During the Period, the Group was able to maintain a high rate of growth in operating results, with sound financial position and steady growth in cash flow from operating activities.

For the six months ended June 30, 2004, the Group recorded turnover of Rmb1,474.4 million and profit attributable to shareholders of Rmb602.4 million, representing increases of 34.0% and 22.4%, respectively, over the same period last year. Earnings per share increased by 22.4% to Rmb13.87 cents.

Borrowings and Debt Repayment Ability

Interest-bearing Borrowings

As at June 30, 2004, the Group's interest-bearing borrowings was Rmb2,447.2 million in aggregate, representing a decrease of Rmb273.0 million from that in the beginning of the Period. Of the total interest-bearing borrowings, short-term interest-bearing borrowings and long-term interest-bearing borrowings amounted to Rmb726.0 million and Rmb1,721.2 million respectively, representing decreases of 25.6% and 1.3% from that in the beginning of the Period. Details are as follows:

		Maturity profiles		
	Gross amount	**Within 1 year**	**2-5 years inclusive**	**Beyond 5 years**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Floating rate				
World Bank loan	824,610	127,950	341,191	355,469
Fixed rate				
Commercial bank loans	550,000	550,000	—	—
Corporate bonds	1,000,000	—	—	1,000,000
Government loans	72,600	48,000	24,020	580
Total as at June 30, 2004	2,447,210	725,950	365,211	1,356,049
Total as at December 31, 2003	2,720,126	975,950	365,211	1,378,965

The Group's finance costs decreased by 15.8% during the Period to Rmb56.0 million. The decrease was mainly attributable to the further reduction in the borrowings from domestic commercial banks by the Company and its subsidiary, Shangsan Co. At the end of the Period, the Group's borrowings from domestic commercial banks decreased from Rmb1,170 million at the end of the same period last year to Rmb550 million.

During the Period, the coupon rate of the corporate bonds issued by the Company was 4.29% per annum, with interests payable once a year. Interest rates of the Group's semi-annual and annual borrowings from domestic commercial banks in Renminbi were 4.536% and 5.045%, respectively, during the Period, whereas the effective interest rate of US Dollar loans extended by the World Bank was 4.85%. Interest rate of government loans in Renminbi was the same as that applicable on December 31, 2003.

Except for the US Dollar loans extended by the World Bank that bears interest at a floating rate, the interest rates of the Group's other interest-bearing borrowings were fixed.

Asset-liability Ratio

As at June 30, 2004, the Group's asset-liability ratio was 24.8%, representing a decrease from 26.0% at the end of 2003. The continuous decrease in asset-liability ratio during recent years has provided ample room for debt financing. Subject to the macroeconomic control measures introduced by the PRC government during the first half of the year, the banks implemented more stringent controls over credit facilities, which has enhanced the Group's comparative advantage in obtaining debt financing.

Liability to Equity Ratio

Liability to equity ratio is also known as gearing ratio, which reflects the Group's solvency in the context of capital structure.

As at June 30, 2004, shareholders' equity, fixed rate liabilities, floating rate liabilities and interest-free liabilities of the Group amounted to Rmb10,270.6 million, Rmb1,622.6 million, Rmb824.6 million and Rmb2,345.2 million respectively, representing 68.2%, 10.8%, 5.5% and 15.5% to total assets of the Group. Gearing ratio (total liabilities over shareholders' equity) was 46.7% (December 31, 2003: 51.1%), which reflected a relatively reasonable debt capital structure and strong solvency of the Group.

Interest Cover Ratio

During the Period, with interest expenses at Rmb56.0 million (corresponding period in 2003: Rmb80.7 million, including capitalized interests of Rmb14.1 million), profit before interest and tax at approximately Rmb987.8 million, the Group's interest cover ratio (profit before interest and tax over interest expenses) was 17.6 (corresponding period in 2003: 10.2).

Financial Resources and Liquidity

Financial Resources

As at June 30, 2004, the Group had cash and cash equivalents of Rmb508.4 million in aggregate, time deposits of Rmb258.8 million and short-term investments of Rmb895.1 million, totaling Rmb1,662.3 million, representing a decrease of 13.6% compared with Rmb1,923.1 million at the end of 2003. Of which, short-term investments decreased by 18.9% compared with Rmb1,104.3 million at the end of 2003. Details are as follows:

	As at June 30, 2004 Rmb'000	As at December 31, 2003 Rmb'000
Cash and cash equivalents	**508,426**	567,195
Renminbi	**506,525**	565,251
US dollar equivalent	**1,640**	1,393
Euro equivalent	**141**	59
HK equivalent	**120**	492
Time deposits	**258,750**	251,600
Renminbi	**217,314**	251,598
US dollar equivalent	**—**	—
Euro equivalent	**41,436**	—
HK equivalent	**—**	2
Short term investments	**895,153**	1,104,266
Renminbi	**895,153**	1,104,266
Total	**1,662,329**	1,923,061
Renminbi	**1,618,992**	1,921,115
US dollar equivalent	**1,640**	1,393
Euro equivalent	**41,577**	59
HK equivalent	**120**	494

During the Period, among the Group's short-term investments, the amount held in treasury bonds fell by 23.6%. As at June 30, 2004, treasury bonds accounted for 86.7% of the Group's total investments whereas the remaining comprised mainly of close-ended securities investment funds.

During the Period, average annual interest rates of the Group's bank deposits in Renminbi, US Dollar, Euro and Hong Kong Dollar were similar to those at the end of year 2003.

Cash Flow and Liquidity

The Group's ordinary operating activities generated strong and stable cash inflow. As at June 30, 2004, net cash flow from operating activities amounted to Rmb1,030.3 million.

As at June 30, 2004, the Group's current assets amounted to Rmb1,743.6 million in aggregate, of which account receivables, other receivables and inventories accounted for 4.7% (December 31, 2003: 3.8%). Current ratio (current assets over current liabilities) was 1.1, reflecting adequate working capital held by the Group.

Liquidity of the Group's assets was also reflected by "cash ratio", which is the ratio of cash asset (comprising cash, cash equivalents and time deposits and short-term investments) to current liabilities. As at June 30, 2004, cash ratio was 1.0, reflecting the Group's strong short-term solvency and relatively small risks in loss of realization.

In view of the above, the Directors believe that the Group has sufficient financial resources to meet its operational needs in the foreseeable future.

Capital Expenditure Commitments and Utilization

As at December 31, 2003, capital expenditure committed by the Group was Rmb5,053.0 million. During the Period, Rmb408.0 million was utilized, of which Rmb390.0 million was used on the Widening Project.

As at June 30, 2004, capital expenditure committed by the Group was Rmb4,645.0 million, of which approximately Rmb4,052.0 million would be used on the Widening Project.

The above capital expenditures will be financed by the Group's internal financial resources, and any shortfall will be financed by other appropriate means, with a preference for debt financing.

Contingent Liabilities and Pledge of Assets

Other than a loan guarantee of Rmb30.0 million provided in favor of Hangzhou Shida Highway Co., Ltd. ("Shida Co,") a jointly controlled entity, in respect of a commercial bank loan of the same amount extended to Shida Co from September 2001 to September 2009, the Group did not have any contingent liabilities as at June 30, 2004. In addition, the Group had no pledge of assets during the Period.

Foreign Exchange Exposure

The Group has a World Bank loan of approximately Rmb824.6 million, denominated in US Dollars and borrowed for the construction of the Shanghai-Hangzhou-Ningbo Expressway. In addition, dividends for H shares payable by the Company are settled in HK dollars.

In view of the stable exchange rate between Renminbi and US dollars, the Directors do not foresee any material foreign exchange risk for the Group. However, there is no assurance that any foreign exchange exposure will not adversely affect the operating results of the Group in the future.