



廣東南粵物流股份有限公司 Guangdong Nan Yue Logistics Company Limited*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 3399)



Interim Report

2008

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CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

The report may contain certain forward-looking information and/or information that is not based on historical data and uses forward-looking terminology such as "anticipate", "believe", "intend", "could", "expect", "estimate", "may", "ought to", "should" or "will". Readers are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although the Group believes that assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be incorrect and as a result, the inclusion of forward-looking statements in this report should not be regarded as representations by the Group concerning future performance of the Group and readers should not place undue reliance on such forward-looking statements. In addition, the Group undertakes no obligation to publicly update or revise any forward-looking statements contained in this report as a result of new information, future events or otherwise.

Company Profile

Guangdong Nan Yue Logistics Company Limited (the “**Company**”) and its subsidiaries (together with the Company, the “**Group**”) are principally engaged in the provision of integrated logistics services and expressway-related services. The majority shareholder of the Company is Guangdong Provincial Communication Group Company Limited (“**GCGC**”), a state-owned enterprise established in the People’s Republic of China (the “**PRC**”).

The Company has four main lines of businesses: (1) material logistics services, primarily the provision of logistics management of construction materials for expressway constructions and other sizable infrastructure projects; (2) the operation of expressway service zones and the provision of expressway auxiliary services including the operation of the food and beverage network, convenience stores, outdoor advertising for expressways, vehicle maintenance, gas stations; (3) transportation intelligence services including the installation and maintenance of safety and toll collection facilities; and (4) cross-border transportation services, mainly the operation of the routes between Hong Kong and the Guangdong Province. The Company is also engaged in the operation and toll fee collection of Tai Ping Interchange in the Guangdong Province.

The Company is destined to establish itself as a modern logistics enterprise that is of an international standard in, delivering first-class services to customers, giving good returns to shareholders of the Company (“**Shareholders**”) and will strive to continuously improve its management system and to upgrade its operations in order to meet the changing market demand.

REGISTERED OFFICE

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The PRC

PRINCIPLE PLACE OF BUSINESS IN HONG KONG

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188 Connaught Road West
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BOARD OF DIRECTORS

Executive Directors

Lu Mao Hao
Su Yong Dong
Wang Wei Bing
Deng Chong Zheng
Zeng Gang Qiang

Non-Executive Directors

Liu Wei
Huang Guo Xuan
Cai Xiao Ju
Chen Guo Zhang
Lu Ya Xing

Independent Non-Executive Directors

Gui Shou Ping
Liu Shao Buo
Peng Xiao Lei

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Fung Hon Tung

AUTHORISED REPRESENTATIVES

Wang Wei Bing
Deng Chong Zheng

AUDITORS

PricewaterhouseCoopers

BANKERS

Industrial and Commercial Bank of China
China Construction Bank

LEGAL ADVISER

Paul, Hastings, Janofsky & Walker

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Financial Highlights

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

	For the six months ended 30 June		Change
	2008 RMB'000	2007 RMB'000	
Results highlights			
Turnover			
Material logistics services	3,136,909	2,454,503	28%
Expressway service zones	184,043	180,762	2%
Transportation intelligence services	133,276	162,033	-18%
Cross-border transportation services	120,872	135,802	-11%
Tai Ping Interchange	68,514	57,960	18%
Others	—	742	-100%
Total turnover	3,643,614	2,991,802	22%
Gross Profit			
Material logistics services	148,720	97,747	52%
Expressway service zones	41,843	43,833	-5%
Transportation intelligence services	19,539	36,769	-47%
Cross-border transportation services	27,974	35,898	-22%
Tai Ping Interchange	59,929	49,177	22%
Others	—	279	-100%
Total gross profit	298,005	263,703	13%
Other income	16,080	19,139	-16%
Operating expenses	(195,574)	(157,431)	24%
Operating profit	118,511	125,411	-6%
Finance costs	(12,824)	(11,450)	12%
Share of results of associates and a joint venture	(708)	(197)	259%
Profit before income tax	104,979	113,764	-8%
Income tax expense	(27,584)	(35,425)	-22%
Profit for the period	77,395	78,339	-1%
Minority interests	(823)	(8,190)	-90%
Profit attributable to equity holders of the Company	76,572	70,149	9%
Basic earnings per share (RMB)	0.18	0.17	

Financial Highlights

	As at		Change
	30 June 2008 RMB'000	31 December 2007 RMB'000	
Results highlights			
Total assets	5,255,447	4,567,554	15%
Total net assets	1,453,105	1,437,157	1%
Shareholder's equity of the Company	1,279,047	1,255,168	2%
Net assets per share attributable to the Company's Shareholders (in RMB)	<u>3.06</u>	<u>3.01</u>	<u>2%</u>

	For the six months ended	
	30 June 2008	2007
Ratios		
Gross profit margin (%)	8.18	8.81
Interest covered ratio (times)	9.2	10.9
Current ratio (times)	<u>1.25</u>	<u>1.32</u>

Gross profit margin = Gross profit / Turnover

Interest covered ratio = Profit before income tax and interest / (Interest expenses + Capitalized interest)

Current ratio = Total current assets / Total current liabilities

Chairman's Statement

I am pleased to take this opportunity to present a review of the business activities of the Group in the first half of 2008 and a preview of our future development:

BUSINESS REVIEW

In the first half of 2008, several serious natural disasters had occurred in the PRC. At the beginning of 2008, the Southern part of China was ravaged by an unprecedented heavy snowstorm which had seriously affected people's livelihoods. The extreme weather had adversely affected some of the expressway service zone business of the Group, particularly the service zones along Beijing-Zhujiang North Expressway where many passengers and vehicles were held up. Our management team and staff in the PRC remained in their positions under such an extremely bad weather and made considerable contribution in fighting against the snowstorm by providing whatever they could to satisfy the basic needs of the passengers being held up. At the same time, they also provided logistic services for the expressway maintenance teams. On 12 May 2008, an earthquake occurred in Wenchuan of Sichuan, China. Our staff worked hand-in-hand with the whole country in donating money and relief materials to people in the affected areas.

In the first half of 2008, China continued the implementation of austerity measures. The consumer price index of China remained high, reflecting a very high inflation pressure. The Group continued to develop its businesses and the operating results of the Company remained stable. For material logistics services, in the first half of 2008, the Group was (i) responsible for the logistics service of materials such as steel, cement and asphalt for seven expressway projects in the Guangdong province and major transportation projects including Route Nos. 4, 5, 6 of the Guangzhou subway, Wu-Guang Railway and Inter-city Railway between Guangzhou and Zhuhai with an aggregate supply volume of 637,000 tonnes of steel bar, 540,000 tonnes of cement and 26,000 tonnes of asphalt; and (ii) continued to develop its coal logistics business with a total throughout of 240,000 tonnes of coal.

For the expressway service zone business, the Group further enhanced its unique market position and speeded up the introduction of new operating businesses. In the first half of 2008, the Group (i) continued the promotion of standardised fast food in the service zones network by providing more variety; (ii) restructured the supplier network of its convenience stores and successfully obtained higher discounts from suppliers; (iii) optimised supporting services for vehicle maintenance networks in the service zones upon commencement of operation of the vehicle maintenance centre; (iv) continued stable development to the gas stations network business; (v) developed an overall plan and evaluation system in respect of the advertising resources of the expressway within GCGC and enhanced marketing efforts in order to improve expressway advertising network; and (vi) further determined the development strategies of the service zone business and standardised the operating process of the service zones.

For the transportation intelligence services, the Group actively (i) expanded into markets outside Guangdong to increase its market share; (ii) fully commenced the implementation of the transportation construction projects and maintenance projects; (iii) focused on research and development and promoted the application of the results of its research and development projects; and (iv) streamlined the management by devising various effective systems and procedures.

For the cross-border transportation services, the Group had adjusted the schedules and routes of passenger transportation of medium to long distance and introduced "Golden Routes" to attract more passengers. The Group also enhanced the cooperation with other companies to improve carriage rate and cargo handling capacity to actively explore new customers for its freight transportation business. Moreover, the Group actively expanded into new markets and introduced commercial vehicles hiring services and travelling services as planned.

OUTLOOK AND STRATEGIES

In July 2008, the Guangdong government announced the expressway development plan of the province which stated that the mileage would reach 5,000 km by 2010 and 5,500 km by 2012. The current mileage of expressway in Guangdong is approximately 3,530 km. Therefore, the construction of expressway in Guangdong is expected to accelerate in the next few years. As the Group is principally engaged in businesses closely related to the construction of new expressways, the acceleration in the construction of expressway will facilitate the expansion of our business. The main business goals of the Group in the second half of 2008 are to:

(i) Material logistics services

1. Continue to implement the Group's asphalt business development plan, expedite the establishment of the Company's asphalt sourcing network and expand its market coverage into regions outside Guangdong;
2. Further enhance the standard and quality of our Company's logistics service;
3. Further extend the Company's logistics service chain and provide new logistics service in response to the market needs.

(ii) Expressway service zones

1. Further enhance the development and introduction of innovative services in service zones, effectively utilize the existing resources in service zones and introduce special local commodity and food and beverage projects so as to build up an operating model with strong brand name and unique products and services;
2. Speed up the application and construction of new gas stations in service zones;
3. Relocate expressway advertisement boards within the province and strengthen the marketing of advertising posts on new expressways.

Chairman's Statement

(iii) Transportation intelligence services

1. Continue to further develop into markets outside the Guangdong province and expand into new business sectors and proactively participate in information technology projects of municipal services, subways, public order and fire prevention under the road network plan invested by the Guangdong government;
2. Leverage on the Company's competitive edge in research and development of transportation intelligence technology to boost its research and development of web-based toll collection system, the maintenance information platform of electrical and mechanical system as well as the integrated expressway network surveillance system and actively promote the application of toll-evasion prevention and toll-by-weight in Guangdong;
3. Further streamline the research and operation process of software products and enhance the marketing of expressway project management software system;
4. Improve the maintenance and services of intelligence transportation system and optimize the maintenance and management process, enhance service quality of intelligence transportation business and increase the profitability of the maintenance business.

(iv) Cross-border coaching services

1. Strengthen the marketing to raise carriage rate;
2. Further develop its cross-border commercial vehicles leasing business targeting high-end customers and traveling business targeting business travelers and conference delegations;
3. Accelerate the progress of the joint project of Guangzhou Baiyun International Convention Center.

Yours faithfully,

Lu Mao Hao

Chairman

Guangzhou, the PRC

17 September 2008

BUSINESS REVIEW

The main businesses of the Group comprises:

- (i) Material logistics services;
- (ii) Expressway service zones;
- (iii) Transportation intelligence services; and
- (iv) Cross-border transportation services.

Saved for the above main businesses, the Group's business also includes the toll fee collection at the Tai Ping Interchange.

Material logistics services

During the first half of 2008, in light of the slowdown in the construction progress of expressways within the Guangdong province as affected by the austerity measures, together with the substantial increase in the prices of raw materials, including steel, cement, asphalt and coal, the Group has strengthened its management of the logistics supply chain and at the same time actively expand its business opportunities. As a result, the profit of its material logistics business has increased as compared over the corresponding period last year.

The Group has been engaged to provide material logistics services, including steel, cement and asphalt, for expressway projects of GCGC, namely the Zuhai Section of the Western Coastal Expressway, the South Section of the Pearl River Delta Western Ring Expressway, Shanjie Expressway, Taiao Expressway, Fokai Expressway expansion, Guanghe Expressway and Yunwu Expressway. At the same time, the Group also provided material logistics services for a number of major construction projects, including Route Nos. 4, 5, 6 of the Guangzhou subway, Huangpu Bridge (East Second Ring), Dongxin Expressway, Wu-Guang Railway, Inter-city Railway between Guangzhou and Zhuhai, Inter-city Railway between Guangzhou, Shenzhen and Hong Kong and Shaogan Expressway. During the first half of the year, an aggregate of 637,000 tonnes of steel bar, 540,000 tonnes of cement, 26,000 tonnes of asphalt and 240,000 tonnes of coal were supplied.

The Group has implemented the construction of its asphalt network within the Guangdong province as planned. The construction of a core asphalt warehouse in Dongguan have been fully commenced and other supplemental asphalt warehouses is under its progress. The Group will further develop its asphalt logistics business by establishing its asphalt network and realise the cross regional development of its asphalt business, expanding from Guangdong to South-Western, Southern China and South-Eastern coastal areas.

The Group actively expanded its material logistics business through tendering new projects, including the supply of asphalt for Enshi-Lichuan Section of Shanghai-Chengdu National Highway in the west of Hubei province, the supply of asphalt for Hubei province section of Daqing-Guangzhou Expressway and the supply of asphalt for Ruijin-Ganzhou Expressway, with a total business size of approximately RMB200 million. The Group has also succeed in the bid for the steel supply contract for the Guangzhou Section of the Guanghe Expressway with a total business value of RMB200 million.

Management Discussion and Analysis

The Group will continue to improve the management of its supply chain in respect of the material logistics business and with the implementation of centralised to reduce the material sourcing costs through achieving economies of scale. Leveraging on its competitive strengths in logistics business, the Group will be able to maintain sufficient inventory and manage its distribution to ensure the quality of its material logistics business.

Expressway service zones

In the first half of 2008, the Group continued to steadily promoted its professionalized chained operational business within the service zones, strengthen its budget management and accelerate the expansion of innovative operations. Despite of the snowstorms in Southern China at the beginning of this year affected some service zones, the overall operation of the service zones remained stable. The Group continued to fortify its integrated operational management and establish an operational structure focused on the food and beverage, merchandise retail chain and advertising business in the service zones and supplemented by vehicle maintenance and greenery.

In respect of the food and beverage network, the Group continued to standardise its fast food products and control its sourcing costs with gradual growth in the sales of standardised fast food products. At the same time, the Group actively introduced new franchisees to enrich its services and increase its revenue.

In respect of the merchandise retail chain operational network, the Group by adjusting its product structure and product prices to stimulate its sales and increase its operating incomes. At the same time, actively adjusting suppliers' structure, streamlined its procurement chain and secured a direct supply from manufacturers. The Group has also tightened its procurement costs control through strengthening price negotiations with suppliers.

The business of vehicle maintenance network has recorded a more substantial growth as compared to the same period of last year. The increase of income source of vehicle maintenance business was stemmed upon the commencement of operation of the vehicle maintenance centre invested and constructed in Guangzhou. Depending on the specific conditions of particular service zones, the Group has also outsourced the vehicle maintenance business in some service zones to reduce its operation costs and increase its profit.

In respect of the advertising business, the Group has developed an overall plan and evaluation system in respect of the advertising resources of the expressways wholly-owned and majority owned by GCGC. The Group increased the value of its advertising network resources through cooperation with strong strategic partnership and enhancing its marketing efforts.

Transportation intelligence services

During the first half of 2008, the Group has implemented the mechanical and electrical engineering and safety facilities projects in Zhujiang Huangpu Bridge, North Third Ring Expressway, Qinglian Expressway, Guizhou Zhensheng, Hubei Suiyue, Fujian Pu'nan, Anhui Huangtatao and Sichuan Dianlin. In light of the relatively substantial pressure of increasing costs, the Group reinforced its project management, reduced management expenses and improved its toll calculation and collection process to ensure a stable operation.

On the basis to improve its existing transportation intelligence engineering projects, the Group further explored the transportation intelligence business opportunities outside Guangdong and achieved significant progress. During the first half of the year, the Group had successfully won the tenders of the transportation intelligence engineering projects for Pucheng-Nanping Expressway in Fujian province, Sichuan Dianlin Expressway and Anhui Huangshan-Taling and Xiaohe-Taolin Expressway.

The Group continued to upgrade its technological maintenance work of expressways and expanded its service coverage to shorten the response time and speed up the arrival time of the maintenance services.

At the same time, the Group has also enhanced its technological research and development capability. Significant progress has been achieved in the research and development as well as marketing activities in respect of integrated expressway toll collection and operation management system, car-plate automatic identification systems and portable toll collection devices.

The Group streamlined its software products for the management system of highway construction projects, improved and upgraded the process of information platform and actively facilitated the establishment of construction materials exchange platform and transportation personnel training platform.

Cross-border transportation services

During the first half of 2008, with the commencement of operation of Lok Ma Chau spur line and Shenzhen Bay Port, the competition of the cross-border transportation market has intensified, and the surging fuel costs added burden to production operations. Through its reorganisation and adjustment of its medium and long routes of coaching business, the Group strengthened its position in existing coaching market. At the same time, the Group also actively explores for new business opportunities, which helped maintain a stable operating results of the cross-border transportation business.

The Group grasped the opportunities to provide transportation services during major festivals and holidays. Under the circumstances of limited transportation capacity, the Group coordinated its transportation capacity, fully utilised all existing carriage and arranged additional schedules to popular stations, which effectively increased its income.

The Group also strengthened its cooperation with companies from the same industry, adjusted ticket prices, schedules and time in accordance with operating conditions in due course. The Group has continuously developed "Golden Routes" for coaching business and was committed to explore travelling business that mainly comprises of business tours and conference tours. The Group also actively expanded its market share of cross-border commercial vehicles leasing business.

The Group enhanced its internal management of freight services and explored for new customer base while maintaining the relationship with its existing customers. The Group has improved its coordination capacity to maintain a stable freight business.

Management Discussion and Analysis

Tai Ping Interchange and others

The Group owns the toll collection right of Tai Ping Interchange. As the economy of Guangdong continues to grow steadily, the number of vehicles using the expressway also maintained a stable growth. The toll fee collected from the Tai Ping Interchange increased by 18% as compared with the same period last year.

FINANCIAL REVIEW

Turnover

The Group's turnover is mainly derived from four business segments, including the provision of material logistics services, transportation intelligence services, operation of the expressway service zones and revenue from cross-border transportation services between Hong Kong and the Guangdong province. Revenue from the Tai Ping Interchange is also included in the Group's turnover. Turnover for the six months ended 30 June 2008 amounted to RMB3,644 million (2007: RMB2,992 million) (unless otherwise specified, the amounts stated herein below shall be in RMB), representing an increase of 22% over the same period last year, which was mainly attributable to the development in the business of material logistics services.

Turnover by business segment:

	Six months ended 30 June			
	2008		2007	
	RMB'000	Percentage	RMB'000	Percentage
Material logistics services	3,136,909	86.09%	2,454,503	82.04%
Expressway service zones	184,043	5.05%	180,762	6.04%
Transportation intelligence services	133,276	3.66%	162,033	5.42%
Cross-border transportation services	120,872	3.32%	135,802	4.54%
Tai Ping Interchange	68,514	1.88%	57,960	1.94%
Others	0	0%	742	0.02%
Total	<u>3,643,614</u>	<u>100%</u>	<u>2,991,802</u>	<u>100%</u>

Material logistics services

Material logistics services is the Group's largest source of income. In the first half of the year, the turnover recorded RMB3,137 million (2007: RMB2,455 million), representing an increase of 28% and accounted for approximately 86% (2007: 82%) of the Group's total turnover. The increase in turnover was primarily due to the expansion of business operation scale and the increase in price of some materials serving, which reduced the impact of delay in construction of expressway projects in Guangdong as a result of austerity measures.

Expressway service zones

In the first half of the year, the number of the Group's service zones increased to 46 pairs as at 30 June 2008 (2007: 43.5 pairs). The turnover of expressway service zones accounted for approximately 5% (2007: 6%) of the Group's turnover, which amounted to RMB184million (2007: RMB181million), representing an increase of 2%.

Transportation intelligence services

Transportation intelligence services accounted for approximately 4% (2007: 5%) of the Group's total turnover during the first half of the year, which amounted to RMB130 million (2007: RMB160 million), representing a decrease of 18% compared to the same period last year. This was mainly attributable to the fact that the construction of expressway projects in Guangdong was continuously delayed as a result of the austerity measures.

Cross-border transportation services

Cross-border transportation services accounted for approximately 3.3% (2007: 4.5%) of the Group's total turnover. The income for the first half of the year amounted to RMB121 million (2007: RMB136 million), representing a decrease of 11% over the same period last year. The decrease was mainly because of some customers who have switched to Lok Ma Chau Spur Line.

Tai Ping Interchange

In the first half of the year, approximately 1.9% (2007: 1.9%) of the Group's total turnover was derived from Tai Ping Interchange. The turnover increased by 18% to RMB69 million (2007: RMB58 million), which was mainly due to the natural growth in traffic volume and the maintenance work of Guangshen Highway diverting the traffic to the Humen Bridge. The traffic volume increased by 22% as compared to the same period last year due to the abovementioned two reasons.

Management Discussion and Analysis

Gross profit

The gross profit of the Group in the first half of 2008 increased RMB34 million or 13% to RMB298 million (2007: RMB264 million) over the same period last year due to the increase in turnover. Gross profit margin decreased from 8.81% to 8.18%.

Gross profit by business segment:

	Six months ended 30 June			
	2008		2007	
	RMB'000	Percentage	RMB'000	Percentage
Material logistics services	148,720	49.90%	97,747	37.07%
Expressway service zones	41,843	14.04%	43,833	16.62%
Transportation intelligence services	19,539	6.56%	36,769	13.94%
Cross-border transportation services	27,974	9.39%	35,898	13.61%
Tai Ping Interchange	59,929	20.11%	49,177	18.65%
Others	0	0%	279	0.11%
Total	<u>298,005</u>	<u>100%</u>	<u>263,703</u>	<u>100%</u>

Material logistics services

In the first half of the year, gross profit of material logistics services accounted for 50% (2007: 37%) of the Group's total gross profit, representing an increase of 52% to RMB149 million (2007: RMB98 million), and the gross profit margin was 4.74% (2007: 3.98%). The increase was mainly due to the Group's effort to lower the purchase cost in order to increase the gross profit.

Expressway service zones

In the first half of the year, gross profit of expressway service zones accounted for 14% (2007: 17%) of the Group's total gross profit, which amounted to RMB42 million (2007: RMB44 million) and remained stable as compared to last year. The gross profit margin was 22.74% (2007: 24.25%), representing a decrease of 1.51 percentage points as compared to the same period last year. The decrease in gross profit margin was mainly due to the impact of the snowstorm at the beginning of the year.

Transportation intelligence services

In the first half of the year, gross profit of transportation intelligence services accounted for 7% (2007: 14%) of the Group's total gross profit, which amounted to RMB20 million (2007: RMB37 million) and representing a decrease of 47%. As compared to that of the same period last year, gross profit margin decreased to 14.66% (2007: 22.69%), principally due to the fact that the construction of expressway projects in Guangdong was delayed as a result of the austerity measures and the intensifying competition in the market, which caused the decrease in gross profit margin as compared to last year.

Cross-border transportation services

In the first half of the year, gross profit from cross-border transportation services accounted for 9% (2007: 14%) of the Group's total gross profit, amounting to RMB28 million (2007: RMB36 million). Gross profit margin decreased to 23.14% (2007: 26.43%) as compared with the same period last year, primarily due to the increase in the price of petroleum and the increased depreciation cost of newly purchased vehicles.

Tai Ping Interchange

Gross profit of Tai Ping Interchange attributed to 20% (2007: 19%) of the total gross profit for the first half of the year, which increased from RMB49 million for the same period last year to RMB60 million, representing an increase of 22%. Gross profit margin was 87.47% (2007: 84.85%), representing an increase of 2.62% as compared to the same period last year. The increase was mainly due to the relatively large increase in traffic flows and the stable cost resulted in the completion of upgrading the integrated toll collection systems.

Operating expenses

The Group's operating expenses increased to RMB196 million for the first half of the year (2007: RMB157 million), representing an increase of 24%. The increase in operating expenses was mainly due to the increase in relevant costs (such as transportation costs, loading charges, storage fees and labour costs) as the operation scale expanded and the increase in bank handling fees and tender fees.

Taxation

The effective tax rate for the first half of the year was 26% (2007: 31%), which was lower than that for the same period last year. It was mainly due to the decrease of the PRC enterprise income tax rate to 25%.

Liquidity and capital structure

The Group continues to maintain a robust financial position. As at 30 June 2008, cash and cash equivalent amounted to RMB854 million (2007: RMB948 million). Net current assets was RMB919 million (2007: RMB914 million). Current ratio was 1.25 times (2007: 1.32 times) while interest covering ratio was 9.2 times (2007: 10.9 times).

Management Discussion and Analysis

Cash flows

The Group meets its cash need for indemnity for contracts, expansion, development of core business and general operations capital mainly by using cash from operating activities, bank borrowings and net proceeds from the offer of the Company's shares.

In the first half of 2008, cash and cash equivalents (after deducting the effect of exchange) are as follows:

	Six months ended 30 June	
	2008	2007
Cash from/(used in)	RMB'000	RMB'000
Operating activities	(221,231)	312,211
Investing activities	(46,181)	(23,465)
Financing activities	183,958	(40,000)
(Decrease)/increase of cash and cash equivalents	<u>(83,454)</u>	<u>248,746</u>

Operating activities

The net cash outflows from operating activities for the first half of this year amounted to RMB221 million (2007: net cash inflows RMB312 million), representing a decrease of RMB 533 million, which is mainly due to the higher capital demand for expanding its material logistics business and increased cash payments to lower the financial costs and the increase in inventory and prepaid purchase costs to meet the delivery requirements for the second half of the year.

Investing activities

The expense of the principal investing activities during the first half of the year was RMB46,181,000, mainly comprising (i) investment in service zones of RMB13,814,000; (ii) purchase of transportation facilities of RMB18,794,000; and (iii) addition of a property of RMB9,453,000.

Financing activities

The principal financing activities for the first half of the year mainly included (i) dividends paid to minority shareholders of RMB6,014,000; (ii) the increase in bank short-term loans of RMB189 million as compared with the same period last year.

Borrowings

As at 30 June 2008, all outstanding bank borrowings of the Group were unsecured short-term bank loans, the balance of which was RMB280 million (30 June 2007: RMB91 million) which was higher than that of the same period in the year 2007. This was mainly due to the higher capital demand for business expansion.

Acquisition

As at 30 June 2008, the Group did not have any incomplete acquisition.

Foreign exchange risk and hedging

Most of the revenue and expenditure of the Group are settled or denominated in RMB, except for some revenue and expenditure of cross-border transportation services business. In the first half of 2008, the Group's operation or liquidity was not materially affected by the fluctuations in currency exchange rate. The directors believe that the Group will have sufficient foreign currency to meet its demand. At present, the Group will continue to pay close attention to the currency fluctuations of RMB, and will take appropriate arrangement, based on its operating needs to mitigate the Group's currency exposures.

Contingent liabilities

As at 30 June 2008, the Group did not have any material contingent liabilities.

Other Information

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2008, the interests of the Company's directors and supervisors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for the Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(a) Long positions in the shares, underlying shares and debentures of the Company:

None of the directors and supervisors of the Company holds any interests in the shares, underlying shares and debentures of the Company.

(b) Long positions in shares, underlying shares and debentures of associated corporations of the Company:

Name of associated corporation	Name of director/supervisor	Type of interests	Number of shares held	Percentage in the relevant class of share capital	Notes
Guangdong Provincial Expressway Development Co. Ltd.	Lu Mao Hao	Personal	18,421	0.002%	(1)
Guangdong Provincial Expressway Development Co. Ltd.	Rao Feng Sheng	Personal	2,602	0.0003%	(2)
Guangdong Provincial Expressway Development Co. Ltd.	Deng Chong Zheng	Family	11,972	0.001%	(3)
Guangdong Provincial Expressway Development Co. Ltd.	Li Hui	Personal	5,800	0.0006%	(4)

Notes:

- (1) Lu Mao Hao is taken to be interested in 18,421 shares as a result of him being beneficially interested in the said shares of Guangdong Provincial Expressway Development Co. Ltd..
- (2) Rao Feng Sheng is taken to be interested in 2,602 shares as a result of him being beneficially interested in the said shares of Guangdong Provincial Expressway Development Co. Ltd..
- (3) Deng Chong Zheng is taken to be interested in 11,972 shares as a result of his spouse being beneficially interested in the said shares of Guangdong Provincial Expressway Development Co. Ltd..
- (4) Li Hui is taken to be interested in 5,800 shares as a result of him being beneficially interested in the said shares of Guangdong Provincial Expressway Development Co. Ltd..

Save as disclosed above, as at 30 June 2008, none of the directors, supervisors or chief executives of the Company had any interests or short positions in any shares or underlying shares or interests in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as was known to any director of the Company, as at 30 June 2008, shareholders who had interests or short positions in the shares and underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholder	Class of shares	Number of shares/ underlying shares held	Capacity	Percentage in the relevant class of share capital	Percentage in total share capital
GCGC (<i>Note 1</i>)	Domestic shares	142,266,080	Beneficial owner	50.87	34.06
	Domestic shares	137,375,787	Interests of controlled corporations	49.13	32.89
Guangdong Provincial Highway Construction Company Limited ("Guangdong Construction")	Domestic shares	96,476,444	Beneficial owner	34.50	23.10
Guangdong Communication Enterprise Investment Company ("GCGC Investment")	Domestic shares	22,371,349	Beneficial owner	8.05	5.36
Sinopec (Hong Kong) Limited	H shares	21,000,000	Beneficial owner	15.22	5.03
Liberty Square Asset Management, L.P.	H shares	15,200,000	Investment manager	11.01	3.64
Sky Investment Counsel Inc.	H shares	11,066,484	Investment manager	8.02	2.65
Barclays Global Investors UK Holdings Limited (<i>Note 2</i>)	H shares	8,266,000	Interests of controlled corporations	5.99	1.98
Barclays PLC (<i>Note 2</i>)	H shares	8,266,000	Interests of controlled corporations	5.99	1.98
UBS AG	H shares	6,911,451	Investment manager	5.01	1.65

Note:

- (1) Guangdong Construction and GCGC Investment are wholly-owned subsidiaries of GCGC. Accordingly, GCGC is deemed to be interested in the domestic shares held by Guangdong Construction and GCGC Investment. GCGC is also deemed to be interested in the 18,527,994 domestic shares held by its other subsidiaries, namely Guangdong Province Road & Bridge Construction Development Company Limited and Guangdong Weisheng Transportation Enterprise Company Limited.
- (2) The two references to 8,266,000 shares relate to the same block of shares in the Company directly held by Barclays Global Investors, N.A. Each of Barclays Global Investors UK Holdings Limited and Barclays PLC is taken to have a duty to disclose in relation to the said shares of the Company by virtue of their deemed interests in the shares under the SFO.

Save as disclosed above, as at 30 June 2008, the Company has not been notified of any other interests or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review the financial reporting process and the internal control systems of the Group, the completeness and accuracy of its accounts and to liaise on behalf of the directors of the Company with external auditors. The audit committee consists of two independent non-executive directors, Mr. Peng Xiao Lei and Mr. Liu Shao Buo, and one non-executive director, Mr. Huang Guo Xuan. The audit committee has reviewed the unaudited consolidated interim results of the Company for the six months ended 30 June 2008. The Company's auditor, PricewaterhouseCoopers, has also reviewed the unaudited consolidated interim results for the period in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance by the Group and the Board considers that effective corporate governance makes an important contribution to the corporate success and to enhancing shareholder value.

None of the directors of the Company is aware of any information that would reasonably indicate that the Company did not meet the applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2008.

EMPLOYEES AND REMUNERATION POLICIES

The Group had approximately 3,710 employees as at 30 June 2008. Total staff costs for the Group for the first six-month period, including directors' remuneration, approximately RMB102.24 million.

To enhance the quality, capability and team spirit of our human resources personnel and to fully cope with its business expansion, the Group has organised many professional and comprehensive training programs during the period. The remuneration policies of the Group is reviewed on a regular basis, taking into account the Group' results and market conditions, in order to formulate better incentives and appraisal measures.

Other Information

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct ("Code of Conduct") regarding its directors' and supervisors' securities transactions effective on 9 June 2005, on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all directors and supervisors of the Company, they have confirmed that they complied with the required standard set out in the Model Code and the Code of Conduct for the six-month period ended 30 June 2008.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its listed shares during the six months ended 30 June 2008. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed shares during the six months ended 30 June 2008.

INVESTOR RELATIONS

The Company had "one to one" interviews with institutional investors for more than 25 times and had telephone conference with institutional investors for more than 20 times during the first six months of 2008. Also, the Company held performance conference in Hong Kong and the management met with various fund managers.

Condensed Consolidated Interim Balance Sheet

(All amounts in Renminbi Yuan thousands unless otherwise stated)

	Note	As at	
		30 June 2008 Unaudited	31 December 2007 Audited Restated
ASSETS			
Non-current assets			
Fixed assets	5	252,299	250,544
Leasehold land and land use rights	5	142,014	146,659
Intangible assets	5	188,235	193,977
Investment properties	5	13,887	—
Interests in associates		65,007	68,311
Interest in a joint venture		15,746	15,542
Available-for-sale financial assets		200	200
Deferred income tax assets		20,569	17,230
		<u>697,957</u>	<u>692,463</u>
Current assets			
Inventories		784,884	367,502
Due from customers on construction contracts	6	112,886	215,349
Trade and other receivables	7	2,801,717	2,344,687
Available-for-sale financial assets		4,000	—
Cash and cash equivalents		854,003	947,553
		<u>4,557,490</u>	<u>3,875,091</u>
Total assets		<u><u>5,255,447</u></u>	<u><u>4,567,554</u></u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	8	417,642	417,642
Other reserves		319,621	324,498
Retained earnings		541,784	513,028
		<u>1,279,047</u>	<u>1,255,168</u>
Minority interests		<u>174,058</u>	<u>181,989</u>
Total equity		<u><u>1,453,105</u></u>	<u><u>1,437,157</u></u>

Condensed Consolidated Interim Balance Sheet

(All amounts in Renminbi Yuan thousands unless otherwise stated)

		As at	
	Note	30 June 2008 Unaudited	31 December 2007 Audited Restated
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		1,477	1,168
Trade and other payables	9	<u>162,750</u>	<u>168,525</u>
		<u>164,227</u>	<u>169,693</u>
Current liabilities			
Trade and other payables	9	3,330,193	2,818,831
Current income tax payable		27,922	50,873
Bank borrowings	10	<u>280,000</u>	<u>91,000</u>
		<u>3,638,115</u>	<u>2,960,704</u>
Total liabilities		<u>3,802,342</u>	<u>3,130,397</u>
Total equity and liabilities		<u>5,255,447</u>	<u>4,567,554</u>
Net current assets		<u>919,375</u>	<u>914,387</u>
Total assets less current liabilities		<u>1,617,332</u>	<u>1,606,850</u>

The notes on pages 28 to 47 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Income Statement

(All amounts in Renminbi Yuan thousands unless otherwise stated)

	Note	For the six months ended	
		30 June 2008 Unaudited	30 June 2007 Unaudited
Revenue	4	3,643,614	2,991,802
Cost of sales	11	(3,345,609)	(2,728,099)
Gross profit		298,005	263,703
Other income		16,080	19,139
Operating expenses	11	(195,574)	(157,431)
Operating profit		118,511	125,411
Finance costs		(12,824)	(11,450)
Share of results of associates and a joint venture		(708)	(197)
Profit before income tax		104,979	113,764
Income tax expense	12	(27,584)	(35,425)
Profit for the period		77,395	78,339
Attributable to:			
Equity holders of the Company		76,572	70,149
Minority interests		823	8,190
		77,395	78,339
Basic earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)	13	0.18	0.17
Dividends	14	—	—

The notes on pages 28 to 47 form an integral part of this condensed interim financial information.

Condensed Consolidated Interim Statement of Changes in Equity

(All amounts in Renminbi Yuan thousands unless otherwise stated)

	Note	Attributable to equity holders of the Company				Total Unaudited
		Share capital Unaudited (Note 8)	Other reserves Unaudited	Retained earnings Unaudited	Minority interests Unaudited	
Balance at 1 January 2007		417,642	312,896	418,678	156,318	1,305,534
Profit for the period		—	—	70,149	8,190	78,339
Dividends		—	—	(45,941)	—	(45,941)
Dividends payable to minority shareholders		—	—	—	(5,938)	(5,938)
Acquisition of minority interests		—	3,220	—	(3,220)	—
Appropriation from retained earnings		—	333	(333)	—	—
Currency translation differences		—	(3,852)	—	(2,362)	(6,214)
Balance at 30 June 2007		<u>417,642</u>	<u>312,597</u>	<u>442,553</u>	<u>152,988</u>	<u>1,325,780</u>
Balance at 1 January 2008		417,642	324,498	513,028	181,989	1,437,157
Profit for the period		—	—	76,572	823	77,395
Dividends	14	—	—	(47,194)	—	(47,194)
Dividends payable to minority shareholders		—	—	—	(6,014)	(6,014)
Increase in valuation of investment properties		—	2,301	—	1,880	4,181
Appropriation of retained earnings		—	622	(622)	—	—
Incorporation of a new subsidiary		—	—	—	972	972
Currency translation differences		—	(7,800)	—	(5,592)	(13,392)
Balance at 30 June 2008		<u>417,642</u>	<u>319,621</u>	<u>541,784</u>	<u>174,058</u>	<u>1,453,105</u>

The notes on pages 28 to 47 form an integral part of this condensed interim financial information.

Condensed Consolidated Interim Cash Flow Statement

(All amounts in Renminbi Yuan thousands unless otherwise stated)

	For the six months ended	
	30 June 2008 Unaudited	30 June 2007 Unaudited Restated
Cash flows from operating activities - net	(221,231)	312,211
Cash flows from investing activities		
- purchases of fixed assets	(38,871)	(13,374)
- purchases of intangible assets, investment properties, leasehold land and land use rights	(12,282)	(16,375)
- purchases of available-for-sale financial assets	(4,000)	—
- decrease in amount due from associated companies	1,151	1,130
- dividends received from associated companies	1,240	—
- other investing cash flows - net	6,581	5,154
Cash flows from investing activities - net	(46,181)	(23,465)
Cash flows from financing activities		
- capital contribution from minority shareholders	972	—
- proceeds from bank borrowings	330,000	300,000
- repayments of bank borrowings	(141,000)	(340,000)
- dividends paid to minority shareholders	(6,014)	—
Cash flows from financing activities - net	183,958	(40,000)
Net (decrease) / increase in cash and cash equivalents	(83,454)	248,746
Cash and cash equivalents at beginning of period	943,238	670,637
Exchange losses on cash and cash equivalents	6,660	(3,141)
Cash and cash equivalents at end of period	853,124	916,242

The notes on pages 28 to 47 form an integral part of this condensed interim financial information.

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

1. GENERAL INFORMATION

Guangdong Nan Yue Logistics Company Limited (the "Company") is a limited liability company incorporated in the People's Republic of China ("Mainland China") on 28 December 1999. The address of its registered office is 8th Floor, No. 1731-1735 Airport Road, Guangzhou, Mainland China. The Company's ultimate holding company is 廣東省交通集團有限公司 (Guangdong Provincial Communication Group Company Limited, the "Parent Company").

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 26 October 2005.

This condensed consolidated interim financial information was approved for issue on 17 September 2008.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard 34, 'Interim Financial Reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with HKFRSs.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

- (a) New interpretation effective for annual periods beginning on or after 1 January 2008 and relevant to the Group's operations

The Group applied HK(IFRIC)-Int 12 'Service concession arrangements' from 1 January 2008. The comparatives have been adjusted as required in accordance with relevant interpretations.

HK(IFRIC) - Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. The adoption of HK (IFRIC) - Int 12 resulted in a change in accounting for the Group's toll bridge, Tai Ping Interchange. Before adoption of HK(IFRIC) - Int 12, the Group's Tai Ping Interchange was recorded as fixed asset. In accordance with HK(IFRIC) - Int 12, bridges shall be recognized as intangible assets - service concession right to the extent that the Group receives a right (a license) to charge users of the public service. And, as an operator of Tai Ping Interchange, the Group accounts for revenue and costs relating to bridges construction or upgrade services in accordance with HKAS 11 'Construction Contracts' and accounts for revenue and costs relating to the toll bridge operation services in accordance with HKAS 18 'Revenue'.

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

3. ACCOUNTING POLICIES (continued)

The adoption of HK(IFRIC) - Int 12 resulted in:

	As at	
	30 June 2008	31 December 2007
Increase in intangible assets	182,416	187,215
Decrease in fixed assets	<u>(182,416)</u>	<u>(187,215)</u>

Other than the impact disclosed above, the adoption of HK(IFRIC) - Int 12 does not have significant impact to the condensed consolidated interim financial information for the six months ended 30 June 2008.

- (b) New interpretations effective for annual periods beginning on or after 1 January 2008 but not relevant to the Group's operations

HK(IFRIC) - Int 11	HKFRS 2 'Group and treasury share transactions'
HK(IFRIC) - Int 14	HKAS 19 'The limit on a defined benefit asset, minimum funding requirements and their interaction'

- (c) New standard, amendments and interpretation which are not yet effective for annual periods beginning on or after 1 January 2008 and have not been early adopted by the Group

HKFRS 8	'Operating segments'
HKAS 23 (amendment)	'Borrowing costs'
HKFRS 2 (amendment)	'Share-based payment'
HKFRS 3 (amendment)	'Business combinations', consequential amendments to HKAS 27 - 'Consolidated and separate financial statements', HKAS 28 - 'Investments in associates' and HKAS 31 - 'Investment in joint ventures'
HKAS 1 (amendment)	'Presentation of financial statements'
HKAS 32 (amendment)	'Financial instruments: disclosure', and consequential amendments to HKAS 1 - 'Presentation of Financial statements'
HK(IFRIC) - Int 13	'Customer loyalty programs'

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

4. SEGMENT INFORMATION

Primary reporting format – business segments

The Group has five main business segments:

- (1) Material logistics services – purchase and sale of materials for construction and production, and provision of related logistics arrangement service;
- (2) Expressway service zones – development and operation of expressway service zones, provision of support and related services in expressway service zones and sub-contract of certain services in expressway service zones to third parties;
- (3) Transportation intelligence services – construction of ancillary systems for toll roads and provision of related engineering work;
- (4) Cross-border transportation services – cross-border coach and freight transportation services between Hong Kong and Mainland China; and
- (5) Tai Ping Interchange – share of toll income from toll stations connecting to Tai Ping Interchange of the Group.

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

4. SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

The segment results, capital expenditure and other segment information for the six months ended 30 June 2008 are as follows:

	Material logistics services	Expressway service zones	Transportation intelligence services	Cross-border transportation services	Tai Ping Interchange	Unallocated	Group
Revenue							
Total gross segment revenue	3,143,253	184,132	134,819	120,872	68,514	—	3,651,590
Inter-segment revenue	(6,344)	(89)	(1,543)	—	—	—	(7,976)
	<u>3,136,909</u>	<u>184,043</u>	<u>133,276</u>	<u>120,872</u>	<u>68,514</u>	<u>—</u>	<u>3,643,614</u>
Operating profit/(loss)	65,553	14,462	(15,849)	17,438	56,972	(20,065)	118,511
Finance costs							(12,824)
Share of loss of associates and a joint venture							(708)
Profit before income tax							104,979
Income tax expense							(27,584)
Profit for the period							<u>77,395</u>
Depreciation	3,555	10,147	2,457	13,007	—	1,983	31,149
Amortisation	1,488	247	122	269	4,800	380	7,306
Provision For/(Reversal of) impairment of receivables	5,649	—	—	(388)	—	—	5,261
Capital expenditure	<u>2,229</u>	<u>13,814</u>	<u>1,074</u>	<u>28,247</u>	<u>321</u>	<u>1,267</u>	<u>46,952</u>

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

4. SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

The segment results, capital expenditure and other segment information for the six months ended 30 June 2007 are as follows (restated):

	Material logistics services	Expressway service zones	Transportation intelligence services	Cross-border transportation services	Tai Ping Interchange	Others	Unallocated	Group
Revenue								
Total gross segment revenue	2,454,503	180,762	176,761	135,802	57,960	4,668	—	3,010,456
Inter-segment revenue	—	—	(14,728)	—	—	(3,926)	—	(18,654)
	<u>2,454,503</u>	<u>180,762</u>	<u>162,033</u>	<u>135,802</u>	<u>57,960</u>	<u>742</u>	<u>—</u>	<u>2,991,802</u>
Operating profit/(loss)	46,749	22,766	218	21,001	46,517	(501)	(11,339)	125,411
Finance costs								(11,450)
Share of loss of associates and a joint venture								(197)
Profit before income tax								113,764
Income tax expense								(35,425)
Profit for the period								<u>78,339</u>
Depreciation	2,930	9,266	2,801	15,169	—	61	3,062	33,289
Amortisation	1,500	159	196	—	4,743	—	121	6,719
Provision for impairment of receivables	666	—	1,532	—	—	—	—	2,198
Capital expenditure	<u>10,653</u>	<u>7,857</u>	<u>1,054</u>	<u>2,731</u>	<u>1,901</u>	<u>23</u>	<u>256</u>	<u>24,475</u>

Unallocated costs represent corporate expenses.

Capital expenditure comprises additions to fixed assets, leasehold land and land use rights, intangible assets and investment properties (Note 5).

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

4. SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

Except for certain revenue from the cross-border transportation services, which are operated in Hong Kong, all of the Group's business are operated in Mainland China.

	For the six months ended	
	30 June 2008	30 June 2007
Revenue		
Mainland China	3,548,782	2,883,505
Hong Kong	94,832	108,297
	3,643,614	2,991,802

Revenue are allocated based on the places in which customers are located.

	For the six months ended	
	30 June 2008	30 June 2007
Capital expenditure		
Mainland China	22,747	22,570
Hong Kong	24,205	1,905
	46,952	24,475

Capital expenditure is allocated based on where the assets are located.

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

5. FIXED ASSETS, LEASEHOLD LAND AND LAND USE RIGHTS, INTANGIBLE ASSETS AND INVESTMENT PROPERTIES

	Fixed assets	Leasehold land and land use rights	Intangible assets	Investment properties
Six months ended 30 June 2008				
Opening net book amount 1 January 2008	250,544	146,659	193,977	—
Additions	37,441	—	58	9,453
Disposals	(692)	—	(2)	—
Reclassification	(17)	(665)	—	682
Increase in valuation of investment properties	—	—	—	4,181
Depreciation and amortisation	(31,149)	(1,508)	(5,798)	—
Currency translation differences	(3,828)	(2,472)	—	(429)
Closing net book amount 30 June 2008	<u>252,299</u>	<u>142,014</u>	<u>188,235</u>	<u>13,887</u>
Six months ended 30 June 2007 (restated)				
Net book amount 1 January 2007	278,308	115,012	204,577	—
Additions	15,776	6,796	1,903	—
Disposals	(11)	—	—	—
Depreciation and amortisation	(33,289)	(1,559)	(5,160)	—
Currency translation differences	(2,911)	(161)	—	—
Net book amount 30 June 2007	<u>257,873</u>	<u>120,088</u>	<u>201,320</u>	<u>—</u>

6. DUE FROM CUSTOMERS ON CONSTRUCTION CONTRACTS

	As at	
	30 June 2008	31 December 2007
Contract costs incurred plus recognised profits less foreseeable losses to date	3,179,808	3,160,937
Less: progress billings to date	(3,066,922)	(2,945,588)
	<u>112,886</u>	<u>215,349</u>

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

7. TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2008	31 December 2007
Trade receivables (note a)	1,084,626	841,422
Less: provision for impairment of receivables	(4,977)	(4,866)
	<hr/>	<hr/>
Trade receivables – net	1,079,649	836,556
Bills receivable	—	37,528
Other receivables	194,965	127,175
Prepayments	1,085,978	655,929
Due from related parties (note b)	441,125	687,499
	<hr/>	<hr/>
	2,801,717	2,344,687
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts of trade and other receivables approximate to their fair value.

The various Group companies have different credit policy, dependent on the requirements of their markets and the business in which they operate. For material logistics services business and transportation intelligence services business, certain percentage of the trade receivables is retained by customers for quality assurance and is repaid upon settlement of the relevant construction projects.

At 30 June 2008 and 31 December 2007, the ageing analysis of the trade receivables were as follows:

(a) Trade receivables

	As at	
	30 June 2008	31 December 2007
Less than 3 months	946,815	720,609
Within 3 months to 6 months	13,460	19,032
Within 6 months to 1 year	43,173	45,632
Within 1 year to 2 years	68,667	43,429
Within 2 years to 3 years	3,615	3,841
Over 3 years	8,896	8,879
	<hr/>	<hr/>
	1,084,626	841,422
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

7. TRADE AND OTHER RECEIVABLES (continued)

(b) Due from related parties

	As at	
	30 June 2008	31 December 2007
Trade receivables	429,215	655,198
Less: provision for impairment of receivables	(24,101)	(18,710)
	<hr/>	<hr/>
Trade receivables – net	405,114	636,488
	<hr/>	<hr/>
Other receivables	20,920	19,150
Less: provision for impairment of receivables	(1,649)	(1,649)
	<hr/>	<hr/>
Other receivables – net	19,271	17,501
	<hr/>	<hr/>
Prepayments	16,740	33,510
	<hr/>	<hr/>
	441,125	687,499
	<hr/> <hr/>	<hr/> <hr/>

The ageing analysis of trade receivables from related parties are as follows:

	As at	
	30 June 2008	31 December 2007
Less than 3 months	259,049	541,427
Within 3 months to 6 months	19,981	1,829
Within 6 months to 1 year	63,592	19,777
Within 1 year to 2 years	53,440	70,217
Within 2 years to 3 years	11,927	3,707
Over 3 years	21,226	18,241
	<hr/>	<hr/>
	429,215	655,198
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

8. SHARE CAPITAL

At 30 June 2008, the total authorised number of ordinary shares is 417,641,877 shares (31 December 2007: 417,641,877 shares) with a par value of RMB1 per share. All issued shares have been fully paid.

9. TRADE AND OTHER PAYABLES

	As at	
	30 June 2008	31 December 2007
Trade payables (note a)	500,406	616,561
Bills payable	2,054,244	1,669,650
Advance from customers	337,477	312,301
Accrued expenses and other payables	313,704	267,439
Due to related parties (note b)	287,112	121,405
	<hr/>	<hr/>
	3,492,943	2,987,356
Less: Non-current portion	(162,750)	(168,525)
	<hr/>	<hr/>
Current portion	3,330,193	2,818,831
	<hr/> <hr/>	<hr/> <hr/>

(a) Trade payables

	As at	
	30 June 2008	31 December 2007
Less than 3 months	384,531	504,042
Within 3 months to 6 months	8,645	19,147
Within 6 months to 1 year	52,979	50,978
Within 1 year to 2 years	16,432	16,629
Within 2 years to 3 years	11,887	9,908
Over 3 years	25,932	15,857
	<hr/>	<hr/>
	500,406	616,561
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

9. TRADE AND OTHER PAYABLES (continued)

(b) Due to related parties

	As at	
	30 June 2008	31 December 2007
Trade payables	102,419	108,346
Advance from customers	180,353	5,967
Other payables	4,340	7,092
	287,112	121,405
	287,112	121,405

The ageing analysis of trade payables to related parties are as follows:

	As at	
	30 June 2008	31 December 2007
Less than 3 months	27,470	77,569
Within 3 months to 6 months	21,349	5,641
Within 6 months to 1 year	25,587	4,465
Within 1 year to 2 years	17,690	13,853
Within 2 years to 3 years	5,985	3,588
Over 3 years	4,338	3,230
	102,419	108,346
	102,419	108,346

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

10. BANK BORROWINGS

	As at	
	30 June 2008	31 December 2007
Current bank borrowings:		
- Unsecured	<u>280,000</u>	<u>91,000</u>

All of the Group's bank borrowings are denominated in RMB and are at fixed rates.

The weighted average effective interest rate at 30 June 2008 was 5.913% (31 December 2007: 5.265%) per annum.

As at 30 June 2008 and 31 December 2007, the Group has the following undrawn banking facilities:

	As at	
	30 June 2008	31 December 2007
Floating rate		
- expiring within one year	<u>1,560,045</u>	<u>1,214,358</u>

11. EXPENSES BY NATURE

Expenses included in cost of sales and operating expenses are analysed as follows:

	For the six months ended	
	30 June 2008	30 June 2007
Charging		
Depreciation and amortisation	38,455	40,008
Employee benefit expenses	102,240	94,631
Cost of inventories sold	3,056,030	2,393,495
Provision for impairment of receivables	<u>5,261</u>	<u>2,198</u>

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

12. INCOME TAX EXPENSE

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, except for one subsidiary in Mainland China, which is subject to Mainland China Enterprise Income Tax ("EIT") at a preferential tax rate of 18% based on estimated assessable profit for the period, all other group companies incorporated in Mainland China are subject to Mainland China EIT, which has been calculated on the estimated assessable profit for the period at a rate of 25% (2007: 33%).

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax, which is provided on the estimated assessable profit for the year at a rate of 17.5% (2007: 17.5%).

The amount of income tax expense charged to the consolidated income statement represents:

	For the six months ended	
	30 June 2008	30 June 2007
Current income tax		
- Hong Kong profits tax	—	391
- Mainland China EIT	30,614	35,497
Deferred income tax	(3,030)	(463)
	<hr/>	<hr/>
	27,584	35,425
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

13. EARNINGS PER SHARE

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

	For the six months ended	
	30 June 2008	30 June 2007
Profit attributable to equity holders of the Company	<u>76,572</u>	<u>70,149</u>
Weighted average number of ordinary shares in issue (thousands)	<u>417,642</u>	<u>417,642</u>
Basic earnings per share (RMB per share)	<u>0.18</u>	<u>0.17</u>

No diluted earnings per share was presented as there were no dilutive potential shares during the period.

14. DIVIDENDS

A dividend in respect of the year ended 31 December 2007 of RMB0.113 per share, amounting to a total dividend of approximately RMB47,194,000, has been approved at the annual general meeting on 17 June 2008.

The Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

15. CONTINGENT LIABILITIES

The Group did not have significant contingent liabilities as at 30 June 2008 (31 December 2007: Nil).

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

16. COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	30 June	As at
	2008	31 December
		2007
Fixed assets		
Contracted but not provided for	63,484	27,801
	<u>63,484</u>	<u>27,801</u>

(b) Operating lease under contracts for management of expressway service zones

The Group subcontracted from certain fellow subsidiaries which are expressway operators, the right to manage expressway service zones. Under such contracts, the Group pays subcontract fee to the fellow subsidiaries during the subcontract period.

At the period end, the Group had future aggregate minimum payments under such contracts for management of expressway service zones with fellow subsidiaries of the Company as follows:

	30 June	As at
	2008	31 December
		2007
Not later than 1 year	43,007	43,007
Later than 1 year and not later than 5 years	215,033	215,033
Later than 5 years	604,442	624,599
	<u>862,482</u>	<u>882,639</u>

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

16. COMMITMENTS (continued)

(c) Operating lease for land and buildings

Tai Ping Interchange of the Group was constructed on a piece of land of Guangshenzhu Freeway Company Limited (廣深珠高速公路有限公司), a fellow subsidiary of the Company. Pursuant to an agreement dated 15 June 2000, the Group was entitled to use the land for free until 30 June 2027. Pursuant to a supplemental agreement dated 7 February 2005, the arrangement was changed to an operating lease for a period starting from 25 November 2004 to 25 November 2024. The rental is approximately RMB616,000 per annum.

The future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases are as follows:

	As at	
	30 June 2008	31 December 2007
Not later than 1 year	3,775	5,091
Later than 1 year and not later than 5 years	5,127	6,198
Later than 5 years	6,413	7,327
	15,315	18,616
	15,315	18,616

(d) Future operating lease receivables

The future aggregate minimum rental receivables under operating leases in respect of expressway service zone rental income are as follows:

	As at	
	30 June 2008	31 December 2007
Not later than 1 year	54,536	49,254
Later than 1 year and not later than 5 years	246,479	200,377
Later than 5 years	552,025	634,509
	853,040	884,140
	853,040	884,140

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

17. RELATED-PARTY TRANSACTIONS

The directors of the Company are of the view that the following material related party transactions with the Parent Company and its related entities (including its subsidiaries, joint ventures and associates) were carried out by the Group during the period:

(a) Related-party transactions

(i) Revenue

	For the six months ended	
	30 June 2008	30 June 2007
Material logistics services:		
- fellow subsidiaries	192,335	133,414
- fellow associates	2,216	17,390
	<u>194,551</u>	<u>150,804</u>
Expressway service zones:		
- parent company	20	—
- fellow subsidiaries	22	104
	<u>42</u>	<u>104</u>
Transportation intelligence services:		
- fellow subsidiaries	32,312	70,989
- fellow associates	3,733	9,033
- associates	2,119	—
	<u>38,164</u>	<u>80,022</u>
Others:		
- fellow subsidiaries	—	2,521
- fellow associates	—	508
	<u>—</u>	<u>3,029</u>
	<u>232,757</u>	<u>233,959</u>

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

17. RELATED-PARTY TRANSACTIONS (continued)

(a) Related-party transactions (continued)

(ii) Purchases of materials and services

	For the six months ended	
	30 June 2008	30 June 2007
Purchases of materials:		
- fellow subsidiaries	86,794	105,888
Purchases of services:		
- Management fee for collection of toll income to fellow associates	2,100	2,825
- Transportation fee paid to a fellow subsidiary	1,492	1,562
- Construction services from fellow subsidiaries	3,260	3,882
	93,646	114,157
(iii) Lease of land use right, office buildings and warehouse from a fellow subsidiary	890	890
(iv) Sub-contracting fee for management of expressway service zones		
- fellow subsidiaries	22,045	20,857
- fellow associates	1,259	1,067
- associates	567	—
	23,871	21,924

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

17. RELATED-PARTY TRANSACTIONS (continued)

(b) Balances with related parties

	30 June	31 December
	2008	2007
Due from customers on construction contracts	46,887	119,836
Due from related parties (Note 7)		
- Trading nature	421,854	669,998
- Non-trading nature	19,271	17,501
	441,125	687,499
Due to related parties (Note 9)		
- Trading nature	282,772	114,313
- Non-trading nature	4,340	7,092
	287,112	121,405

Balances with related parties as at the balance sheet date were unsecured and non-interest bearing.

Other receivables and payables from/to related parties mainly represented certain taxes and insurance premium withheld by/from related parties, which are trade related.

(c) Additional information on Other State-owned Enterprises

The Company is controlled by the Parent Company, and is ultimately controlled by Mainland China government, which also controls a significant portion of the productive assets and entities in the Mainland China. In accordance with HKAS 24 'Related Party Disclosures', state-owned enterprises and their subsidiaries, other than the Parent Company and its related entities (Note 17), are also defined as related parties of the Company ("Other State-owned Enterprises").

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

17. RELATED-PARTY TRANSACTIONS (continued)

(c) Additional information on Other State-owned Enterprises (continued)

In its expressway service zones business, Tai Ping Interchange business and the cross-border transportation services business, the Group is likely to have extensive transactions with the employees of state-owned enterprises while such employees are on corporate business as well as key management personnel and their close family members. These transactions are carried out on terms that are consistently applied to all customers and are made on a cash basis. Due to the vast volume and the pervasiveness of the Group's retail transactions in its expressway service zone business, Tai Ping Interchange and cross-border transportation service, the Group is unable to determine the aggregate amount of such transactions for disclosure. Therefore, the revenue disclosed below does not include the retail sales to, toll income and transportation income from related parties. Management believes that meaningful information relative to related party balances and transactions has been adequately disclosed.

(i) Summary of significant transactions with Other State-owned Enterprises

	For the six months ended	
	30 June 2008	30 June 2007
Revenue:		
- Material logistics services	1,401,499	664,084
- Expressway service zones	43,510	40,159
- Transportation intelligence services	34,394	45,819
	1,479,403	750,062
Purchase of materials	857,704	642,736
Purchase of services	6,201	8,037
Interest income from state-owned banks	6,046	5,127
Interest expenses to state-owned banks	12,536	11,450

Notes to the Condensed Consolidated Interim Financial Statements

(All amounts in Renminbi Yuan thousands unless otherwise stated)

17. RELATED-PARTY TRANSACTIONS (continued)

(c) Additional information on Other State-owned Enterprises (continued)

(ii) Summary of balances with Other State-owned Enterprises

	As at	
	30 June 2008	31 December 2007
Due from Other State-owned Enterprises included in:		
- Due from customers on construction contracts	58,265	94,671
- Trade receivables	603,830	496,279
- Other receivables	56,536	72,144
- Prepayments	63,903	46,219
	<u>782,534</u>	<u>709,313</u>

Balances with Other State-owned Enterprises were unsecured and non-interest bearing.

	As at	
	30 June 2008	31 December 2007
Due to Other State-owned Enterprises included in:		
- Trade payables	174,941	85,164
- Bills payables	807,089	1,471,152
- Other payables	22,133	27,712
- Advance from customers	112,305	262,689
	<u>1,116,468</u>	<u>1,846,717</u>

Balances with Other State-owned Enterprises were unsecured and non-interest bearing.

Bills payable with Other State-owned Enterprises have maturity dates within six months.

	As at	
	30 June 2008	31 December 2007
Bank deposits in state-owned banks	<u>851,622</u>	<u>899,091</u>
Bank borrowings from state-owned banks (Note 10)	<u>280,000</u>	<u>91,000</u>