, the Company has interests in the following jointly controlled entities, all of which were established and are operating in the PRC:

Name	Nature of legal entity	Principal activities	Interest held
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao Eastern")	Sino-foreign cooperative enterprise	Construction, operation and management of expressways	55%
Shenzhen Qinglong Expressway Company Limited ("Qinglong Company")	Sino-foreign cooperative enterprise	Construction, operation and management of expressways	40%
Hunan Changsha Shenchang Expressway Company Limited	Limited liability company	Construction, operation and management of a ring road	51%
Hubei Yungang Transportation Development Company Limited ("Yungang Company")	Sino-foreign cooperative enterprise	Construction, operation and management of a bridge	*42%

* Interest held indirectly through Mei Wah, a subsidiary of the Company. Up to 1 March 2006, the Group is entitled to 90% share of the profit of Yungang Company.

** The English names of all companies listed above are direct translation of their registered names in Chinese.

(All amounts in RMB thousands unless otherwise stated)

7 Interest in jointly controlled entities (Continued)

The Group's share of the assets and liabilities, and turnover and results of the jointly controlled entities have been included in the consolidated balance sheet and income statement.

There were no material contingent liabilities relating to the Group's interest in the jointly controlled entities, and no material contingent liabilities and capital or investment commitments of the jointly controlled entities themselves as at 30 June 2005.

8 Interest in associates

	Note	**As at 30 June 2005**	As at 31 December 2004
Beginning of the period/year		**870,698**	—
Additions	(b)	**2,102,720**	871,404
Share of associates' results			
- Profit before income tax		**4,904**	839
- Income tax expenses		**(2,633)**	—
- Amortisation of goodwill		**—**	(1,545)
		2,271	(706)
End of the period/year		**2,975,689**	870,698

The period end balance comprises of the following:

	Note	**As at 30 June 2005**	As at 31 December 2004
Share of net assets other than goodwill		**1,941,506**	795,398
Goodwill on acquisition of associates	(c)	**75,300**	75,300
		2,016,806	870,698
Advances to an associate	(b)(i)	**958,883**	—
		2,975,689	870,698

(All amounts in RMB thousands unless otherwise stated)

8 Interest in associates (Continued)

(a) As at 30 June 2005, the Group has interests in the following associates, all of which were established and are operating in the PRC:

Name	Nature of legal entity	Principal activities	Interest held
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong") (note (b)(iii))	Limited liability company	Development, operation and management of expressways and related facilities	25%
Guangzhou Western Ring Second Expressway Company Limited ("GZ W2 Company") (note (b)(iii)) **	Limited liability company	Development, operation and management of expressway	25%
Shenzhen Huayu Expressway Investment Company Limited ("Huayu Company") **	Limited liability company	Development, investment, operation and management of expressways	40%
Shenzhen Expressway Engineering Consulting Company Limited	Limited liability company	Project management consulting, construction consulting and sales of construction materials	30%
Nanjing Yanzi River Third Bridge Company Limited ("Nanjing Company") **	Limited liability company	Development, operation and management of bridges	25%
Guangdong Yangmao Expressway Company Limited ("Yangmao")	Limited liability company	Development, operation and management of expressway	25%
Yunfu Guangyun Expressway Company Limited ("Guangyun Company") (note (b)(ii))	Limited liability company	Development, operation and management of expressway	30%
Guangdong Qinglian Highway Development Company Limited ("Qinglian Company") (note (b)(i))	Sino-foreign cooperative enterprise	Development, operation and management of highways	*56.28%

* 31.28% interest held directly by the Company and 25% interest held indirectly through the wholly owned subsidiaries, Mei Wah and Maxprofit Investment Limited.

** GZ W2 Company, Huayu Company and Nanjing Company had not yet commenced commercial operations as at 30 June 2005.

*** The English names of all companies listed above are direct translation of their registered names in Chinese except for Qinglian Company.

8 Interest in associates (Continued)

(b) The additions during the period represent the acquisition of equity interest in Qinglian Company of RMB1,839,200,000, the acquisition of equity interest in Guangyun Company of RMB179,180,000 and additional capital contributions made to Jiangzhong and GZ W2 Company of RMB44,340,000 and RMB40,000,000, respectively.

(i) Pursuant to a set of framework agreements (the "Framework Agreements") dated 3 February 2005 entered into between the Company and Mei Wah, a subsidiary of the Company, jointly with five independent parties, the Company and Mei Wah acquired an aggregate effective equity interest of 56.28% in Qinglian Company. The Company directly acquired 31.28% equity interest in Qinglian Company while Mei Wah acquired the entire issued share capital of Maxprofit Investment Limited ("Maxprofit"), which in turn directly holds 25% equity interest in Qinglian Company. In addition, the Group also undertook the advances make to Qinglian Company by the original equity owners and related interest based on the acquired equity interests. The aggregate consideration for these transactions amounted to RMB1,839,200,000. The transactions were completed in June 2005. Up to 30 June 2005, out of the total consideration, RMB1,447,486,000 had been paid and the remaining balance of RMB391,714,000 had not been settled and was included in other payables and accrued expenses in the consolidated balance sheet of the Group.

The advance and interest receivable from Qinglian Company undertaken by the Group amounted to RMB958,883,000, which had been reflected as advance due from Qinglian Company in interest in associates in the consolidated balance sheet. The advance is unsecured, non-interest bearing and repayable out of the funds to be generated from the toll roads operations of Qinglian Company. It is the intention of the Directors of the Company to capitalise the amount as additional capital contribution made to Qinglian Company, subject to the final approval of the board of Directors of Qinglian Company and the relevant PRC authorities.

As a result of the acquisition, Maxprofit became an indirect wholly owned subsidiary of the Company and the Company directly and indirectly holds 56.28% equity interest in Qinglian Company. In accordance with the provisions of the Framework Agreements and the revised articles of association of Qinglian Company, the Company could only exercise significant influence in the operating and financial policies of Qinglian Company. Accordingly, Qinglian Company is accounted for as an associate of the Group using the equity method of accounting.

(ii) During the period, the Company acquired 30% equity interest in Guangyun Company from Guangdong Roads and Bridges Construction Development Company Limited, a promoter of the Company, at a cash consideration of RMB179,180,000.

(iii) The Company made additional capital contributions into Jiangzhong and GZ W2 Company at RMB44,340,000 and RMB40,000,000, respectively, based on the capital needs arising from the construction progress of the projects undertaken by these two companies. These contribution requirements have been stipulated in the provisions of the respetive investment agreements of these two companies.

8 Interest in associates (Continued)

(c) The balance as at 31 December 2004 represented the unamortised amount of the goodwill arising from the acquisitions of equity interests in Jiangzhong and Yangmao of RMB30,135,000 and RMB45,165,000, respectively. In accordance with HKFRS 3 and HKAS 38 the Group ceased amortisation of goodwill on 1 January 2005 and goodwill is tested annually for impairment, as well as when there is indication of impairment. During the period, no impairment loss had been recognised.

9 Loan to a jointly controlled entity

The Company made an advance to Qinglong Company, a jointly controlled entity, with an original amount of RMB330,000,000 in 2003. The advance is unsecured, non-interest bearing and is repayable out of the funds generated from the operations of the toll road project of Qinglong Company. Up to 30 June 2005, the Company had received cumulative repayment of RMB139,262,000, out of which, RMB14,861,000 was received during the period.

In prior years, the loan was stated at cost. As a result of the adoption of HKAS 39, the amount was remeasured at amortised cost using the effective interest method. The resulting adjustment of RMB11,342,000 has been made to the retained earnings of the Group at 1 January 2005 (note 3(a)(iv)) according to the transitional provision of the standard.

The amortised cost of the loan as at 30 June 2005 was RMB176,758,000 (31 December 2004: RMB186,695,000). The balance presented in the consolidated balance sheet of the Group at RMB106,055,000 (31 December 2004: RMB112,017,000) represents the balance receivable by the Group, after elimination made based on proportionate consolidation of the Company's interest in Qinglong Company. The interest income of the advance recognised under the effective interest method during the period amounted to RMB2,954,000 (note 17).

The fair value of the advance at 30 June 2005 and 31 December 2004 approximate its carrying amount. The fair value is based on cash flows discounted using a rate of 4.95% (31 December 2004: 4.95%) per annum, being the prevailing rate for a similar instrument of an issuer in the PRC with a similar credit rating.

10 Current portion of long-term receivables

This represents the discounted balance of the consideration and compensation receivable pursuant to the transfer agreement signed between the Company and the Shenzhen Communications Bureau on 18 March 2003 in respect of the Company's transfer of all its rights and interests in National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section) to the Shenzhen Communications Bureau. Interest income from the discounting recognised during the period amounted to RMB6,527,000 (note 17). The remaining balance of RMB379,473,000 (31 December 2004: RMB372,946,000) will be received by the end of 2005 and has been included in the consolidated balance sheet as a current asset as at 30 June 2005.

(All amounts in RMB thousands unless otherwise stated)

11 Restricted cash

	Note	**As at 30 June 2005**	As at 31 December 2004
Pledged deposits	(a)	**505,600**	—
Project funds balance maintained for construction management contracts	(b)	**10,393**	55,988
		515,993	55,988

(a) The balance represents a bank deposit of the Company pledged for a letter of credit issued by a bank in favor of Mei Wah, a subsidiary of the Company, for the purpose of a grant of facilities in order to finance the acquisition of the share interest in Jade Emperor Limited (details are set out in note 26(a)). The amount is presented as restricted cash in the consolidated balance sheet.

(b) This represented the unutilised balance of project funds received from government authorities for the operations of two construction management contracts (details are set out in note 15(b)).

(All amounts in RMB thousands unless otherwise stated)

12 Borrowings

	Note	As at 30 June 2005	As at 31 December 2004 (Restated)
Non-current			
Bank borrowings			
- Secured	(a)	**950,000**	—
- Unsecured	(e)	**165,000**	100,000
		1,115,000	100,000
Other borrowings - guaranteed	(b)	**32,360**	33,901
Advance from a minority shareholder	(c)	**8,017**	12,092
		1,155,377	145,993
Less: Current portion of long-term liabilities		**(103,082)**	(3,082)
		1,052,295	142,911
Current			
Bank borrowings			
- Secured	(a), (d)	**270,000**	220,000
- Unsecured	(e)	**950,000**	360,000
		1,220,000	580,000
Current portion of long-term liabilities			
- Bank borrowings - unsecured	(e)	**100,000**	—
- Other borrowings - guaranteed	(b)	**3,082**	3,082
		103,082	3,082
		1,323,082	583,082
Total borrowings		**2,375,377**	725,993

12 Borrowings (Continued)

(a) Banking facilities of RMB1,400 million were obtained by the Group to finance the acquisition of 56.28% equity interest in Qinglian Company as mentioned in note 8(b)(i). The facilities granted are secured by a pledge of the Company's 95% equity interest in Shenzhen Meiguan Expressway Company Limited ("Meiguan Company"), a subsidiary of the Company. Out of these facilities, RMB50,000,000 is made in the form of short-term borrowing while RMB950,000,000 is of long-term. The short-term borrowing of RMB50,000,000 is interest-bearing at 5.85% per annum while the terms of the long-term borrowings are as follows:

	Effective interest rate (per annum)	Repayment period	Balance at 30 June 2005 RMB'000
1st portion	5.85%	2 annual installments payable from 30 May 2007 to 30 May 2008	**150,000**
2nd portion	6.12% for the first 5 years, floating rate for the 6th to 11th years	4 annual installments payable from 30 May 2011 to 30 May 2014	**400,000**
3rd portion	Floating rate (current effective rate: 5.508%)	7 annual installments payable from 30 May 2009 to 30 May 2015	**400,000**
			950,000

(b) Other borrowings totalling USD3,909,850 (equivalent to RMB32,360,000) were borrowed from the Spanish Government through the China Construction Bank. The loans comprise two portions with USD2,234,200 bearing interest at 1.8% per annum which is repayable by installments from November 2006 to May 2011; and the remaining portion of USD1,675,650 is interest-bearing at 7.17% per annum and is repayable by installments from August 2005 to August 2009. These borrowings are guaranteed by Xin Tong Chan Development (Shenzhen) Company Limited ("Xin Tong Chan"), a substantial shareholder of the Company.

(All amounts in RMB thousands unless otherwise stated)

12 Borrowings (Continued)

(c) The advance was granted to Meiguan Company, a subsidiary of the Company, by the minority shareholder of Meiguan Company, Xin Tong Chan, which is also a substantial shareholder of the Company. The advance is unsecured, non-interest bearing and is repayable out of the funds to be generated from the toll road project operated by Meiguan Company.

In prior years, the advance was stated at cost. As a result of the adoption of HKAS 39, it is required to be remeasured at amortised cost using the effective interest method. As the amount of the resulting adjustment is assessed by the Directors of the Company to be insignificant, no adjustment has been made to the financial statements of the Group.

(d) The secured current borrowings include a short-term borrowing of the Company of RMB50,000,000 (note (a) above); and the Group's proportionate share of the borrowings of Qinglong Comapny, a jointly controlled entity, at RMB220,000,000. The total borrowings of Qinglong Company were RMB550,000,000 as at 30 June 2005, which are secured by the operating rights of Shuiguan Expressway as owned by Qinglong Company.

(e) The effective interest rates of other unsecured borrowings of the Group at 30 June 2005 ranged from 4.698% to 5.85% (31 December 2004: 4.536% to 4.941%) per annum.

The maturity of the Group's borrowings is as follows:

	Bank borrowings		**Other borrowings and advance**	
	30 June 2005	31 December 2004	**30 June 2005**	31 December 2004
Within 1 year	**1,320,000**	580,000	**3,082**	3,082
Between 1 and 2 years	**50,000**	100,000	**6,780**	4,930
Between 2 and 5 years	**365,000**	—	**18,800**	20,342
Wholly repayable within 5 years	**1,735,000**	680,000	**28,662**	28,354
Over 5 years	**600,000**	—	**11,715**	17,639
	2,335,000	680,000	**40,377**	45,993

(All amounts in RMB thousands unless otherwise stated)

12 Borrowings (Continued)

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	30 June 2005	31 December 2004	**30 June 2005**	31 December 2004
Bank borrowings	**1,015,000**	100,000	**1,001,169**	98,781
Other borrowings	**29,278**	30,819	**24,980**	27,983
Advance from a minority shareholder	**8,017**	12,092	**7,791**	11,697
	1,052,295	142,911	**1,033,940**	138,461

The fair values are based on cash flows discounted using an effective interest rate determined based on the rates of general bank borrowings at 5.89% - 6.26% (31 December 2004: 5.89% - 6.26%) per annum.

The carrying amounts of short-term borrowings approximate their fair value.

The carrying amounts of the borrowings are denominated in the following currencies:

	As at 30 June 2005	As at 31 December 2004
USD	**32,360**	33,901
RMB	**2,343,017**	692,092
	2,375,377	725,993

The Group has the following undrawn banking facilities:

	As at 30 June 2005	As at 31 December 2004
Expiring within one year	**2,620,000**	2,160,000
Expiring beyond one year	**3,785,000**	2,240,000
	6,405,000	4,400,000

To the extent of approximately RMB504,700,000 (HKD474,000,000) of the above banking facilities is to be used to finance Mei Wah's acquisition of share interest in Jade Emperor Limited. Subsequent to 30 June 2005, such facility was cancelled due to that Mei Wah has made other funding arrangement (details are set out in note 26(a)).

(All amounts in RMB thousands unless otherwise stated)

13 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	As at 30 June 2005	As at 31 December 2004 (Restated)
Deferred tax assets	**(8,116)**	(9,473)
Deferred tax liabilities	**63,608**	59,767
	55,492	50,294

The gross movement on the deferred income tax account is as follows:

	Six months ended 30 June 2005	Year ended 31 December 2004 (Restated)
Beginning of the period/year	**50,294**	38,605
Recognised in the income statement	**5,198**	11,689
End of the period/year	**55,492**	50,294

(All amounts in RMB thousands unless otherwise stated)

13 Deferred income tax (Continued)

The movements in deferred tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, are summarised as follows:

	Deferred tax assets			Deferred tax liabilities
	Impairment loss of property, plant and equipment	**Provision of assets**	**Total**	**Depreciation of property, plant and equipment**
At 1 January 2004	25,410	1,878	27,288	65,893
Recognised in the income statement	(370)	—	(370)	11,319
At 31 December 2004	25,040	1,878	26,918	77,212
Recognised in the income statement	(191)	—	(191)	5,007
At 30 June 2005	**24,849**	**1,878**	**26,727**	**82,219**

14 Government grants

	Note	**As at 30 June 2005**	As at 31 December 2004
Advance from government	(a)	**54,000**	54,000
Deferred income	(b)	**302,929**	318,764
		356,929	372,764

(a) The advance was obtained from government authorities as an inducement of the Company to participate in a toll road project.

(All amounts in RMB thousands unless otherwise stated)

14 Government grants (Continued)

(b) Deferred income

	Six months ended 30 June 2005	Year ended 31 December 2004
Beginning of the period/year	**318,764**	354,472
Government subsidies income recognised for the period/year	**(15,835)**	(35,708)
End of the period/year	**302,929**	318,764

Deferred income represents government grants provided to the Company to subsidise the toll revenue of Sections A and B of the Yanba Expressway. The subsidy was granted based on anticipated insufficient traffic volume that would be achieved by the Group as a result of the construction of the Yanba Expressway at an early stage in response to the overall township planning requirements of the Shenzhen Municipal Government.

15 Other payables and accrued expenses

	Note	As at 30 June 2005	As at 31 December 2004 (Restated)
Consideration payable for acquisition of an associate	8(b)(i)	**391,714**	—
Payables for construction in progress payments	(a)	**148,237**	156,538
Guaranteed deposits for construction projects contracts	(a)	**162,818**	516
Management fee for construction management contracts received in advance	(b)	**29,014**	—
Project funds balance for construction management contracts	(b)	**10,393**	55,988
Others		**41,126**	70,401
		783,302	283,443

(a) These represent the progress payments liabilities for the construction of the toll roads projects of the Company of RMB148,237,000 (31 December 2004: RMB156,538,000) and the deposits received from the contractors as guarantees for bidding and performance for the construction of the projects of RMB162,818,000 (31 December 2004: RMB516,000) respectively.

(All amounts in RMB thousands unless otherwise stated)

15 Other payables and accrued expenses (Continued)

(b) On 8 February and 12 March 2004, the Company entered into two project construction management agreements with the Shenzhen Municipal Government (represented by the Shenzhen Communications Bureau) and the Shenzhen Longgang Government (represented by Shenzhen Longgang Highway Bureau), respectively. The Company was appointed as the project manager for the phase I construction project of Nanping Expressway ("Nanping Project") and the construction of western section of Hengping Highway ("Hengping Project"). It also undertakes to enter into construction contracts on behalf of the governments with the contractors who are directly responsible for the construction of the projects.

Financial information on these projects is summarised as follows:

	Note	Nanping Project	Hengping Project	Total
Balance of project funds at 1 January 2005		44,432	11,555	55,987
Project funds received during the period		—	35,000	35,000
Construction costs paid on their behalf during the period		(29,453)	(36,162)	(65,615)
Project funds transferred as management fee paid in advance to the Company during the period	(ii)	(14,979)	—	(14,979)
Balance of project funds at 30 June 2005	(i)	**—**	**10,393**	**10,393**
Cumulative management expenses incurred plus attributable profit less losses		7,944	—	7,944
Including management expenses incurred during the period		1,611	—	1,611
Less: progress payments received in advance		(36,958)	—	(36,958)
Project management fee received in advance	(ii)	**(29,014)**	**—**	**(29,014)**

(i) The project funds are advanced by the governments and the project funds received are deposited in bank accounts jointly supervised by the Company and the relevant government departments. The project funds balance is presented as restricted cash in the consolidated balance sheet, and the corresponding liability of RMB10,393,000 has been included in the other payables and accrued expenses in the consolidated balance sheet of the Group.

(All amounts in RMB thousands unless otherwise stated)

15 Other payables and accrued expenses (Continued)

(ii) Due to a change in the policies of the government, effective from 2005, the government is responsible for the progress payments payable to the contractors of the Nanping Project directly. No further project funds are required to be advanced to the Company. The unutilised project funds amounting to RMB14,979,000 received by the Company was hence agreed to be treated as project management fee paid by the government to the Company in advance, in addition to management fee payment of RMB15,646,000 made by the government to the Company during the period. The net balance of the management fee received in advance amounting to RMB29,014,000 has been included in other payables and accrued expenses in the consolidated balance sheet.

(iii) During the period, as the outcome of Nanping Project could not be estimated reliably, the Company had recognised revenue of RMB1,611,000 to the extent of the project management expenses incurred by it which are probable to be recovered from the project. As Hengping Project was still at its preliminary stage of the construction, no revenues and costs had been recognised in the income statement during the period.

16 Turnover and taxes on turnover

	Six months ended 30 June	
	2005	2004 (Restated)
Income from toll roads	**399,499**	320,627

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

(b) Taxes on toll income comprise:

- PRC Business Tax at 5% of toll income. Pursuant to the relevant tax regulations, effective from 1 June 2005, PRC Business Tax is charged at 3% of toll income derived from expressways;
- City Development Tax at 1% of the PRC Business Tax; and
- Education Supplementary Tax at 3% of the PRC Business Tax.

(All amounts in RMB thousands unless otherwise stated)

17 Other gains

	Note	Six months ended 30 June 2005	2004 (Restated)
Interest income from bank deposits		**4,815**	7,293
Interest income from discounting of long-term receivables	10	**6,527**	17,890
Interest income for loan to a jointly controlled entity	9	**2,954**	—
Income from construction management services	15(b)(iii)	**1,611**	1,385
Government subsidy income	14(b)	**15,835**	19,625
Advertising income		**4,943**	2,410
Others		**1,917**	3,306
		38,602	51,909

18 Employee benefit expenses

	Six moths ended 30 June 2005	2004 (Restated)
Wages, salaries and bonus	**19,730**	15,548
Bonus - the Scheme	**4,412**	—
Pension costs - defined contribution plans	**1,373**	1,046
Other staff welfare benefits	**3,041**	2,579
	28,556	19,173

During the period, phase III and phase IV of the Rights under the Scheme of the Company totalling 5,501,400 shares had all been exercised and there are no outstanding Rights granted but not exercised as at 30 June 2005 (31 December 2004: 5,501,400 shares).

19 Finance costs

	Six moths ended 30 June 2005	2004 (Restated)
Interest on borrowings	**24,198**	6,937
Less: interest capitalised in construction in progress	**(2,849)**	—
	21,349	6,937

The capitalisation rate applied to funds borrowed and used for the development of construction in progress is 5.013% (2004: Nil) per annum.

20 Income tax expenses

	Six moths ended 30 June	
	2005	2004 (Restated)
Current income tax		
- PRC enterprise income tax	**38,648**	30,501
Deferred income tax	**5,198**	5,320
	43,846	35,821

Share of associates' taxation for the six months ended 30 June 2005 of RMB2,633,000 (2004: Nil) has been included in share of profit of associates in the income statement.

The Company is subject to PRC enterprise income tax of 15% (2004: 15%), the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone. Taxation on other group companies has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the areas in which they operate, usually at a rate from 15% to 33% (2004: 15% to 33%).

21 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the number of ordinary shares in issue during the period.

	For the six months ended	
	30 June 2005	30 June 2004 (Restated)
Profit attributable to equity holders of the Company	**218,445**	206,131
Number of ordinary shares in issue (thousands)	**2,180,700**	2,180,700
Basic earnings per share (RMB per share)	**0.10**	0.09

No fully diluted earnings per share is presented as the Company has no dilutive potential shares.

22 Dividends

The Directors do not recommend the payment of an interim dividend for the period (2004: Nil).

At a directors' meeting held on 18 February 2005 the Directors proposed a final dividend of RMB0.11 per ordinary share for the year ended 31 December 2004, which was approved by the shareholders at the annual general meeting dated 8 April 2005 and the amount was paid in April 2005. Such payment of RMB239,877,000 has been reflected as an appropriation of retained earnings for the six months ended 30 June 2005.

(All amounts in RMB thousands unless otherwise stated)

23 Commitments

Capital expenditure and investment commitments at the balance sheet date not yet incurred is as follows:

	As at 30 June 2005	As at 31 December 2004
Capital commitments - property, plant and equipment		
- contracted but not provided for	**526,900**	310,500
- authorised but not contracted for	**3,407,000**	3,822,500
	3,933,900	4,133,000
Investment commitments		
- contracted but not provided for	**891,744**	469,860
- authorised but not contracted for	**—**	2,544,496
	891,744	3,014,356
	4,825,644	7,147,356

24 Contingencies

Pursuant to the provisions of the two construction management contracts described in note 15(b), the Company undertakes to bear any costs overruns for the two projects. For the Hengping Project of total investment of about RMB450,000,000, the Company is obliged to bear all the cost overruns incurred in construction as compared to the original budget. For the Nanping Project of total investment of about RMB2,268,000,000, the Company is obliged to bear solely all the cost overruns incurred in construction as compared to the original budget in case the overrun is less than 2.5% of the total budgeted contract costs, while the respective government departments will share the overruns jointly with the Company if the overrun exceeds 2.5% of the total budgeted contract costs.

Pursuant to the terms of these two contracts, the Company was requested to arrange banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Longgang Highway Bureau and the Shenzhen Communications Bureau amounting to RMB30,000,000 and RMB100,000,000, respectively. The Company also paid a guarantee deposit of RMB15,000,000 to Shenzhen Longgang Highway Bureau for assuring the progress, quality and safety standards for the construction of the Hengping Project.

(All amounts in RMB thousands unless otherwise stated)

25 Related party transactions

The substantial shareholder of the Company is Xin Tong Chan, which owns 30.03% of the Company's shares. Xin Tong Chan is wholly owned by Shenzhen International Holdings Limited ("Shenzhen International"), a company whose shares are listed on The Stock Exchange of Hong Kong Limited.

Apart from related party transactions in relation to the acquisition, loans, guarantee provided for borrowings and advances made, already disclosed in notes 8(b), 9, 12(b) and 12(c) to the financial information, the following material transactions were carried out with related parties during the period:

(a) Due to the geographical layout of the toll roads of the Group, certain toll gates of the toll roads of the Company, Meiguan Company (a subsidiary) and Airport-Heao Eastern (a jointly controlled entity) are overlapped and they collect toll income for each other. During the period, toll income collected by the Company and Meiguan Company on behalf of Airport-Heao Eastern was RMB53,981,000 (2004: RMB41,700,000) while toll income collected by Airport-Heao Eastern on behalf of the Company and Meiguan Company was RMB51,132,000 (2004: RMB47,022,000) respectively. All toll income collected is paid back to the counter party on a monthly basis without charging any handling fees.

The amount due from a jointly controlled entity presented in the consolidated balance sheet of RMB1,859,000 (31 December 2004: RMB1,904,000) represented the current account balance maintained with Airport-Heao Eastern, which arose mainly from toll income so collected under the above arrangements and such balance was shown based on proportionate consolidation of the financial statements of Airport-Heao Eastern. The balance is unsecured and interest-free.

(b) Key management compensation

	Six moths ended 30 June	
	2005	2004
Salaries and other short-term employee benefits	**2,964**	2,205
Post-employment benefits	**59**	43
Other long-term benefits	**40**	29
	3,063	2,277

26 Events after the balance sheet date

(a) Pursuant to a sets of agreements dated 19 March 2005 and a supplementary agreement dated 12 July 2005 entered into between the Company and Mei Wah, a subsidiary of the Company, jointly with various parties, Mei Wah acquired 55% issued share capital of Jade Emperor Limited ("JEL") at a cash consideration of HKD653,632,000 (equivalent to RMB681,215,000) on 5 August 2005. JEL is engaged in investment holding and it holds 100% equity interest in Hubei Magerk Expressway Management Private Limited ("Magerk Company"). As a result of the acquisition, the Company started to hold an effective equity interest of 55% in Magerk Company indirectly. The principal activities of Magerk Expressway are operating and management of Wuhuang Expressway in the PRC. Magerk Company is subject to joint control of the Group and another joint venture partner, Flywheel Investments Limited ("Flywheel"), and it will be accounted for as a jointly controlled entity of the Group.

Flywheel acquired 45% issued share capital of JEL, which is a wholly owned subsidiary of Shenzhen International, the indirect substantial shareholder of the Company.

For the purpose of the settlement of consideration for the acquisition, Mei Wah obtained a borrowing of HKD680,000,000 (equivalent to RMB708,696,000) from a bank in Hong Kong. The borrowing is secured by a pledge of Mei Wah's 154,000,000 shares (55% share interest) in JEL and by a letter of credit issued by a bank in the PRC in favor of Mei Wah. The Company is required to provide corporate guarantee to the bank for the issuance of such letter of credit. The original funding and financing arrangements as mentioned in notes 11(a) and 12, including the issue of letter of credit, have all been released. The procedures for release of the guarantee responsibilities in the form of pledged deposits of the Company are under process.

(b) At a directors' meeting held on 12 August 2005, a resolution was passed on the proposal for issuing short-term financing bonds of the Company for an amount not more than RMB2.4 billion. The proposal will be submitted for the review and approval in an Extraordinary General Meeting of the shareholders to be convened on 10 October 2005.

(All amounts in RMB thousands unless otherwise stated)

Reconciliation of financial statements

The Group has prepared a separate set of unaudited financial statements for the six months ended 30 June 2005 in accordance with PRC GAAP. The major differences between the financial statements prepared under PRC GAAP and HK GAAP are summarised as follows:

	Profit attributable to equity holders of the Company for the six months ended 30 June 2005 (Unaudited)	Capital and reserves attributable to the Company's equity holders as at 30 June 2005 (Unaudited)
As per PRC statutory financial statements	207,548	5,990,789
Impact of HK GAAP adjustments:		
Depreciation of property, plant and equipment	35	17,052
Interest adjustments on discounting long-term receivables	6,527	(6,527)
Adjustment on a loan to a jointly controlled entity at amortised cost	2,954	(8,388)
Reversal of amortisation of equity investment differences under PRC GAAP	256	256
Adjustment on interest in associates based on the fair value of the net assets acquired	1,125	1,125
Net amount of adjustments	10,897	3,518
As restated after HK GAAP adjustments	218,445	5,994,307

Definitions

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	深圳高速廣告有限公司 (Shenzhen Expressway Advertising Company Limited)
Board	The board of Directors of the Company
CEPA	Closer Economic Partnership Arrangement, between Hong Kong and the PRC
Changsha Ring Road	Hunan Changsha Ring Road (Northwestern Section), located in Changsha City of Hunan Province
Company	Shenzhen Expressway Company Limited
Consulting Company	深圳高速工程顧問有限公司 (Shenzhen Expressway Engineering Consulting Company Limited)
CSRC	China Securities Regulatory Commission
Director(s)	The Director(s)of the Company
GDRB Company	廣東省路橋建設發展有限公司 (Guangdong Roads and Bridges Construction Development Company Limited)
Geputan Bridge	Hubei Yungang Geputan Bridge, located in Yugang City of Hubei Province
Group	the Company and its subsidiaries and jointly controlled entities
Guangwu Expressway	The expressway from Guangzhou City to Wuzhou City (Ma'an to Hekou section), located in Guangdong Province
Guangyun Company	雲浮市廣雲高速公路有限公司 (Yunfu Guangyun Expressway Company Limited), which owns Guangwu Expressway
GZ W2 Expressway	Guangzhou Western Second Ring Expressway, located in Guangdong Province
H Shares	Overseas-listed Foreign Shares of the Company with a par value of RMB1.00 each, which were issued in Hong Kong and subscribed in Hong Kong dollars and are listed on HKEX
Hengping Project	Western Section of Hengping Class 1 Highway, located in Shenzhen City
HKD, HK$	Hong Kong dollars, the lawful currency of Hong Kong Special Administration Region
HKEX	The Stock Exchange of Hong Kong Limited
Huajian Centre	華建交通經濟開發中心 (Huajian Transportation and Economic Development Centre)
Jiangzhong Company	廣東江中高速公路投資有限公司 (Guangdong Jiangzhong Expressway Company Limited), which owns Jiangzhong Expressway
Jiangzhong Expressway	The expressway from Zhongshan City to Jiangmen City and the second phase of the expressway from Jiangmen City to Heshan City, located in Guangdong Province
Jihe East	Jihe Expressway (Eastern Section)
Jihe Expressway	Shenzhen Jihe Expressway, comprising Jihe East and Jihe West
Jihe West	Jihe Expressway (Western Section)

Definitions

Listing Rules	the Rules Governing the Listing of Securities on the HKEX and/or the Rules Governing the Listing of Stocks on the SSE
Magerk Company	湖北馬鄂高速公路經營有限公司 (Hubei Magerk Expressway Management Private Limited)
Mei Wah Company	Mei Wah Industrial (Hong Kong) Limited
Meiguan Company	深圳市梅觀高速公路有限公司 (Shenzhen Meiguan Expressway Company Limited), which owns Meiguan Expressway
Meiguan Expressway	Shenzhen Meiguan Expressway
Nanguang Expressway	Shenzhen Nanguang Expressway
Nanjing Third Bridge	Nanjing Yangtze Third Bridge, located in Nanjing City of Jiangsu Province
Nanping Project	Nanping Freeway (Phase I), located in Shenzhen City
PRC	The People's Republic of China excluding, for the purpose of this report, Hong Kong Special administrative Region, Macau Special Administrative Region and Taiwan
Qinglian Class 1 Highway	Class 1 Highway from Qingyuan City to Lian Zhou City, located in Guangdong Province
Qinglian Company	廣東清連公路發展有限公司 (Guangdong Qinglian Highway Development Company Limited), which owns Qinglian Project
Qinglian Project	Qinglian Class 1 Highway, and/or its project to reconstruct to expressway, and/or Class 2 road from Qingyuan City to Lianzhou City in Guangdong Province (the definition of which should depends on the situation it used)
Qinglong Company	深圳清龍高速公路有限公司 (Shenzhen Qinglong Expressway Company Limited), which owns Shuiguan Expressway
Reporting Period, Period	For the six months ended 30 June 2005
RMB	Renminbi, the lawful currency of the PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SGH Company	深圳市深廣惠公路開發總公司 (Shenzhen Shen Guang Hui Highway Development Company)
Shenzhen International	Shenzhen International Holdings Limited, which shares are listed on the main board of HKEX
Shuiguan Expressway	Shenzhen Shuiguan Expressway, also referred to as the "No.2 Longgang Passage"
Shuiguan Extension	An extension to the Shuiguan Expressway, also referred to as the "Qingping Expressway Phase I", located in Shenzhen City
SSE	The Shanghai Stock Exchange
Wuhuang Expressway	The expressway from Wuhan City to Huangshi City, located in Hubei Province
XTC Company	新通產實業開發（深圳）有限公司 (Xin Tong Chan Development (Shenzhen) Company Limited), formerly known as 深圳市高速公路開發有限公司 (Shenzhen Freeway Development Company Limited)
Yanba Expressway	Shenzhen Yantian-Bagang Expressway, comprising Yanba A, Yanba B and Yanba C
Yangmao Company	廣東陽茂高速公路有限公司 (Guangdong Yangmao Expressway Company Limited), which owns Yangmao Expressway
Yangmao Expressway	The expressway from Yangjiang City to Maoming City, located in Guangdong Province
Yanpai Expressway	Shenzhen Yanpai Expressway, also known as Yantian Subsidiary Road to Jihe Expressway

Corporate Information

Official Chinese and English Names of the Company	深圳高速公路股份有限公司 Shenzhen Expressway Company Limited	
Legal Representative	Yang Hai	
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Website	http://www.sz-expressway.com	
Listing Exchanges	H Share:	The Stock Exchange of Hong Kong Limited Stock Code: 0548 Abbreviation: Shenzhen Expressway
	A Share:	The Shanghai Stock Exchange Stock Code: 600548 Abbreviation: Shenzhen Expressway
Designated Publication Newspapers	Hong Kong:	Hong Kong Economic Times The Standard
	PRC:	Shanghai Securities News Securities Times
Designated Publication Websites	http://www.hkex.com.hk http://www.sse.com.cn http://www.sz-expressway.com	
Interim Reports Available at	Hong Kong:	Suites 2911-2912, 29/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
	PRC:	19/F, Tower A, United Plaza, No.5022 Binhe Road North, Shenzhen

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PRC Legal Adviser	Guangdong Junyan Law Firm 16/F, Tower B, International Commercial Building, First Fuhua Road, Shenzhen
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Share Registrar and Transfer Office in Hong Kong	Hong Kong Registrars Limited 46/F, Hopewell Centre, 183 Queen 's Road East, Hong Kong
Domestic Share Registrar and Transfer Office	China Securities Depository and Clearing Corporation Limited Shanghai Branch 36/F, China Insurance Building No. 166, Lu Jia Zui Road East, Pudong New District, Shanghai
Investor Relations Consultant of H Shares	Rikes Communications Limited Room 1312, Wing On Centre, 111 Connaught Road Central, Hong Kong
Investor Relations Consultant of A Shares	Everbloom Investment Consultant Company Limited 12/F, Tower A, United Plaza, No.5022 Binhe Road North, Shenzhen
Principal Bankers	Industrial and Commercial Bank of China, Futian Sub-branch China Merchants Bank, Huanggang Sub-branch