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BUSINESS REVIEW

Toll Projects Summary

The Group is principally engaged in investment and operation of expressways and national toll highways mainly located in Guangdong Province. They include Guangzhou Northern Ring Road, Guangzhou Northern Second Ring Expressway, Humen Bridge, and Guangzhou Western Second Ring Expressway (under construction) which are all located in the Pearl River Delta Region; Guangshen, Guangshan, Guangcong Sections I and II, Guanghua and Qinglian are national highways connecting the traffic hub of Guangzhou City and inter-provincial traffic between Guangdong, Hunan and Jiangxi provinces; Shantou Bay Bridge connecting the eastern coastal region of Guangdong Province and expressways in Fujian Province; Xian Expressway in Shaanxi and Xiang Jiang Bridge II in Hunan are located outside Guangdong Province.

The Group has been expanding steadily in the past eight years. Total attributable length of toll road and bridge projects increased from 146.9 kms in January 1997 at the time of listing to the current 317.8 kms. Apart from Guangzhou Western Second Ring Expressway that is now under construction, other toll projects are operating and generating toll income.

SUMMARY INFORMATION ON OPERATING TOLL ROADS AND BRIDGES IN THE FIRST HALF OF 2005

	Length (kms)	Width (lanes)	Toll station	Road type	Attributable interest (%)	Remaining operating year term
Subsidiaries						
Guangshen Highway	23.1	6	1	Class I highway	80.00	21
Guangshan Highway	64.0	4	2	Class II highway	80.00	21
Guangcong Highway Section I	33.3	6	1	Class I highway	80.00	21
Guangcong Highway Section II & Provincial Highway 1909	33.1 33.3	6 4	1 1	Class I highway Class I highway	51.00 51.00	21
Guanghua Highway	20.0	6	1	Class I highway	55.00	22
Xian Expressway	20.1	4	3	Expressway	100.00	11
Xiang Jiang Bridge II	1.8	4	1	Rigid frame bridge	75.00	16
Associated Companies and Jointly Controlled Entity						
Humen Bridge	15.8	6	4	Suspension bridge	25.00	24
Northern Ring Road	22.0	6	11	Expressway	24.30	18
Qinglian Highways						
National Highway 107	253.0	2	4	Class II highway	23.63	23
Highway between Qingyuan and Lianzhou cities	215.2	4	5	Class I highway	23.63	
Shantou Bay Bridge	6.5	6	1	Suspension bridge	30.00	23
GNSR Expressway	42.4	6	9	Expressway	46.00	23

Overview of Operating Performance

The Group's toll highways are mainly concentrated in Guangzhou and Pearl River Delta Region. With the gradual implementation of CEPA and the formation of "9+2" Pan Pearl River Economic Zone, the economic development in Guangdong Province and Pearl River Delta Region would be promoted. During the first half of 2005, the gross domestic product of Guangzhou City increased by 11.0 per cent to Rmb201.3 billion when compared with the same period of last year. The rapid economic growth has directly driven the growth of toll highway traffic volume. As the highway networks in Guangdong Province are progressively upgraded in recent years, the traffic volume of certain projects other than expressways of the Group has continued to decline though the traffic volume and income of expressway projects have shown a rapid growing trend. The Group focused on the core of toll management. In order to increase the throughput of highway network, the inter-road network toll collection system had already been implemented in Northern Ring Road, GNSR Expressway and Xian Expressway and that implementation in Humen Bridge will be completed at the end of the year. During the first half of 2005, the main business income increased by HK\$13.0 million to HK\$204.0 million when compared with the same period of last year or a growth rate of 6.8 per cent. The income of associated companies and jointly controlled entity attributable to the Group increased by HK\$29.9 million to HK\$232.4 million when compared with the same period of last year or a growth rate of 14.8 per cent.

Income structure and proportion

	For the six months ended 30th June 2005 Toll income (HK\$'000)	Proportion of toll income (%)	Change compared with the same period of last year
Subsidiaries			
Guangshen Highway	30,814	15.1	-4.8%
Guangshan Highway	39,354	19.3	-6.1%
Guangcong Highway Section I	27,564	13.5	-11.9%
Guangcong Highway Section II & Provincial Highway 1909	28,127	13.8	19.4%
Guanghua Highway	16,278	8.0	19.6%
Xian Expressway	52,999	26.0	28.9%
Xiang Jiang Bridge II	8,870	4.3	23.8%
Total	<u>204,006</u>	<u>100.0</u>	6.8%
Associated Companies & Jointly Controlled Entity (attributable to the Group)			
Humen Bridge	75,320	32.4	9.9%
Northern Ring Road	66,597	28.7	9.7%
Qinglian Highways	15,048	6.5	4.4%
Shantou Bay Bridge	17,579	7.6	-19.3%
GNSR Expressway	57,858	24.8	56.1%
Total	<u>232,402</u>	<u>100.0</u>	14.8%

Average daily toll traffic volume of toll highways and bridges

	Average daily toll traffic volume (vehicle)			Weighted average toll fare per vehicle (Rmb)	
	For the six months ended 30th June			For the six months ended 30th June	
	2005	2004	Change	2005	2004
Subsidiaries					
Guangshen Highway	30,559	31,959	-4.4%	5.93	5.93
Guangshan Highway	22,584	24,633	-8.3%	10.25	9.95
Guangcong Highway Section I	12,552	14,093	-10.9%	12.92	13.00
Guangcong Highway Section II & Provincial Highway 1909	21,018	18,409	14.2%	7.87	7.49
Guanghua Highway	11,745	10,025	17.2%	8.15	7.94
Xian Expressway	26,245	20,822	26.0%	11.88	11.55
Xiang Jiang Bridge II	5,951	4,383	35.8%	8.77	9.57
Total	130,654	124,324	5.1%		
Associated Companies & Jointly Controlled Entity					
Humen Bridge	41,531	37,322	11.3%	42.68	43.00
Northern Ring Road	128,426	123,796	3.7%	12.52	11.76
Qinglian Highways	17,064	20,128	-15.2%	20.91	17.74
Shantou Bay Bridge	9,534	13,023	-26.8%	36.15	32.64
GNSR Expressway	41,703	25,154	65.8%	17.75	18.74
Total	238,258	219,423	8.6%		

Analysis of Subsidiaries' Operation

Guangshen Highway Guangzhou Section ("Guangshen Highway")

Guangshen Highway is a section of National Highway 107 and is one of the major roads connecting Guangzhou City and Shenzhen City. Guangshen Highway is consisted of two sections. The first section extends from Dashadi to Nangang, with a six-lane route of approximately 11.7 kms. The second section extends from Nangang to Xintang, with a four-lane route of approximately 11.4 kms.

During the first half of 2005, subject to the influence of certain traffic diversion due to the upgrading of highway network located in the Guangzhou economic and technology development zone near Guangshen, average daily toll traffic volume decreased by 4.4 per cent to 30,559 vehicles when compared with the first half of 2004. Weighted average toll fare per vehicle was Rmb5.93, which was similar to the same period of last year.

Guangshan Highway Guangzhou Section (“Guangshan Highway”)

Guangshan Highway is a section of National Highway 324. It has a length of approximately 64.0 kms and is one of the major highways connecting Guangzhou Municipality and the eastern region of Guangdong Province.

During the first half of 2005, the Guangshan Highway continued to be affected by the Guanghui Expressway which was opened to traffic at the end of 2003, average daily toll traffic volume decreased by 8.3 per cent to 22,584 vehicles when compared with the first half of 2004. Weighted average toll fare per vehicle increased by 3.0 per cent to Rmb10.25 when compared with the same period of last year.

Guangcong Highway connecting Guangzhou Institute of Foreign Language and Tai Ping Chang (“Guangcong Highway Section I”)

Guangcong Highway Section I is a section of National Highway 105 between Guangzhou City and Conghua City in the northeast where a hot spring resort is located. Guangcong Highway Section I mainly connects inter-provincial traffic between Guangdong Province and provinces in Eastern China such as Jiangxi. It is also the main access from Guangzhou City to Conghua City in the suburban area.

As Jing Zhu Expressway directly connecting the urban area of Guangzhou City in 2004 has weakened the traffic performance of Guangcong Highway Section I, average daily toll traffic volume for the first half of 2005 decreased by 10.9 per cent to 12,552 vehicles when compared with first half of 2004. Weighted average toll fare per vehicle was Rmb12.92 which was slightly lower than same period of last year.

Guangcong Highway connecting Tai Ping Chang and Wenquan (“Guangcong Highway Section II & Provincial Highway 1909”)

Guangcong Highway Section II connects inter-provincial traffic between Guangdong Province and provinces in Eastern China, such as Jiangxi and intra-municipality traffic between Guangzhou and Conghua City in the northeast, where a hot spring resort is located. Provincial Highway 1909 connects inter-provincial traffic between Guangdong and Hunan provinces.

After the widening works of National Highway 105 connecting Guangcong Highway Section II were completed and opened to traffic in January 2005, vehicles from provinces such as the Jiangsu Province were attracted to travel in that highway section. Average daily toll traffic volume had increased by 14.2 per cent to 21,018 vehicles when compared with the same period of 2004. Weighted average toll fare per vehicle increased by 5.1 per cent to Rmb7.87 when compared with the same period of last year.

Guanghua Highway

Guanghua Highway is the major highway connecting the urban area of Guangzhou City and the suburb of Huadu District where the New Guangzhou Airport is located.

Following the opening of the New Guangzhou Airport in August 2004, average daily toll traffic volume of Guanghua Highway for the first half of 2005 grew substantially by 17.2 per cent to 11,745 vehicles when compared with the first half of 2004. Weighted average toll fare per vehicle was Rmb8.15, which was up by 2.7 per cent when compared with the same period of last year.

Xian Expressway in Shaanxi Province (“Xian Expressway”)

Xian Expressway is an expressway connecting Xian City and Lintong County where the world famous historical relic Terra-Cotta Warriors is located.

Due to smooth traffic flow of Xian Expressway following the commencement in operation of Xian City Express Highway connecting Xian Expressway and the robust tourism in Xian, average daily toll traffic volume of Xian Expressway for the first half of 2005 increased significantly by 26.0 per cent to 26,245 vehicles when compared with the same period of 2004. Weighted average toll fare per vehicle increased by 2.9 per cent to Rmb11.88 when compared with the same period of last year.

Xiang Jiang Bridge II in Xiang Tan City of Hunan Province (“Xiang Jiang Bridge II”)

Xiang Jiang Bridge II is located in Xiang Tan City of Hunan Province. It is part of National Highway 107 linking the northern and southern banks of Xiang Jiang. The bridge primarily connects inter-provincial traffic between Guangdong Province and Hunan Province.

Owing to the improvement of operating environment such as the upgrading of highway facilities, average daily toll traffic volume of Xiang Jiang Bridge II for the first half of 2005 increased significantly by 35.8 per cent to 5,951 vehicles when compared with the first half of 2004. Due to the increase of small passenger vehicles, weighted average toll fare per vehicle declined by 8.3 per cent to Rmb8.77 compared with the same period of last year.

Analysis of Associated Companies’ Operation

Humen Bridge

Humen Bridge is an expressway with a six-lane suspension bridge linking Panyu District of Guangzhou Municipality and Dongguan City both located in the heart of the Pearl River Delta. Its two ends are connected to the Guangzhou Shenzhen Expressway and Guangzhou Zhuhai Eastern Expressway.

Benefiting from the natural growth in traffic volume brought forth by the continuous rapid economic growth of the Pearl River Delta Region, average daily toll traffic volume of Humen Bridge for the first half of 2005 increased by 11.3 per cent to 41,531 vehicles when compared with the same period of 2004. Weighted average toll fare per vehicle slightly decreased by 0.7 per cent to Rmb42.68 when compared with the same period of last year.

Guangzhou City Northern Ring Road (“Northern Ring Road”)

The Northern Ring Road located in Guangzhou City links the Guangzhou Shenzhen Expressway in the east and the Guangzhou Foshan Expressway in the west.

Benefiting from the natural growth in traffic volume brought forth by the continuous rapid economic growth of the Pearl River Delta region, average daily toll traffic volume for the first half of 2005 increased by 3.7 per cent to 128,426 vehicles when compared with the same period of 2004. Weighted average toll fare per vehicle increased by 6.5 per cent to Rmb12.52 when compared with the same period of last year.

Qinglian Highways

Qinglian Highways are located in the northwestern part of Guangdong Province connecting Guangdong Province and Hunan Province.

The Jing Zhu Expressway continued to divert the traffic volume from Qinglian Highways for the first half of 2005. Meanwhile, the coal trucks within Hunan region decreased substantially and the traffic of Lianzhou intersection increased progressively in April. All these have directly affected the traffic volume of Qinglian Highways. The average daily toll traffic volume for the first half of 2005 had decreased by 15.2 per cent to 17,064 vehicles when compared with the same period of 2004. Due to the change in traffic mix of which the proportion of medium and large sized passenger vehicles had increased as compared with same period last year, weighted average toll fare per vehicle increased by 17.8 per cent to Rmb20.91 when compared with the same period of last year.

Shantou Bay Bridge

Shantou Bay Bridge is a six-lane bridge located in the strategic Shantou Harbour Huangsha Bay Sea Route. It connects the eastern entrance of Shantou Harbour linking Powai and Muishan expressways in the east and Shenshan Expressway in the west. It has a total length of approximately 6.5 kms and has started operation since December 1995. The Group completed the acquisition of Shantou Bay Bridge in July 2002.

Since the Queshi Bridge located near Shantou Bay Bridge had joined the “year pass policy” of Shantou City in January 2005, a major portion of the Shantou City vehicles originally using Bay Bridge were diverted to Queshi Bridge. As a result, the traffic volume was greatly affected. Average daily traffic volume for the first half of 2005 had decreased by 26.8 per cent to 9,534 vehicles when compared with the same period of 2004. As the diverted traffic was mainly consisted of small passenger vehicles, weighted average toll fare per vehicle increased by 10.8 per cent to Rmb36.15 when compared with the same period of last year.

Analysis of Jointly Controlled Entities’ Operation

Guangzhou Northern Second Ring Expressway (“GNSR Expressway”)

The six-lane 42.4 kms GNSR Expressway has nine intersections and nine toll stations. It connects eleven provincial, national highways and expressways in the north of Guangzhou Municipality. GNSR Expressway was completed and commenced toll collection in January 2002.

The opening of Jing Zhu Expressway and Guanghui Expressway, both of which connecting GNSR Expressway, together with the opening of New Guangzhou Airport in August 2004 had significantly boosted the traffic volume of GNSR Expressway. Average daily toll traffic volume for the first half of 2005 increased significantly by 65.8 per cent to 41,703 vehicles. With the increase in proportion of small passenger vehicles, weighted average toll fare per vehicle decreased by 5.3 per cent to Rmb17.75 compared with the same period of last year.

Guangzhou Western Second Ring Expressway (“GWSR Expressway”)

The GWSR Expressway (under construction), of which the Group has 35.0 per cent shareholding, connecting to GNSR Expressway extends from Guangzhou Sanshui Expressway near Xiaotan Town, Nanhai Region of Foshan City and ends at Maoshan Village, Baiyun District of Guangzhou City, had a total length of 39.13 kms and a dual direction six-lane route. After its completion, it will be connected to such highways as GNSR Expressway, Jing Zhu Expressway, Guanghua Expressway, New Airport Expressway, Guangsan Expressway and National Highway 324, 321, 105, 106 and 107. It is also the necessary route for accessing the new Guangzhou Baiyun International Airport in the western region of Guangzhou.

The total investment of the project amounted to Rmb2.97 billion, of which registered capital amounted to Rmb1.0 billion, whilst the remaining was raised in the form of project finance. Construction had officially commenced on 16th September 2004. It is expected that it will be completed and opened to traffic in early 2007. The Group had contributed a total of Rmb143.5 million as at 30th June 2005.

FINANCIAL REVIEW

Results Highlights

(HK\$'000)	Six months ended 30th June		% of change
	2005	2004	
Profit attributable to equity shareholders of the Company	172,533	129,481	33.2
Turnover	204,006	191,002	6.8
Operating profit	88,792	71,697	23.8
Profits after tax and interest income from associated companies and jointly controlled entity	123,013	91,286	34.8
Interest coverage	53 times	25 times	
Basic earnings per share	HK\$0.1548	HK\$0.1162	33.2
Dividend per share	HK\$0.05	HK\$0.045	
Return on shareholders' funds	4.9%	3.8%	28.9

Analysis of Results

With the continuous growth of majority of the Group's expressways and bridges and improved performance of certain class I highways and bridges, profit attributable to equity holders of the Company and basic earnings per share for the six months ended 30th June 2005 amounted to HK\$172.5 million and HK\$0.1548 respectively, both being 33.2 per cent higher than the first half of 2004. Return on shareholders' funds had also increased from 3.8 per cent in the first half of 2004 to 4.9 per cent.

Turnover

Although traffic diversion from toll road network had caused turnover of Guangshen Highway, Guangshan Highway and Guangcong Highway Section I during the first six months of 2005 to drop by 4.8 per cent, 6.1 per cent and 11.9 per cent respectively as compared to same period last year; turnover of Guangcong Highway Section II and Provincial Highway 1909, Guanghua Highway, Xiang Jiang Bridge II and Xian Expressway had increased by 19.4 per cent, 19.6 per cent, 23.8 per cent and 28.9 per cent respectively as being benefited from improved toll road network and natural traffic growth. Total turnover for the first half of 2005 amounted to HK\$204.0 million, which was up by 6.8 per cent as compared to first half of 2004.

Amortisation / depreciation of interests in toll highways and bridges

Except for one subsidiary which adopts the unit of usage method of depreciation, the rest adopt the straight line method of amortisation. The Group's amortization / depreciation of interests in toll highways and bridges for the six months ended 30th June 2005 amounted to HK\$50.8 million which was almost similar with the same period last year.

Toll highways and bridges maintenance expenses

Toll highways and bridges maintenance expenses for the six months ended 30th June 2005 amounted to HK\$39.2 million which was 1.9 per cent slightly higher than same period in 2004.

General and administrative expenses

General and administrative expenses incurred in the first half of 2005 amounted to HK\$16.3 million, being 32.1 per cent lower than same period in 2004. The adoption of HKFRS 3 which allowed the discontinuance of goodwill amortization effective 1st January 2005 and the decline in shareholders' loan interest withholding tax mainly reduced the general and administrative expenses by HK\$5.0 million and HK\$4.7 million respectively. On the other hand, an exchange loss of HK\$1.6 million had arisen from translating monetary assets and liabilities expressed in US dollars as at 30th June 2005 as a result of drop in US dollar exchange rate.

Finance costs

Finance costs declined by 42.9 per cent to HK\$5.0 million in the first half of 2005 as the Group continues to repay its bank borrowings and debts. For the period from second half of 2004 to first half of 2005, the Group had repaid an aggregate of approximately HK\$133.3 million bank borrowings.

Share of profits after tax less losses and interest income of associated companies

Share of profits after tax less losses and interest income of associated companies in the first half of 2005 totaled HK\$103.0 million which was 13.1 per cent higher than the same period in 2004. Humen Bridge and Northern Ring Road being benefited from the continuous economic growth in Pearl River Delta Region, had recorded growth in after tax profit and interest income attributable to the Group of 24.1 per cent and 15.0 per cent respectively. Due to the continued diversion effect caused by Jing Zhu Expressway since its opening in April 2003, Qinglian Highways still had a negative contribution although the level of loss was similar with same period in 2004. Shantou Bay Bridge was affected by both the "year pass policy" implemented by the Shantou municipal government and the expiration of tax holiday, its after tax profit and interest income attributable to the Group dropped by 29.8 per cent.

Share of profit after tax of a jointly controlled entity

GNSR Expressway being benefited from the opening of Jing Zhu Expressway, Guanghui Expressway and New Guangzhou Airport, its after tax profit attributable to the Group increased tremendously from HK\$0.25 million in the first half of 2004 to HK\$20.0 million in the first half of 2005.

Taxation

Taxation for the six months ended 30th June 2005 amounted to HK\$16.6 million as the overall taxable profit of subsidiaries was almost at similar level with same period last year.

Interest Coverage

The interest coverage is measured by the ratio of earnings before interests, tax, depreciation and amortisation (“EBITDA”) to interest expenses. For the six months ended 30th June 2005, interest coverage was 53 times (2004: 25 times) due to increase in EBITDA and decline in interest expenses.

Interim Dividend

The Board of Directors has resolved to declare an interim dividend for 2005 of HK\$0.05 (2004: HK\$0.045) per share payable on 28th October 2005 to shareholders whose names appear on the register of members on 14th October 2005. Interim dividend pay out ratio will be 32.3 per cent (2004: 38.73 per cent).

Liquidity and Financial Resources

Financial Highlights

(HK\$'000)	30th June	(restated) 31st December	% of change
	2005	2004	
Bank balances and cash	243,578	188,850	29.0
Bank borrowings	146,479	184,038	-20.4
Current ratio	125%	105%	19.0
Shareholders' funds	3,540,973	3,492,308	1.4
Gearing ratio	15.3%	16.2%	-5.6
Net asset per share	HK\$3.18	HK\$3.13	1.6

Cash flows and borrowings

The Group's bank balances and cash as at 30th June 2005 was approximately HK\$243.6 million and was 29.0 per cent higher than HK\$188.8 million as at 31st December 2004. The net increase in bank balances and cash was derived from surpluses in cash flow from operating activities and investing activities over cash used in financing activities during the first six months of 2005.

Net cash inflow generated from operating activities for the six months ended 30th June 2005 amounted to HK\$126.4 million (2004: HK\$84.7 million). Cash flow under operating activities mainly were cash from operations of HK\$148.6 million (2004: HK\$109.7 million) less interest paid during the period of HK\$4.0 million (2004: HK\$7.9 million) and China enterprise taxation paid during the period of HK\$18.1 million (2004: HK\$17.1 million).

Investing activities in the first half of 2005 had generated a net surplus of HK\$35.1 million (2004: net cash used HK\$2.8 million). Investing activities mainly were repayments from associated companies of HK\$88.0 million (2004: HK\$79.1 million) reduced by cash used in capital expenditures and investments of HK\$53.9 million (2004: HK\$82.7 million).

Net cash used in financing activities in the first half of 2005 amounted to HK\$106.5 million (2004: HK\$180.7 million). Cash flow under financing activities were mainly cash used in repayment of bank loans of HK\$37.6 million (2004: HK\$65.7 million), repayments to minority shareholders of subsidiaries of HK\$15.0 million (2004: HK\$86.0 million) and dividends paid of HK\$58.5 million (2004: HK\$33.6 million).

Outstanding bank borrowings of the Group as at 31st December 2004 amounted to approximately HK\$184.0 million. The Group had early repaid Rmb40.0 million bank borrowings in the first half of 2005. As at 30th June 2005, the balance of outstanding bank borrowings amounted to HK\$146.5 million.

The maturity profiles of outstanding bank borrowings as at 30th June 2005 and 31st December 2004 are shown below:

Bank borrowings (wholly unsecured Rmb loans)

	30th June 2005		31st December 2004	
	HK\$'000	%	HK\$'000	%
Repayable:				
Within one year	71,362	48.7	71,362	38.8
In the second to fifth year	75,117	51.3	112,676	61.2
	<u>146,479</u>	<u>100.0</u>	<u>184,038</u>	<u>100.0</u>

Bank borrowings as at 30th June 2005 and 31st December 2004 were unsecured and wholly denominated in Rmb. Approximately 48.7 per cent of the total bank borrowings as at 30th June 2005 (2004: 38.8 per cent) mature within one year. With adequate cash balance, stable stream of operating cash flow and steady cash return from investments, in the opinion of the management, liquidity risk is not an imminent issue of the Group. The liquidity ratio as at 30th June 2005 of 125.0 per cent showed apparent improvement when compared with the ratio as at 31st December 2004 of 105.0 per cent.

Capital expenditures and investments

For the six months ended 30th June 2005, the Group had capital expenditures and investments amounted to approximately HK\$53.9 (2004: HK\$82.7 million), of which approximately HK\$52.6 million was the equity capital contribution to a jointly controlled entity, the GWSR Expressway, further to the initial contribution in early 2004 of HK\$82.2 million; approximately HK\$1.0 million (2004: nil) was improvement costs to interest in toll highways and bridges; and approximately HK\$0.3 million was used in purchase of fixed assets during the period (2004: HK\$0.5 million).

Capital Structure

The Group's capital structures as at 30th June 2005 and 31st December 2004 are summarized below:

	30th June 2005			(restated) 31st December 2004		
	HK\$'000	%	Average rate of interest (% per annum)	HK\$'000	%	Average rate of interest (% per annum)
Floating rate loans (Rmb)	146,479	3.5	5.90	184,038	4.4	5.9
Amount due to a minority shareholder	53,719	1.3	4.00	53,719	1.3	4.0
Loans from minority shareholders						
- interest bearing	120,561	2.9	6.12	120,561	2.9	5.9
- non-interest bearing	317,033	7.6	—	317,986	7.6	—
Total debts	637,792	15.3		676,304	16.2	
Shareholders' funds	3,540,973	84.7		3,492,308	83.8	
Total capitalization	4,178,765	100.0		4,168,612	100.0	
Gearing ratio	15.3%			16.2%		

Total capitalisation of the Group as at 30th June 2005 and 31st December 2004 amounted to approximately HK\$4.18 billion and HK\$4.17 billion respectively. The net increase of approximately HK\$10.2 million in total capitalization was a result of drop in total debts and rise in shareholders' funds.

The ratio of total debts to total capitalisation (Gearing Ratio) as at 30th June 2005 and 31st December 2004 was 15.3 per cent and 16.2 per cent respectively. The composition of total debts as at 30th June 2005 and 31st December 2004 was adjusted to include minority shareholders' loans to conform to the reclassification of long term loans in the consolidated balance sheet, thereby resulted in higher restated gearing ratios. The decline in total debts was mainly due to repayment of Rmb loans of approximately HK\$37.6 million in the first half of 2005.

Rmb floating rate loans are bank borrowings in China which accounted for 23.0 per cent of the total debts as at 30th June 2005 (2004: 27.2 per cent). During the six months ended 30th June 2005, the Group had repaid Rmb40.0 million (approximately HK\$37.6 million) bank borrowings from internal funds and no new loan has been drawn. All Rmb loans are unsecured.

Amount due to a minority shareholder represented part of the capital injection into a jointly controlled entity in 2001 which is denominated in Rmb and unsecured.

Loans from minority shareholders are part of the capital contributions from minority shareholders in respect of their respective equity shareholdings in certain subsidiaries which are unsecured and denominated in Rmb. Except for one subsidiary which minority shareholder's loan is interest bearing, the rest are non-interest bearing. During the six months ended 30th June 2005, the Group had repaid Rmb1.0 million (approximately HK\$0.95 million).

As at 30th June 2005, shareholders' funds amounted to HK\$3.54 billion which accounted for 84.7 per cent of the Group's total capitalisation. As at 31st December 2004, shareholders' funds amounted to HK\$3.49 billion being 83.8 per cent of the Group's total capitalisation. The increase in shareholders' funds for the first half of 2005 was represented by net profit retained for the period after appropriation of 2004 final dividend; increase in retained earnings from adoption of HKFRS 3 and deficit in reserve arising from devaluation of available for sale investments.

Treasury Policies

The Group's overall treasury and funding policy is that of risk management and liquidity control. The Group will maintain banking relationship with financial institutions both in Hong Kong and China to capitalize on the different levels of liquidity offered by these two markets. Bank balances are generally placed in short term fixed rate deposits in bank accounts in Hong Kong and China. No fund is placed in non-bank institutions or invested in securities.

The Group's principal operations are in China and most of the income is denominated in Rmb, with the recent appreciation of Rmb currency, management is now monitoring its potential impact to the Group. Since Rmb loan interest rate is at present comparatively higher than foreign currency loan interest rate, management will consider reducing the debt financing in Rmb and increase equity and debt financing denominated in foreign currency unless capital expenditure required Rmb funding. Consequently, management would adopt appropriate currency hedging measures to minimize any possible foreign currency risks.

Capital Commitments and Contingent Liabilities

As at 30th June 2005, the Group had a committed equity capital balance to Guangzhou Western Second Ring Expressway Company Limited ("GWSR Expressway Company") of Rmb206.5 million (equivalent to approximately HK\$193.9 million). This balance would be paid by stages in such amount and by such date as to be determined by the board of directors of GWSR Expressway Company. Save for this equity capital commitment, the Group had no other capital commitments as at 30th June 2005.

There were no significant contingent liabilities since the year ended 31st December 2004.

Employees

As at 30th June 2005, the Group had 318 employees of which about 223 were directly engaging in the management and supervision of toll projects. The Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. The Group has also adopted a share option scheme which awards its employees according to the performance of the Group and individual employees.

FUTURE STRATEGIES AND PROSPECTS

The PRC economy, especially that of the Pearl River Delta Region, is developing rapidly. This, in turn, has promoted the steady development of transportation sector and boosted the private ownership of vehicles. The toll highways under the Group are mainly concentrated in Guangzhou and Pearl River Delta Region, and thus are benefiting from the continual rapid economic development of the Pearl River Delta Region. The Group will continue strengthening the toll management of operational projects, strictly controlling the budget and reducing operating costs. It will also tighten the budgetary control on projects under construction, actively and cautiously invest in expressway projects located in the Pearl River Delta Region, and selectively invest in quality toll highway projects outside Pearl River Delta Region with development potential. By increasing its investment in toll expressways, the Group believes that would deliver better return to the shareholders.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2005

		(Unaudited)	
		Six months ended 30th June	
	Note	2005 HK\$'000	2004 HK\$'000
Turnover	4	204,006	191,002
Business tax		(10,171)	(7,744)
		193,835	183,258
Other revenues		1,219	1,594
Amortisation/depreciation of interests in toll highways and bridges		(50,779)	(50,696)
Toll highways and bridges maintenance expenses		(39,195)	(38,471)
General and administrative expenses		(16,288)	(23,988)
Operating profit	5	88,792	71,697
Finance costs		(5,034)	(8,822)
Share of profits less losses of associated companies		87,072	75,905
Interest income on loans to associated companies		15,934	15,130
		103,006	91,035
Share of profit of a jointly controlled entity		20,007	251
Profit before taxation		206,771	154,161
Taxation	6	(16,587)	(16,116)
Profit for the period		190,184	138,045
Attributable to:			
Equity holders of the Company		172,533	129,481
Minority interests		17,651	8,564
		190,184	138,045
Earnings per share for profit attributable to the equity holders of the Company during the period			
— Basic	7	HK15.48 cents	HK11.62 cents
— Fully diluted	7	HK15.47 cents	HK11.61 cents
Interim dividend	8	55,737	50,151

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2005

	Note	(Unaudited) 30th June 2005 HK\$'000	(Audited) Restated 31st December 2004 HK\$'000
ASSETS			
Non-current assets			
Goodwill	9	44,873	44,873
Interests in toll highways and bridges	9	1,951,634	2,001,376
Investment properties	9	6,910	4,500
Property, plant and equipment	9	24,389	26,408
Leasehold land	9	727	2,124
Investments in jointly controlled entities		495,482	422,893
Investments in associated companies		1,660,056	1,644,927
Other investments		—	143,123
Available-for-sale financial assets	10	76,196	—
		<u>4,260,267</u>	<u>4,290,224</u>
Current assets			
Accounts receivable		9,166	11,147
Other receivables, deposits and prepayments		6,308	4,439
Bank balances and cash		243,578	188,850
		<u>259,052</u>	<u>204,436</u>
Total assets		<u>4,519,319</u>	<u>4,494,660</u>
EQUITY			
Share capital	11	111,474	111,465
Reserves		3,429,499	3,380,843
Shareholders' funds		3,540,973	3,492,308
Minority interests		252,183	248,555
Total equity		<u>3,793,156</u>	<u>3,740,863</u>
LIABILITIES			
Non-current liabilities			
Long-term loans	12	512,711	551,223
Deferred taxation	13	6,453	7,253
		<u>519,164</u>	<u>558,476</u>
Current liabilities			
Due to			
A minority shareholder of subsidiaries		68,610	68,125
Holding companies		3,619	2,969
Accounts payable		14,975	2,057
Other payables and accrued charges		38,149	39,769
Taxation		10,284	11,039
Short-term bank loans		65,728	65,728
Current portion of long-term loans	12	5,634	5,634
		<u>206,999</u>	<u>195,321</u>
Total liabilities		<u>726,163</u>	<u>753,797</u>
Total equity and liabilities		<u>4,519,319</u>	<u>4,494,660</u>
Net current assets		<u>52,053</u>	<u>9,115</u>
Total assets less current liabilities		<u>4,312,320</u>	<u>4,299,339</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2005

	(Unaudited)	
	Six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Net cash generated from operating activities	126,415	84,705
Net cash generated from/(used in) investing activities	35,108	(2,788)
Net cash used in financing activities	<u>(106,482)</u>	<u>(180,692)</u>
Increase/(decrease) in cash and cash equivalents	55,041	(98,775)
Cash and cash equivalents at 1st January	188,850	251,739
Effect of foreign exchange rate changes	<u>(313)</u>	<u>24</u>
Cash and cash equivalents at 30th June	<u><u>243,578</u></u>	<u><u>152,988</u></u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	<u><u>243,578</u></u>	<u><u>152,988</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2005

(Unaudited)

	Attributable to equity holders of the Company						Minority interests	Total	
	Share capital HK\$'000	Share premium HK\$'000	Reserve arising from consolidation HK\$'000	Exchange fluctuation reserve HK\$'000	Statutory reserves HK\$'000	Reserve arising from available for sale investments HK\$'000	Retained earnings HK\$'000	HK\$'000	
At 1st January 2005, as previously reported	111,465	576,947	1,705,497	11,479	29,049	—	1,049,285	248,555	3,732,277
Derecognition of negative goodwill	—	—	—	—	—	—	8,586	—	8,586
At 1st January 2005, as restated	111,465	576,947	1,705,497	11,479	29,049	—	1,057,871	248,555	3,740,863
Exchange differences	—	—	—	1,515	—	—	—	—	1,515
Revaluation deficit	—	—	—	—	—	(66,927)	—	—	(66,927)
Net gain/(loss) not recognised in profit and loss account	—	—	—	1,515	—	(66,927)	—	—	(65,412)
Issue of shares	9	59	—	—	—	—	—	—	68
Profit for the period	—	—	—	—	—	—	172,533	17,651	190,184
2004 final dividend	—	—	—	—	—	—	(58,524)	—	(58,524)
Dividends paid	—	—	—	—	—	—	—	(14,023)	(14,023)
At 30th June 2005	<u>111,474</u>	<u>577,006</u>	<u>1,705,497</u>	<u>12,994</u>	<u>29,049</u>	<u>(66,927)</u>	<u>1,171,880</u>	<u>252,183</u>	<u>3,793,156</u>
At 1st January 2004	111,423	576,676	1,705,497	14,623	29,049	—	873,138	308,420	3,618,826
Exchange differences	—	—	—	142	—	—	—	—	142
Net gain not recognised in profit and loss account	—	—	—	142	—	—	—	—	142
Issue of shares	11	71	—	—	—	—	—	—	82
Profit for the period	—	—	—	—	—	—	129,481	8,564	138,045
2003 final dividend	—	—	—	—	—	—	(50,144)	—	(50,144)
Dividends paid	—	—	—	—	—	—	—	(85,632)	(85,632)
At 30th June 2004	<u>111,434</u>	<u>576,747</u>	<u>1,705,497</u>	<u>14,765</u>	<u>29,049</u>	<u>—</u>	<u>952,475</u>	<u>231,352</u>	<u>3,621,319</u>

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim accounts have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These condensed interim accounts should be read in conjunction with the 2004 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st 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 “HKFRS”) which are effective for accounting periods commencing on or after 1st January 2005.

These interim accounts have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these accounts. The HKFRS standards and interpretations that will be applicable at 31st December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim accounts.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

2 CHANGES IN ACCOUNTING POLICIES

Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised 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 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 3	Business Combinations

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The adoption of new/revised HKASs 1, 8, 16, 21 and 24 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associated companies and a jointly controlled entity and other disclosures.
- HKASs 8 and 16 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.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKAS 17 resulted in:

	As at	
	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Decrease in property, plant and equipment	(727)	(2,124)
Increase in leasehold land	727	2,124

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to other investments which are classified as available-for-sale financial assets.

The adoption of HKAS 40 has resulted in a change in the accounting policy of investment properties of which the changes in fair values are recorded in the profit and loss account as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account.

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

- amortised on a straight-line basis over a maximum period of 20 years; and
- assessed for an indication of impairment at each balance sheet date.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

In accordance with the provisions of HKFRS 3 (*note 2(b)*):

- the Group ceased amortisation of goodwill from 1st January 2005;
- accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- from the year ending 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.
- the carrying amount of negative goodwill as at 1st January 2005 has been derecognised at 1st January 2005 with a corresponding adjustment to the opening balance of retained earnings.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

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

- HKAS 39 which does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice (“SSAP”) 24 “Accounting for investments in securities” to other investments for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39, if any, are determined and recognised at 1st January 2005.
- HKAS 40 since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information.
- HKFRS 3 which is applied prospectively after the adoption date.

The accounting policies used for the condensed consolidated accounts for the six months ended 30th June 2005 are the same as those set out in note 1 to the 2004 annual accounts except for the following:

(a) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Investment properties (continued)

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Changes in fair values are recognised in the profit and loss account.

(b) Goodwill/negative 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/ associated company/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and jointly controlled entities is included in respective investments. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

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

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost of the business combination, the Group will:

- reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
- recognise immediately in profit and loss account any excess remaining after that reassessment.

(c) Other investments

From 1st January 2004 to 31st December 2004:

Other investments held for long term are stated at cost less accumulated impairment losses.

From 1st January 2005 onwards:

The Group classifies its other investments as available-for-sale financial assets. Available-for-sale financial assets are included in non-current assets unless management intends to dispose of the investments within 12 months of the balance sheet date.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale securities are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(d) 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 Company and its Hong Kong subsidiaries maintain their books and records in Hong Kong Dollars ("HK\$") while all other major group companies maintain their books and records in Renminbi ("Rmb"). The consolidated financial statements are presented in HK\$, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Transactions denominated in currencies other than HK\$ 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 currencies other than HK\$ are recognised in the profit and loss account.

(iii) Group companies

The results and financial position of all the group entities 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 profit and loss account 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.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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 or liabilities are discussed below.

Interests in toll highways and bridges of the Group and investee companies comprise tangible infrastructures and intangible operating rights. Depreciation of tangible infrastructures is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the assets.

The Group reviews regularly the projected total traffic volume throughout the life of the respective assets, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

At present, the range of annual traffic growth rates that have been projected for individual toll highways and bridges is around 2% to 5%.

4 TURNOVER

The Group is principally engaged in the development, operation and management of toll highways and bridges in the Mainland of China ("China").

No analysis of the Group's turnover and contribution to operating profit by activity and geographic area is presented as they were principally derived from the operations of the Group's toll projects in China.

Business segment information is not required as the revenue, results and assets of the toll operations - development, operation and management of toll highways and bridges represent more than 90 per cent of the total revenue, results and assets of the Group respectively.

5 OPERATING PROFIT

The operating profit is stated after charging the following:

Depreciation of property, plant and equipment and leasehold land
 Amortisation/depreciation of interests in toll highways and bridges
 Amortisation of goodwill (included in general and administrative expenses)
 Net exchange loss
 Staff costs (including directors' emoluments)
 Wages and salaries
 Social security costs
 Staff welfare
 Pension costs — defined contribution plans

Six months ended 30th June	
2005 HK\$'000	2004 HK\$'000
1,278	1,221
50,779	50,696
—	4,966
1,607	—
7,877	8,123
139	137
527	423
302	238
—————	—————

6 TAXATION

- (a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable to Hong Kong profits tax during the period (2004: nil).
- (b) China enterprise income taxation is provided on the profits of the Group's subsidiaries and associated companies in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law"). Under the China Tax Law, the Group's subsidiaries, associated companies and jointly controlled entities in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50 per cent reduction in income tax for the next three to five years. The applicable income tax rate is 18 per cent. Certain of the Group's subsidiaries, associated companies and jointly controlled entities in China are qualified for the aforesaid tax holiday.
- (c) The amount of taxation charged to the condensed consolidated profit and loss account represents:

	Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
China enterprise income taxation	17,387	16,489
Deferred taxation credit (<i>note 13</i>)	(800)	(373)
	<hr/> 16,587 <hr/>	<hr/> 16,116 <hr/>

Share of China enterprise income taxation attributable to the following are included in the profit and loss account as share of results of associated companies and a jointly controlled entity:

Associated companies - current taxation	8,521	6,810
- deferred taxation	5,648	5,794
A jointly controlled entity - deferred taxation	1,668	1,749
	<hr/> 15,837 <hr/>	<hr/> 14,353 <hr/>

7 EARNINGS PER SHARE

The calculation of basic and fully diluted earnings per share is based on the Group's profit attributable to equity holders of the Company of HK\$172,533,000 (2004: HK\$129,481,000).

The basic earnings per share is based on the weighted average number of 1,114,732,381 (2004: 1,114,316,057) shares in issue during the period. The fully diluted earnings per share is based on 1,115,391,831 (2004: 1,115,312,670) shares which is the weighted average number of shares in issue during the period plus the weighted average of 659,450 (2004: 996,613) shares deemed to be issued at no consideration if all outstanding share options had been exercised.

8 DIVIDEND

	Six months ended 30th June	
	2005 HK\$'000	2004 HK\$'000
2005 interim, proposed of HK\$0.05 (2004: HK\$0.045) per share	55,737	50,151

At a meeting held on 19th April 2005, the Directors proposed a final dividend of HK\$0.0525 per share for the year ended 31st December 2004, which was approved on 25th May 2005 and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2005.

9 CAPITAL EXPENDITURES

	Goodwill on acquisition		Interests in toll highways and bridges		Investment properties	Property, plant and equipment	Leasehold land
	Subsidiaries	Associated companies and jointly controlled entities	Intangible operating rights	Tangible infrastructure			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2005, as previously reported	36,287	162,634	1,665,040	336,336	4,500	26,408	2,124
Effect of adopting HKFRS 3	8,586	—	—	—	—	—	—
At 1st January 2005, as restated	44,873	162,634	1,665,040	336,336	4,500	26,408	2,124
Additions	—	—	1,037	—	—	272	—
Transfers	—	—	—	—	2,410	(1,034)	(1,376)
Amortisation/ depreciation charge	—	—	(44,473)	(6,306)	—	(1,257)	(21)
At 30th June 2005	44,873	162,634	1,621,604	330,030	6,910	24,389	727
At 1st January 2004	39,467	169,384	1,750,864	348,783	—	32,645	3,960
Additions	—	—	85	—	—	457	—
Disposals	—	—	—	—	—	(1)	—
Amortisation/ depreciation charge	(1,590)	(3,375)	(44,472)	(6,224)	—	(1,157)	(64)
At 30th June 2004	37,877	166,009	1,706,477	342,559	—	31,944	3,896
Additions	—	—	3,035	—	—	210	—
Transfers	—	—	—	—	6,191	(4,476)	(1,715)
Revaluation deficit	—	—	—	—	(1,691)	—	—
Amortisation/ depreciation charge	(1,590)	(3,375)	(44,472)	(6,223)	—	(1,270)	(57)
At 31st December 2004	36,287	162,634	1,665,040	336,336	4,500	26,408	2,124

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	HK\$'000
At 1st January 2005	143,123
Revaluation deficit charged to equity	<u>(66,927)</u>
At 30th June 2005	<u><u>76,196</u></u>

Available-for-sale financial assets include unlisted securities stated at fair market value.

11 SHARE CAPITAL

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Authorised 2,000,000,000 ordinary shares of HK\$0.1 each	<u><u>200,000</u></u>	<u><u>200,000</u></u>
Issued and fully paid 1,114,741,530 (2004: 1,114,649,530) ordinary shares of HK\$0.1 each	<u><u>111,474</u></u>	<u><u>111,465</u></u>

During the period, 92,000 ordinary shares of HK\$0.1 each were issued upon exercise of share options at an exercise price of HK\$0.752.

Movements in the number of share options outstanding are as follows:

	Six months ended 30th June 2005 (thousands)	Year ended 31st December 2004 (thousands)
At the beginning of the period/year	1,114	1,530
Forfeited	(92)	—
Exercised	(92)	(416)
At the end of the period/year	<u><u>930</u></u>	<u><u>1,114</u></u>

12 LONG-TERM LOANS

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Bank loans, unsecured	80,751	118,310
Loans from minority shareholders of subsidiaries	437,594	438,547
Less: current portion of long-term loans	(5,634)	(5,634)
	512,711	551,223

At 30th June 2005 and 31st December 2004, the Group's bank loans were repayable as follows:

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Within one year	5,634	5,634
In the second year	75,117	112,676
	80,751	118,310

13 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal tax rate of 18% (2004: 18%)

The movement on the deferred tax liabilities account is as follows:

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
At the beginning of the period/year	7,253	8,402
Transfer from profit and loss account (<i>note 6</i>)	(800)	(1,149)
At the end of the period/year	6,453	7,253
Provided for in respect of accelerated depreciation allowances	6,453	7,253

14 CONTINGENT LIABILITIES AND COMMITMENTS

At 30th June 2005, the Group had financial commitments in respect of equity capital to be injected to a jointly controlled entity of approximately HK\$193,897,000 and future aggregate minimum lease payments/receipts under non-cancellable operating leases of land and buildings as follows:

	HK\$'000
Lease payments	
Not later than one year	202
Later than one year and not later than five years	101
	303
	303
Lease receipts	
Not later than one year	192
Later than one year and not later than five years	81
	273
	273

Except for the above, there is no material change in contingent liabilities and commitments since the last annual balance sheet date.

15 RELATED PARTY TRANSACTIONS

- (a) During the period, the Group carried out in the normal course of business the following material transactions with its related parties:

	Six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Administrative service fees shared with holding company (<i>note (i)</i>)	650	650
Toll roads management fees paid and payable to a minority shareholder (<i>note (ii)</i>)	—	25,692
Rental expenses paid to ultimate holding company (<i>note (iii)</i>)	101	—
	<u><u> </u></u>	<u><u> </u></u>

- (i) Administrative service fees shared with Guangzhou Investment Company Limited (“GZI”), the holding company, for the six months ended 30th June 2005 was in pursuant to the service agreement entered into between GZI, the Company and Kiu Fung Limited. Under the said service agreement, the GZI Group shares certain administrative services with the Group, and allocate the cost of these administrative services to the Group.

- (ii) Management agreements in respect of toll roads management fees were entered into between Guangzhou Highways Development Company (“GHDC”), a minority shareholder of subsidiaries, and certain subsidiaries engaging in the operation of toll highways in China, whereby GHDC carries out the day-to-day routine operational and maintenance services of the Guangshan Highway, Guangshen Highway, Guangcong Highway Section I and II, Provincial Highway 1909 and Guanghua Highway respectively including collection of toll charges and repairs and maintenance in return for a fixed sum to be predetermined annually.

For the six months ended 30th June 2005, the payees were third parties.

- (iii) On 3rd January 2005, the Group entered into a lease contract with Yue Xiu Enterprises (Holdings) Limited (“YXE”), the ultimate holding company, whereby YXE agreed to lease a certain office unit to the Group at a monthly rental of HK\$17,000.

- (b) Key management compensation

	Six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Salaries	3,660	4,200
	<u><u> </u></u>	<u><u> </u></u>

Advances to Entity

The advances made by the Group to the following entity, which exceeded 8.0 per cent of the Market Capitalisation (note 5) and of the Total Assets (note 6) continued to exist as at 30th June 2005 and is required to be disclosed under Rule 13.20 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as follows:

Name of the Entity	Percentage of indirect attributable interest held by the Company	Advances as at 30th June 2005 <i>(Note 1)</i>		Interest rate	Total (A + B) HK\$ million
		Interest bearing (A) HK\$ million	Non-interest bearing (B) HK\$ million		
Guangdong Humen Bridge Co., Ltd.	25.0	474.8	—	<i>(Note 2)</i>	474.8

Financial Assistance to Affiliated Companies

The financial assistance provided by the Group to the affiliated companies of the Company, which in aggregate exceeded 8.0 per cent of the Market Capitalisation (note 5) and of the Total Assets (note 6) continued to exist as at 30th June 2005 and are required to be disclosed under Rule 13.22 of the Listing Rules as follows:

Name of the Affiliated Companies	Percentage of indirect attributable interest held by the Company	Advances as at 30th June 2005 <i>(Note 1)</i>		Interest rate	Total (A + B) HK\$ million
		Interest bearing (A) HK\$ million	Non-interest bearing (B) HK\$ million		
Guangdong Humen Bridge Co., Ltd.	25.0	474.8	—	<i>(Note 2)</i>	474.8
Guangdong Qinglian Highway Development Co., Ltd.	23.6	—	219.0	—	219.0
Guangdong Shantou Bay Bridge Co., Ltd.	30.0	32.1	—	<i>(Note 3)</i>	32.1
Total <i>(Note 4)</i>		<u>506.9</u>	<u>219.0</u>		<u>725.9</u>

Notes:

- (1) The advances were shareholders' loans representing part of the investment costs injected by the Group in proportion to the Group's equity interest in such entity and affiliated companies. These advances are unsecured and have no fixed term of repayments. There were no committed capital injections to and guarantees given to or for the above entities and affiliated companies.
- (2) Of this interest-bearing advance, approximately HK\$379.2 million was charged at US prime rate; approximately HK\$95.4 million was charged at lending rates of financial institutions in China; and the remaining balance was charged at HK prime rate.
- (3) Of this interest-bearing advance, approximately HK\$0.6 million was charged at HK prime rate; approximately HK\$31.5 million was charged at lending rates of financial institutions in China.
- (4) The total amount of financial assistance provided by the Group to the affiliated companies of the Company exceeded 8.0 per cent of the Market Capitalisation and of the Total Assets.
- (5) Market Capitalisation means the market capitalization of the Company as at 30th June 2005 amounting to HK\$2,892,754,270 based on the total number of 1,114,741,530 shares of the Company in issue on 30th June 2005 and average closing price of HK\$2.595 per share for the five business days immediately preceding 30th June 2005.
- (6) Total Assets means the consolidated total assets of the Group as at 30th June 2005, adjusted for the interim dividend declared on 23rd September 2005.

Pro Forma Combined Balance Sheet of Affiliated Companies

In accordance with Rule 13.22 of the Listing Rules, a pro forma combined balance sheet of the Company's relevant affiliated companies as at 30th June 2005 and the Group's attributable interest therein are set out below:

	HK\$'000
Long term assets	5,871,788
Current assets	148,123
Current liabilities	(84,186)
Long term liabilities	<u>(3,989,718)</u>
Net assets	<u>1,946,007</u>
	HK\$'000
Attributable interest to the Group	
Net assets	558,406
Shareholder's loans receivable	725,933
Goodwill on acquisition less amortisation	158,083
	<u>1,442,422</u>

Interests of Directors

As at 30th June 2005, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which are required to be recorded in the register maintained by the Company under Section 352 of the SFO or notified to the Company and The Stock Exchange of Hong Kong Limited (“Stock Exchange”) were as follows :

I. Long positions in shares of the Company and Guangzhou Investment Company Limited (“GZI”), the holding company of the Company :

Name of Director	Nature of interest	Beneficial interest in shares	Approximate % of interest
The Company			
Mr Zhang Siyuan	Personal	576,000	0.05
GZI			
Mr Liang Ningguang	Personal	400,000	0.01
Mr Zhang Siyuan	Personal	490,000	0.01

II. Long positions in underlying shares of equity derivatives of GZI :

Name of Director	Date of grant	Exercise price per share HK\$	Number of share options outstanding as at 1st January and 30th June 2005
Mr Ou Bingchang	02/06/2003	0.5400	9,000,000
Mr Chen Guangsong	02/06/2003	0.5400	8,000,000
Mr Liang Ningguang	02/06/2003	0.5400	7,000,000
Mr Liang Yi	02/06/2003	0.5400	7,000,000

Notes :

The share options are exercisable from 2nd June 2003 to 1st June 2013, of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent (inclusive of any options exercised under (i)) thereof are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the date of grant, respectively.

Save as disclosed herein, as at 30th June 2005, none of the directors of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Interests of Substantial Shareholders

As at 30th June 2005, the following persons have an interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Note	Long position in shares	Approximate % of interest
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu")	(a)	811,862,076	72.86
GZI	(a)	750,134,000	67.98
First Dynamic Limited	(a)	750,000,000	67.97
Round Table Holdings Limited	(a)	750,000,000	67.97
GZI Transport (Holdings) Limited	(a)	750,000,000	67.97
Housemaster Holdings Limited	(a)	367,500,000	32.98
Power Head Limited	(a)	157,500,000	14.97
Delta Force Holdings Limited	(a)	112,500,000	10.84
Lawson Enterprises Limited	(a)	112,500,000	10.84
Shanghai Industrial Investment (Holdings) Company Ltd.	(b)	79,596,565	7.14

Notes :

- (a) The capacity of Yue Xiu in holding the 811,862,076 shares was, as to 5,769 shares, as beneficial owner and, as to 811,856,307 shares, attributable to interests of controlled corporations.

Housemaster Holdings Limited, Power Head Limited, Delta Force Holdings Limited and Lawson Enterprises Limited were the beneficial owners of 367,500,000, 157,500,000, 112,500,000 and 112,500,000 shares of the Company respectively. These companies were wholly-owned by GZI Transport (Holdings) Limited which, by virtue of the SFO, was deemed to be interested in the 750,000,000 shares held by these subsidiaries.

GZI Transport (Holdings) Limited was owned as to 51 per cent by Round Table Holdings Limited and 49 per cent by First Dynamic Limited. First Dynamic Limited was wholly-owned by Yue Xiu which also through certain subsidiaries owned about 51 per cent of the issued share capital of GZI as at 30th June 2005. Round Table Holdings Limited was wholly-owned by GZI which also directly held 134,000 shares of the Company. By virtue of the SFO, GZI, Round Table Holdings Limited and First Dynamic Limited were deemed to be interested in the 750,000,000 shares.

- (b) The capacity of Shanghai Industrial Investment (Holdings) Company Ltd. in holding the 79,596,565 shares was attributable to interests of controlled corporations.

Share Options

Pursuant to a share option scheme ("Share Option Scheme") approved by shareholders of the Company on 3rd January 1997, the board of directors of the Company ("Board") may, at their discretion, grant to directors and employees of the Company or any of its subsidiaries options to subscribe for ordinary shares in the Company. The Share Option Scheme is designed to act as an incentive to employees and executives of the Group. The exercise price is determined by the Board and being equal to the higher of (a) the nominal value of the share; and (b) not less than 80 per cent of the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of an option. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option.

On 25th June 2002, the shareholders of the Company approved the resolutions relating to the termination of the Share Option Scheme and the adoption of a new share option scheme ("2002 Share Option Scheme"). Upon termination of the Share Option Scheme, no further share options will be granted thereunder but all the outstanding share options granted prior to such termination continue to be valid and exercisable in accordance therewith, and only those provisions of the Share Option Scheme which are required to give effect to the outstanding share options continue to remain in force for such purpose. The 2002 Share Option Scheme complies with the amendments to Chapter 17 of the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Pursuant to the 2002 Share Option Scheme, the Board may grant to any person being an employee, officer, director, agent, consultant or representative of GZI, Yue Xiu, the Company or any of their respective subsidiaries ("Participants") options to subscribe for shares in the Company. The purpose of the 2002 Share Option Scheme is to provide incentives to Participants to contribute to the Group and to enable the Group to recruit, retain and motivate high-calibre employees and attract human resources that are valuable to the Group. The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme is 10 per cent of the number of shares in issue as at the date of approval of the 2002 Share Option Scheme. The maximum entitlement of each Participant upon exercise of the options granted or to be granted within any 12-month period immediately preceding the proposed date of grant is limited to 1 per cent of the number of shares in issue as at the proposed date of grant. Any further grant of options in excess of this limit is subject to shareholders' approval in general meeting. The share options are exercisable from the commencement date of the option period (which shall be a period to be notified by the Board at the time of the grant of an option, such period to commence on the date of grant or such later date as the Board may decide and expire on the last day of the period, which in any event shall not exceed 10 years from the date of grant), of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent (inclusive of any options exercised under (i)), of the options granted under the relevant grant are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the commencement date of the option period respectively. After the second anniversary of the commencement date of the option period the restrictions will cease. In respect of a Participant who is an employee of GZI, Yue Xiu, the Company or any of their respective subsidiaries, the same limits on the exercise of the share options as described above shall also apply, except that the periods referred to in (i) and (ii) above shall commence from the later of: (a) the date of completion by such Participant of one year of continuous employment as permanent member of the staff of GZI, Yue Xiu, the Company or any of their respective subsidiaries, as the case may be; and (b) the commencement date of the option period, and the date when the restrictions cease shall be modified accordingly. The exercise price is determined by the Board and must be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option. No such options have been granted to any person since its adoption as required to be disclosed under the Listing Rules.

The Directors consider that it is inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to shareholders.

Movements during the period of the options granted under the Share Option Scheme were as follows :

Number of share options				Exercise price per share HK\$	Date of grant	Exercisable period	Weighted average closing price (c) HK\$
outstanding as at 1st January 2005	exercised during the period	lapsed during the period	outstanding as at 30th June 2005				
1,114,000	92,000	92,000	930,000	0.7520	07/04/2000	07/04/2001 - 06/04/2006 (b)	2.275

Notes:

- (a) No options have been granted or cancelled during the period.
- (b) All options are exercisable in 3 tranches. If the last day of the exercisable period is not a business day, the exercisable period will expire on the business day preceding thereof.
- (c) The weighted average closing price per share immediately before the dates on which the options were exercised.

Corporate Governance

The Company has complied with the code provisions of the Code on Corporate Governance Practices ("Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30th June 2005, except for the following deviations:

Code Provisions A.4.1 and A.4.2

The code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

The code provision A.4.2 (last sentence) stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

None of the non-executive directors of the Company is appointed for a specific term. However, all the non-executive directors of the Company are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Bye-laws. All the non-executive directors of the Company had retired by rotation and have been re-elected during the past three years.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as rules governing securities transactions by the directors of the Company. All Directors have confirmed, following specific enquiry by the Company, that they have complied with required standards set out in the Model Code throughout the six months ended 30th June 2005.

Audit Committee

The Audit Committee has reviewed the unaudited condensed consolidated financial statements for the six months ended 30th June 2005.

Purchase, Sale or Redemption of the Company's Shares

The Company has not redeemed any of its shares during the six months ended 30th June 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 12th October 2005 to Friday, 14th October 2005, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Share Registrar, Abacus Share Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on Monday, 10th October 2005.

By order of the Board

Ou Bingchang

Chairman

Hong Kong, 23rd September 2005

Board of Directors

Executive Directors

Ou Bingchang (*Chairman*)
Li Xinmin
Li Zhuo
Chen Guangsong
Chen Jiahong
Liang Ningguang
Liang Yi
Du Xinrang
He Zili
Zhang Siyuan
Tan Yuande
He Baiqing

Non-executive Directors

Fung Ka Pun*
Lau Hon Chuen Ambrose*
Poon Jing
Cheung Doi Shu*

* *Independent non-executive directors & audit committee members*

Company Secretary

Yu Tat Fung

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head Office and Principal Place of Business

25th Floor
Yue Xiu Building
160 Lockhart Road
Wanchai
Hong Kong

Hong Kong Branch Share Registrar

Abacus Share Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

Share Listing

The Company's shares are listed on
The Stock Exchange of Hong Kong Limited

The stock codes are:
The Stock Exchange of Hong Kong Limited-1052
Reuters-1052.HK
Bloomberg-1052 HK

Investor Relations

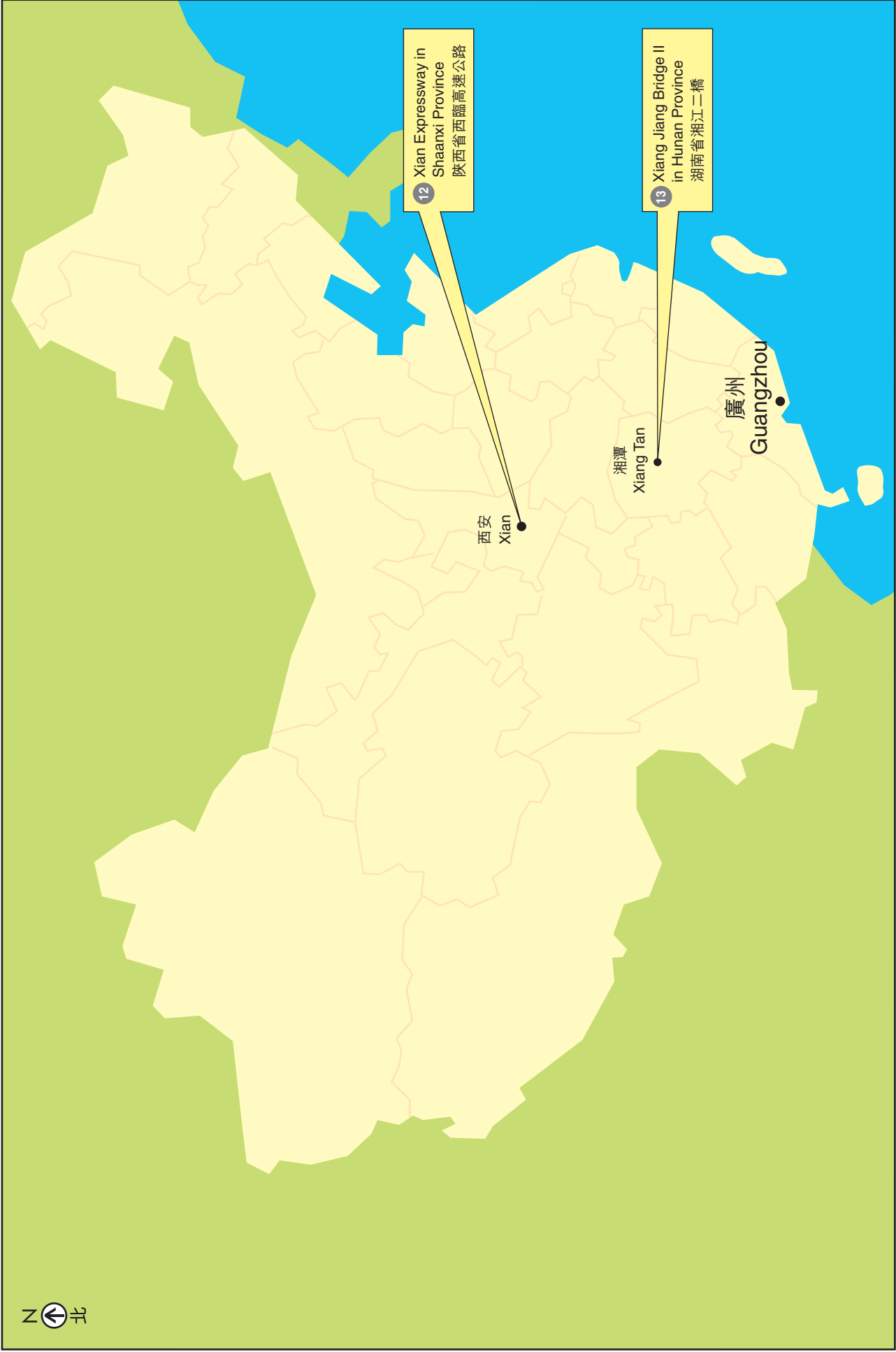
For further information about
GZI Transport Limited, please contact:
Grace Li
Telephone : (852) 2865 2205
Facsimile : (852) 2865 2126
Email : contact@gzitransport.com.hk

Websites to Access Company Information

<http://www.gzitransport.com.hk>
<http://www.hkex.com.hk>

Location Map of Toll Road Projects inside Guangdong Province 廣東省內項目位置圖





Location Map of Toll Road Projects outside Guangdong Province

廣東省外項目位置圖