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Shenzhen International Holdings Limited

深圳國際控股有限公司

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 152)**

**(the “Company”)**

## **OVERSEAS REGULATORY ANNOUNCEMENT**

This announcement is issued pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The document attached hereto is the Results Announcement for the six months ended 30 June 2010 released by Shenzhen Expressway Company Limited, a subsidiary of the Company.

Hong Kong, 20 August 2010

*As at the date of this announcement, the board of directors of the Company consists of Messrs. Guo Yuan, Li Jing Qi, Liu Jun and Yang Hai as executive directors, Messrs. To Chi Keung, Simon and Wang Dao Hai as non-executive directors and Messrs. Leung Ming Yuen, Simon, Ding Xun and Nip Yun Wing as independent non-executive directors.*

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**深圳高速公路股份有限公司**  
**SHENZHEN EXPRESSWAY COMPANY LIMITED**

(a joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 00548)

**2010 Interim Results Announcement**

The Board is pleased to announce the unaudited results of the Group for the six months ended 30 June 2010, prepared in accordance with HKFRS, together with comparative figures for the corresponding period in 2009, as follows:

**Condensed consolidated statement of comprehensive income**

	Note	Six months ended 30 June	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Revenue	3	1,366,473	966,196
Cost of services	4	(816,163)	(686,601)
<b>Gross profit</b>		<b>550,310</b>	279,595
Other gains/(loss) - net	5	7,161	(2,144)
Administrative expenses	4	(21,630)	(26,604)
<b>Operating profit</b>		<b>535,841</b>	250,847
Finance income		7,258	3,721
Finance costs	6	(261,023)	(133,482)
Finance costs - net		(253,765)	(129,761)
Share of post-tax profit of jointly controlled entities		46,695	174,390
Share of post-tax profit/(loss) of associates		85,463	39,440
<b>Profit before income tax</b>		<b>414,234</b>	334,916
Income tax expenses	7	(65,555)	(19,220)
<b>Profit for the period</b>		<b>348,679</b>	315,696
<b>Other comprehensive income for the period</b>			
Cash flow hedges, net of tax		(3,648)	-
<b>Total comprehensive income for the period</b>		<b>345,031</b>	315,696

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2010</b>	2009
		<b>RMB'000</b>	RMB'000
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Profit attributable to:</b>			
– Equity holders of the Company		359,499	313,409
– Non-controlling interest		(10,820)	2,287
		<u>348,679</u>	<u>315,696</u>
<b>Total comprehensive income attributable to:</b>			
– Equity holders of the Company		355,851	313,409
– Non-controlling interest		(10,820)	2,287
		<u>345,031</u>	<u>315,696</u>
<b>Earnings per share for profit attributable to the equity holders of the Company</b> (expressed in RMB per share)			
– Basic and diluted	8	<u>0.165</u>	<u>0.144</u>
<b>Dividends</b>	9	-	-

#### Condensed consolidated balance sheet

		<b>As at</b>	As at
	<i>Note</i>	<b>30 June</b>	31 December
		<b>2010</b>	2009
		<b>RMB'000</b>	RMB'000
		<i>(Unaudited)</i>	<i>(Audited)</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1,059,500	1,111,330
Investment property		17,268	17,556
Construction in progress		14,765	18,084
Concession intangible assets		17,765,115	17,663,392
Prepaid lease		10,241	12,110
Investments in associates		1,297,102	1,275,094
Investments in jointly controlled entities		942,224	900,071
Available-for-sale financial assets		28,500	28,500
Deferred income tax assets		60,629	35,476
		<u>21,195,344</u>	<u>21,061,613</u>
<b>Current assets</b>			
Inventories		3,024	3,436
Trade and other receivables	10	249,838	219,107
Restricted cash		467,423	490,257
Cash and cash equivalents		439,553	479,101
		<u>1,159,838</u>	<u>1,191,901</u>
<b>Total assets</b>		<u>22,355,182</u>	<u>22,253,514</u>

	<i>Note</i>	<b>As at 30 June 2010 RMB'000 (Unaudited)</b>	<b>As at 31 December 2009 RMB'000 (Audited)</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital		2,180,770	2,180,770
Other reserves		4,536,158	4,539,806
Retained earnings			
– Proposed final dividend		-	261,692
– Others		1,597,186	1,237,687
		<u>8,314,114</u>	<u>8,219,955</u>
<b>Non-controlling interest</b>		<b>679,077</b>	<b>689,897</b>
<b>Total equity</b>		<b><u>8,993,191</u></b>	<b><u>8,909,852</u></b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		8,690,608	8,333,197
Deferred income tax liabilities		840,685	857,030
Provision for maintenance/resurfacing obligations		803,811	702,355
Derivative financial liabilities		205	-
		<u>10,335,309</u>	<u>9,892,582</u>
<b>Current liabilities</b>			
Trade and other payables	11	1,422,061	1,565,511
Current income tax liabilities		106,996	92,701
Borrowings		1,497,625	1,792,868
		<u>3,026,682</u>	<u>3,451,080</u>
<b>Total liabilities</b>		<b><u>13,361,991</u></b>	<b><u>13,343,662</u></b>
<b>Total equity and liabilities</b>		<b><u>22,355,182</u></b>	<b><u>22,253,514</u></b>
<b>Net current liabilities</b>		<b><u>(1,866,844)</u></b>	<b><u>(2,259,179)</u></b>
<b>Total assets less current liabilities</b>		<b><u>19,328,500</u></b>	<b><u>18,802,434</u></b>

Notes:

## **1 Basis of preparation**

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with Hong Kong Accounting Standard 34, "Interim Financial Reporting". The PRC statutory financial statements of the Group have been prepared in accordance with the Accounting Standards for Business Enterprises (2006) of the People's Republic of China ("CAS"). Appropriate restatements have been made to the PRC statutory financial statements to conform with Hong Kong Financial Reporting Standards ("HKFRS").

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with HKFRS.

The Group reported net current liabilities of approximately RMB1.87 billion as at 30 June 2010. The directors of the Company made an assessment and concluded that there is no going concern issue based on the facts that the Group has been generating positive and increasing operating cash flows and it has not experienced any difficulties in renewing its banking facilities and there is no evidence indicating that the banks will not renew the facilities. In addition, the Group had unutilised banking facilities of approximately RMB6.8 billion at 30 June 2010 in order to meet its obligations and commitments. The directors considered that the Group has no going concern issue. Therefore, the interim financial information has been prepared by the directors of the Company on a going concern basis.

## **2 Accounting policies**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in 2009 annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The Group entered into certain hedging activities in the first half of 2010 and adopted accounting policy:

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Gain or loss arising from subsequent change in the fair value of derivative financial instruments is recognised in profit and loss except for those effective portion of gain or loss on the derivative financial instruments designated as cash flow hedges which is recognised directly in other comprehensive income. Cash flow hedge represents a hedge against the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability and could affect the profit and loss.

The hedged items of cash flow hedge are the designated items with respect to the risks associated with future cash flow change of the Company and its subsidiaries. Hedging instruments are designated derivative for cash flow hedge whose cash flows are expected to offset changes in the cash flows of a hedged item.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge item is more than 12 months.

The Company and its subsidiaries document their assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. The Company and its subsidiaries apply ratio analysis method to evaluate the ongoing effectiveness of the cash flow hedge.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

Amounts accumulated in equity are reclassified to the statement of comprehensive income in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of cross currency and interest rate swap hedging variable rate borrowings and exchange forward hedging foreign currency borrowings is recognised in the statement of comprehensive income within 'financial cost'.

When a hedging instrument expires or is sold, terminated or exercised or when a hedge no longer meets the criteria for hedge accounting, the Company and its subsidiaries will discontinue hedge accounting.

### 3 Segment information

The principal activities of the Group are the development, operation and management of toll highways and expressways in the PRC.

In accordance with the Group's internal financial reporting provided to the board of directors of the Company, who is responsible for allocating resources, assessing performance of the operating segments and making strategic decisions, the Group is organised into the following two main business segments:

- Toll roads operations; and
- Construction under service concessions

Other operations mainly comprise provision of advertising services, construction management services and others. There has been no sales being carried out between segments. None of these operations constitutes a separate segment.

Business segment	Toll roads	Construction	All other	Unallocated	Group
	operations	under service	segments		
	RMB'000	concessions	segments	RMB'000	RMB'000
<b>Six months ended 30 June 2010</b>					
Revenue (from external customers)	1,009,333	311,869	45,271	-	1,366,473
Adjusted earnings before interest, tax, depreciation and amortisation ("EBITDA")	797,213	-	10,324	129,963	937,500
Depreciation and amortization	259,763	-	2,863	6,875	269,501
Finance income	1,375	-	143	5,740	7,258
Finance costs	(160,920)	-	(6)	(100,097)	(261,023)
Share of post-tax profit of jointly controlled entities	46,695	-	-	-	46,695
Share of post-tax profit of associates	84,568	-	895	-	85,463
Income tax expenses	(37,363)	-	(2,087)	(26,105)	(65,555)
<b>Six months ended 30 June 2009</b>					
Revenue (from external customers)	523,375	410,307	32,514	-	966,196
Adjusted EBITDA	384,361	-	10,728	201,171	596,260
Depreciation and amortisation	119,521	-	3,581	4,193	127,295
Finance income	-	-	-	3,721	3,721
Finance costs	(99,548)	-	-	(33,934)	(133,482)
Share of post-tax profit of jointly controlled entities	174,390	-	-	-	174,390
Share of post-tax profit of associates	39,367	-	73	-	39,440
Income tax expenses	(29,032)	-	-	9,812	(19,220)
<b>As at 30 June 2010</b>					
Assets	18,337,663	767,214	136,401	3,113,904	22,355,182
Liabilities	691,207	1,140,397	54,600	11,475,787	13,361,991
<b>As at 31 December 2009</b>					
Assets	17,997,561	1,091,650	65,666	3,098,637	22,253,514
Liabilities	843,215	1,200,532	69,447	11,230,468	13,343,662

A reconciliation of adjusted EBITDA to profit before tax is provided as follows:

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Adjusted EBITDA for reportable segments	797,213	384,361
Other segments EBITDA	140,287	211,899
	<hr/>	<hr/>
Total segments	937,500	596,260
Depreciation	(51,401)	(33,237)
Amortisation	(218,100)	(94,058)
Unrealised financial instrument gains	-	(2,089)
Finance costs – net	(253,765)	(129,761)
Others	-	(2,199)
	<hr/>	<hr/>
<b>Profit before tax</b>	<b>414,234</b>	<b>334,916</b>

The Group is domiciled in the PRC. All revenue of the Group from external customers are generated in the PRC. Thus no geographic information is presented.

For the six months ended 30 June 2010, revenues of approximately RMB229,141,000 (for the six months ended 30 June 2009: RMB337,696,000) are derived from a single external customer. These revenues are attributable to construction under service concession.

#### 4 Expenses by nature

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Construction costs under service concessions	311,869	410,307
Business tax and surcharges	36,594	19,938
Depreciation and amortisation	269,501	127,295
Employee benefit expenses	61,701	45,013
Road maintenance expenses	35,058	16,944
Provision for maintenance/resurfacing obligations	78,208	47,474
Other expenses	44,862	46,234
	<hr/>	<hr/>
Total cost of services and administrative expenses	<b>837,793</b>	<b>713,205</b>

#### 5 Other (loss)/gains - net

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Loss on derivative instrument investments	-	(2,089)
Gain on disposal of property, plant and equipment (Note a)	5,515	(75)
Others	1,646	20
	<hr/>	<hr/>
	<b>7,161</b>	<b>(2,144)</b>

(a) This mainly represented net gain on disposal of the unused office building amounting to RMB5,794,000.

## 6 Finance costs

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Interest on bank and other borrowings and bonds	192,121	181,932
Interest on convertible bonds, corporate bonds and medium-term notes	67,376	58,649
Less: interest expenses capitalised in construction project	(9,209)	(119,448)
	<u>250,288</u>	<u>121,133</u>
Other interest expense (Note a)	23,248	12,916
Other borrowing costs	1,907	284
Net foreign exchange gains	(14,420)	(851)
	<u>261,023</u>	<u>133,482</u>

(a) Increase of provision for maintenance/resurfacing obligations due to passage of time.

Borrowing costs of RMB9,209,000 (2009 interim: RMB119,448,000) for the construction of toll roads and related facilities were capitalised during the period and had been included in additions to concession intangible assets. Capitalisation rates ranged from 4.374% to 6.120% (2009 interim: 5.346% to 7.047%) per annum were used, representing the borrowing costs of the loans used to finance the projects.

## 7 Income tax expenses

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Current income tax		
- PRC enterprise income tax	107,053	39,629
Deferred income tax		
- Origination and reversal of temporary differences	(41,498)	(20,409)
	<u>65,555</u>	<u>19,220</u>

The Corporate Income Tax Law of the People's Republic of China (the "new CIT Law") was effective from 1 January 2008. According to the new CIT Law and the relevant regulations, the income tax rate applicable to the Company and all of its subsidiaries established in the PRC will be gradually increased to 25% over a five-year period from 2008 to 2012. The rates are 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012.

The PRC enterprise income tax charged to the current period income statement has been calculated based on assessable profits of the Company and its subsidiaries located in the PRC of the period at rates of tax applicable to the respective companies of 22% (2009: 20%).

The applicable tax rate to Mei Wah, a subsidiary of the Company incorporated in Hong Kong, is 16.5% (2009: 16.5%). No provision for Hong Kong profits tax has been made in the financial statements since the subsidiary has no income assessable under Hong Kong profits tax. Maxprofit is incorporated in the British Virgin Islands, which is not subject to profits tax.



## 8 Earnings per share

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

	Six months ended 30 June	
	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	359,499	313,409
Number of ordinary shares in issue (thousands)	2,180,770	2,180,700
Basic earnings per share (RMB per share)	0.165	0.144

The Company had no diluted potential shares in both 2008 and 2009 interim periods and the diluted earnings per share presented is the same with basic earnings per share.

## 9 Dividends

A 2009 final dividend of RMB0.12 (2008 final: RMB0.12) per ordinary share, totaling RMB261,692,000 (2008 final: RMB261,684,000) was approved by the shareholders at the 2009 Annual General Meeting of the Company, RMB180,515,000 of which was paid in June 2010 (six months ended 30 June 2009: RMB180,527,000). The remaining dividend is paid in July 2010.

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2010 (2009 interim: Nil), nor does it recommend any conversion of capital reserve into share capital.

## 10 Trade and other receivables

	As at	As at
	30 June 2010	31 December 2009
	RMB'000	RMB'000
Trade receivables (Note a)	204,088	176,713
Other receivables	32,135	34,121
Prepayments	6,015	5,693
Interest receivables	7,600	2,580
	<u>249,838</u>	<u>219,107</u>

(a) Trade receivables mainly included construction management service income due from the Shenzhen Transportation Bureau amounting to RMB158,959,000 (31 December 2009: RMB138,960,000).

The aging analysis of trade receivables was as follows:

	As at	As at
	30 June 2010	31 December 2009
	RMB'000	RMB'000
Within 1 year	49,316	38,645
1 to 5 years	154,772	138,068
	<u>204,088</u>	<u>176,713</u>

Due to the fact that the Group is mainly engaged in toll road operations, its income is mainly received in cash and it usually does not maintain any accounts receivable balances. Accordingly, the Group does not have any specified credit period for its customers. Accounts receivables at 30 June 2010 mainly included the amounts due from the Local Government, which exposed to limited credit risk.

#### 11 Trade and other payables

The aging analysis of other payables and accrued expenses was as follows:

	As at 30 June 2010 RMB'000	As at 31 December 2009 RMB'000
Within 1 year	848,505	1,144,923
Over 1 year	573,556	420,588
	<u>1,422,061</u>	<u>1,565,511</u>

#### 12 Reconciliation of interim financial information

The Group has prepared a separate set of unaudited interim financial statements for the six months ended 30 June 2010 in accordance with the CAS. The differences between the financial information prepared under the CAS and HKFRS are summarised as follows:

	Unaudited	
	Profit attributable to the equity holders of the Company for the six months ended 30 June 2010 RMB'000	Equity attributable to the equity holders of the Company as at 30 June 2010 RMB'000
As per PRC statutory financial statements	359,499	8,271,649
<b>Impact of HKFRS adjustments:</b>		
Adjustments arising from adoption of IFRIC 12		
- Profit recognition for construction services and amortisation of concession intangible assets	-	42,465
	<u>-</u>	<u>42,465</u>
<b>As restated after HKFRS adjustments</b>	<u>359,499</u>	<u>8,314,114</u>

## INTERIM RESULTS AND DIVIDENDS

In accordance with HKFRS, during the Reporting Period, the Group recorded a revenue of RMB1,366 million, representing an increase of 41.43% as compared to that of 2009 interim. Profit attributable to the equity holders of the Company during the Reporting Period amounted to RMB359 million, whereas earnings per share was RMB0.165, representing an increase of 14.71% as compared to those of 2009 interim. For details, please refer to “Financial Analysis” below.

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2010 (2009 interim: Nil), nor does it recommend any conversion of capital reserve into share capital.

## MANAGEMENT DISCUSSION AND ANALYSIS

### I. Toll Highway Business Review

The principal activities of the Group are the investment, construction and operation management of toll highways. Currently, the Group is operating and investing in 16 toll highway projects in the Shenzhen region, other regions in Guangdong Province and other provinces in China. During the Reporting Period, benefited from the national economic growth and the increasing enhancement of road networks, the traffic volume and toll revenue of projects recorded a significant growth. Meanwhile, the Group also actively pushed ahead the road reconstruction and expansion to enhance its future operating performance. The relevant performance during the Reporting Period is summarised as follows:

#### 1. Overall Operating Performance

Toll Highway	Percentage of interests held by the Group	Percentage of revenue consolidated	Average daily mixed traffic volume (number of vehicles in thousand)			Average daily toll revenue (RMB'000)		
			Jan~Jun 2010	Jan~Jun 2009	Change	Jan~Jun 2010	Jan~Jun 2009	Change
<b>Shenzhen region:</b>								
Meiguan Expressway	100%	100%	109	93	17.8%	892	769	16.0%
Jihe East	100%	100%	106	87	21.9%	1,371	1,169	17.3%
Jihe West	100%	100%	84	67	25.1%	1,091	890	22.6%
Yanpai Expressway	100%	100%	37	30	26.3%	407	340	19.7%
Yanba Expressway <sup>(1)</sup>	100%	100%	20	15	40.0%	285	191	49.2%
Nanguang Expressway	100%	100%	44	26	69.1%	442	244	81.2%
Shuiguan Expressway	40%	-	129	107	20.4%	1,171	971	20.6%
Shuiguan Extension	40%	-	37	29	29.9%	231	180	28.7%
<b>Other regions in Guangdong province:</b>								
Qinglian Expressway <sup>(2)</sup>	76.37%	100%	18	N/A	N/A	1,050	N/A	N/A
Yangmao Expressway	25%	-	21	19	14.4%	1,158	995	16.4%
Guangwu Project	30%	-	14	11	20.0%	379	295	28.2%
Jiangzhong Project	25%	-	57	48	19.9%	806	677	19.1%
GZ W2 Expressway	25%	-	24	11	114.9%	581	372	56.2%
<b>Other provinces in the PRC:</b>								
Wuhuang Expressway	55%	-	37	32	18.6%	1,264	1,077	17.3%
Changsha Ring Road	51%	-	8.8	7.1	22.6%	72	62	14.9%
Nanjing Third Bridge	25%	-	24	20	19.3%	807	656	23.0%

Notes:

- (1) Yanba C was opened for operation on 25 March 2010, the column of “Yanba Expressway” in the table included the operating statistics of Yanba C.
- (2) The main route of Qinglian Project has adopted expressway toll rates since 1 July 2009. The statistics in the table excluded the operating statistics of Liannan Section tolled as class 1 highway as well as Qinglian Class 2 Road of Qinglian Company. During the Reporting Period, the overall average daily toll revenue of Qinglian Company was RMB1,090,000.

During the Reporting Period, the key factors affecting the operating performance of the toll highways of the Group include:

***Economy Performance - the robust economic activities improved the overall traffic volume of the toll highways.*** In the first half of 2010, owing to the good performance of the national economy, the GDP recorded a growth of approximately 11.1% when comparing with the corresponding period of 2009 (“YOY”). In Shenzhen, Guangdong Province, Hubei Province, Jiangsu Province and Hunan Province where the Group’s highway projects are located, various indicators also reflected their rapid economic growth and their sustained growth in investment, national trade and household consumption. In terms of import and export trade, the frequent trade activities contributed to a YOY growth of 43.1% of total imports and exports of the PRC, and a YOY growth of 36.3% of Shenzhen port. The robust economic activities led to the growth in the demand for traffic, thus improving the overall traffic volume of the toll highways. *(Source of data: Governmental statistics information website, the website of the Customs.)*

***Vehicle Consumption - the continuous growth in vehicle ownership promoted the overall operating performance of toll highways.*** The vehicle ownership in China continued to grow, representing an increase of 9% at the end of June 2010 over the end of 2009 according to data published by the department of Public Security. Meanwhile, Shenzhen has become the third city in the PRC after Beijing and Shanghai with vehicle ownership of over 1.5 million. The continuous growth in vehicle ownership led to the changes in travelling mode and habits of residents, and accordingly drove the demand for road network and convenient traffic services, which is beneficial to gain a better operating performance of toll highways.

***Changes in Road Networks - the positive impacts on the highways of the Group during the Reporting Period exceeded the negative impacts as a whole.*** All the changes in road networks layout or highways conditions, such as the opening or maintenance and repair of neighboring highways, the construction works of the projects themselves and implementation of urban traffic organisation plans by the government, could affect the operating performance of the toll highways. During the Reporting Period, the positive impacts of changes in road networks on highway projects of the Group exceeded the negative impacts as a whole. For details, please refer to point 2 “Analysis by Projects” below.

***Policy Environment – the impact of “Green Passage Toll Free Policy” continued.*** In accordance with the requirements of the relevant government authorities, Jihe Expressway, Yangmao Expressway, Wuhuang Expressway, Qinglian Expressway and Nanjing Third Bridge have adopted “Green Passage Toll Free Policy” for fresh agricultural product carrier vehicles. During the Reporting Period, the toll fees waived by these projects totaled RMB63,263,000 (2009 Interim: RMB54,740,000). The implementation of this policy decreased the revenue and profit of the Group for the Reporting Period by approximately RMB13,041,000 and RMB16,662,000 respectively (2009 Interim: RMB3,690,000 and RMB13,004,000).

## **2. Analysis by Projects**

The impact on highway projects from economic environment and road network changes, and the performance of the highway projects during the Reporting Period varied among their different functions, years of operation and neighboring road networks. Further description on some projects is as follows:

- ▶ *Jihe Expressway* – Guanhui Expressway (Dongguan-Huizhou) and Huishen Coastal Expressway (Shenzhen-Huizhou) which run from east to west opened to traffic on 26 January and 25 March successively, and diverted certain traffic from Jihe East. During the affected period, these factors decreased the average daily toll revenue of Jihe East by approximately RMB77,000 and RMB16,000, respectively. Nevertheless, benefited from sound external environment, the average daily toll revenue of Jihe East still recorded an amount of RMB1,371,000, representing an increase of 17.3% during the Reporting Period. Moreover, Guanhui Expressway diverted some traffic from Meiguan Expressway and Jihe West, and Huishen Coastal Expressway diverted some traffic from Meiguan Expressway and Yanpai Expressway, while the influence was light.
- ▶ *Yanba Expressway* – The opening of Huishen Coastal Expressway linked Yanba Expressway with the road networks in eastern Guangdong region to offer a convenient and new express passage travelling between Shenzhen/Hong Kong, and Huizhou and eastern Guangdong region. Benefited from the commencement of the operation of Yanba C and the realisation of the synergy effects among road networks, the average daily toll revenue of Yanba Expressway in the second quarter was RMB359,000, representing an increase of approximately 72% over the first quarter.
- ▶ *Nanguang Expressway* – A municipal road (Songbai Road) parallel to Nanguang Expressway was under expansion and reconstruction during the Reporting Period, which created a positive effect on the operating performance of Nanguang Expressway. To further explore potential growth in traffic volume, the Company continued to carry out marketing activities, strengthened its promotion for corporate customers along the expressway, and provided travel guides to drivers and added road signs and guideposts in response to the construction of the parallel road to divert the vehicles. This effectively enhanced the operating performance of the project.
- ▶ *Shuiguan Expressway* – Shuiguan Expressway was under expansion. However, the possible impacts from expansion on its operating performance were significantly reduced due to the implementation of rationalised construction organisation plans, together with the rapid growth in regional traffic demand and the ongoing reconstruction of neighbouring municipal road (Shenhui Road). During the Reporting Period, the project recorded a growth of approximately 20%.
- ▶ *Qinglian Project* – During the Reporting Period, the overall average daily toll revenue of Qinglian Company was RMB1,090,000, of which RMB1,050,000 or 96% derived from expressway; RMB23,000 derived from class 1 highway; RMB17,000 derived from class 2 road and other income. The overall performance of Qinglian Expressway remained stable since it adopted a toll-by-weight trial system in November 2009. Driven by the traffic during the Spring Festival, its average daily toll revenue reached the peak in February; and affected by persistent rainfall and the off-season of trade, its revenue has lowered slightly during the second quarter. The opening of Qinglian Expressway attracted most of the traffic flow of Qinglian Class 2 Road. It is expected that the function of this class 2 road in future will mainly be reflected on its ability to meet the short distance traffic demand of areas along the road.
- ▶ *GZ W2 Expressway* – Benefited from road networks and government authorities' active implementation of traffic improvement measures, such as separation of the cross-border traffic from the urban traffic and overloading control, the cross-border traffic function of GZ W2 Expressway became increasingly prominent, which had a remarkably positive impact on the operating performance of GZ W2 Expressway.

- ▶ *Wuhuang Expressway* — With several expressways and express passages opened in Hubei Province in recent years, the neighbouring road networks of Wuhan region was further enhanced. This contributed to the sustained growth in traffic volume of Wuhuang Expressway. In particular, after the opening of Hubei section of Hurong West Expressway at the end of 2009, the major route of the national expressway between Shanghai and Chengdu was opened to traffic, which drove the development of different sections of the route in various degrees, including Wuhuang Expressway.

### 3. Business Development

During the Reporting Period, the Group actively pushed ahead projects under construction, endeavored to improve the traffic capacity and service quality of the projects, and explored business opportunity in the market and responded to environmental changes in pragmatic approaches, so as to establish a solid foundation for the improvement of operating performance in future.

- ▶ *Qinglian Project* — the Liannan Section of Qinglian Project has commenced reconstruction into an expressway since April 2009 and scheduled to complete in early 2011. However, impacted by persistent rainfall across northern Guangdong region during the Reporting Period, the construction of Liannan Section became more difficult and the time for construction was limited, which adversely affected the project management. In response to these, Qinglian Company made timely adjustments to optimise the construction organisation and arrangement, and continually reinforced external coordination and strengthened on-site supervision, and thus achieved its management objectives in quality, safety and progress. Reconstruction of original route surface of Liannan Section was completed in February during this year. Currently, approximately 80% of the earthwork of road understructure for new route has been completed, and the tunnel as the critical control point of the project was completed. Therefore, it is expected that the overall objective of the project will basically remain unaffected.
- ▶ *Meiguan Expressway* — To increase the traffic capacity and service standards of the project, the Company has approved the reconstruction and expansion of the North Section of Meiguan Expressway (Qinghu-Liguang, approximately 11 kilometer). As at the end of the Reporting Period, the expansion construction has not yet started, however, replies or approval have been received on the evaluation report on aspects such as the environmental impacts, the feasibility report and pre-approval of land use. The modification of construction drawing design has been completed and the process of bidding for construction is underway. Given the development of the economy and traffic of the peripheral regions, the government is planning to move northward the toll station on the main route of Meiguan Expressway in the south, and to pay the toll fees collectively by the government for the vehicles using the road section to the south of the new toll station. Currently, the Company is proactively negotiating with the relevant competent authorities on the overall operation and reconstruction arrangement of the South Section of Meiguan Expressway (Qinghu-Meilin, approximately 8 kilometer). The Company believes that reasonable arrangement for toll model adjustment and reconstruction will enable the Group to simplify its management mode on the premise of maintaining return on assets, and will improve local traffic environment and stimulate the development of communities and their economy as well. As at the date of this announcement, the negotiations are still in progress. The Company will timely submit the relevant plans to the Board for consideration in line with the work progress.
- ▶ *Shuiguan Expressway* — Qinglong Company is in charge of the expansion construction of Shuiguan Expressway, the progress of which is going well and it is planned to be completed in mid-2011. The expansion has adopted the construction organisation arrangement to minimise the adverse effects on the traffic capacity arising from the construction works, which is to expand new lanes first and reconstruct the old lanes after the new lanes come to use. At present,

the road understructure and bridge culverts of the new lanes are nearly completed, and the overall progress is in line with expectation. The shareholders of Qinglong Company have agreed to make additional capital contribution for the expansion of the project, please refer to the announcement dated 21 September 2009 and the Annual Report 2009 of the Company for details. As at the date of this announcement, the additional capital contribution is underway.

- ▶ *Preliminary Study* – To further push ahead the preliminary study and relevant negotiations for the project, the Company has established an independent legal entity, Outer Ring Expressway project company, to conduct an in-depth study on the returns and risks of the project, with the aim to verify its investment value. As at the end of the Reporting Period, the toll rate proposal for the Outer Ring Expressway has been approved and the application for site selection as well as pre-approval of land use have been submitted to relevant government authorities of Guangdong Province.

## II. Financial Analysis

In the first half of 2010, the Group's operating results outperformed the Company's expectation. The Group recorded the profit attributable to the equity holders of the Company ("Profit") amounting to RMB359,499,000 (2009 Interim: RMB313,409,000), which represented a YOY increase of 14.71%. Excluding the impact of "provisions for maintenance/resurfacing obligations" (please refer to point 5 under the section "Analysis of Operating Results" for details), Profit of the Group for the Reporting Period amounted to RMB442,471,000 (comparable figure of 2009 Interim: RMB298,589,000), representing a YOY increase of 48.19%. During the Reporting Period, benefited from the continuous rebound of macro-economy and gradual improvement of road network, toll revenue derived from the toll highways invested and operated by the Group had recorded a significant growth.

The Group has made adjustments to the unit amortisation amount of concession intangible assets of Jihe West, Yanpai Expressway, Meiguan Expressway and Qinglian Class 2 Road based on the review results of traffic volume since 1 January 2010, which had no material impact on the financial position and operating result of the Group as a whole. For details related, please refer to the content of the section "Changes of Accounting Estimates" below.

### (I) Analysis of Operating Results

#### 1. Revenue

During the Reporting Period, the Group recorded revenue of RMB1,366,473,000, representing a YOY growth of 41.43%. Toll revenue is the main source of revenue of the Group, which recorded a YOY increase of 92.85% to RMB1,009,333,000.

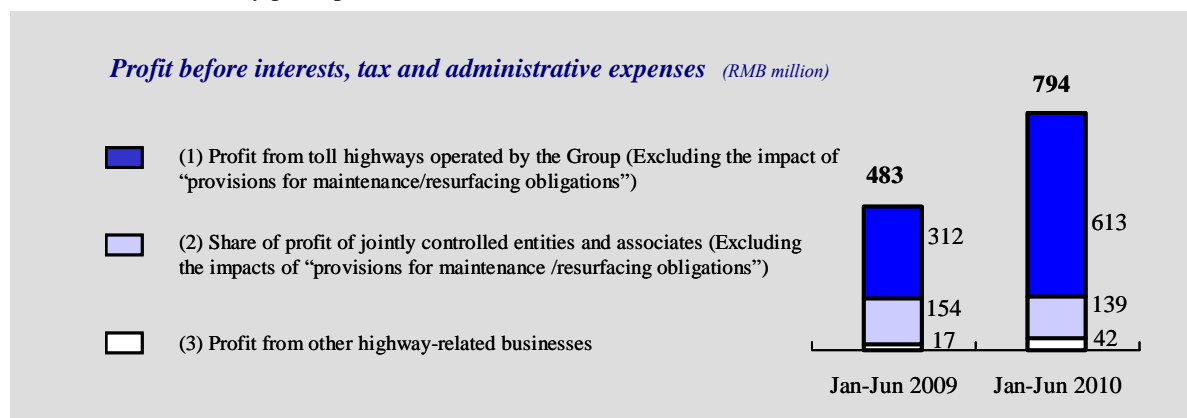
A detailed analysis of revenue is as follows:

Operating revenue by item	The Period (RMB'000)	Percentage of total	2009 Interim (RMB'000)	Percentage of total	Change
Toll revenue (Refer to 2.1 below for details)	1,009,333	73.86%	523,375	54.17%	92.85%
Construction revenue under service concessions (Refer to 2.3 below for details)	311,869	22.82%	410,307	42.47%	-23.99%
Management services income <sup>Note</sup> (Refer to 2.3 below for details)	20,161	1.48%	12,471	1.29%	61.67%
Other income (including income from advertising service)	25,110	1.84%	20,043	2.07%	25.28%
<b>Total</b>	<b>1,366,473</b>	<b>100.00%</b>	<b>966,196</b>	<b>100.00%</b>	<b>41.43%</b>

Note: Management services income included income from entrusted construction management services of RMB12,571,000 and income from entrusted operation management services of RMB7,590,000.

## 2. Profit before Interests, Tax and Administrative Expenses

During the Reporting Period, the Group's profit before interests, tax and administrative expenses amounted to RMB709,399,000 (2009 Interim: RMB495,568,000), representing a YOY increase of 43.15%. Excluding the impact of "provisions for maintenance/resurfacing obligations", the Group's profit before interests, tax and administrative expenses increased by 64.51% YOY. Profit contributed by principal business is as follows:



### 2.1 Profit from Toll Highways Operated by the Group

#### ◆ Profit

Profit from toll highways operated by the Group for the Reporting Period amounted to RMB534,830,000 (2009 Interim: RMB264,840,000), representing a YOY growth of 101.94%. Excluding the impact of "provisions for maintenance/resurfacing obligations", YOY growth amounted to RMB300,725,000, representing an increase of approximately 96.29%. It was principally attributable to the profit growth from Qinglian Project, Jihe West and Nanguang Expressway, and the consolidation of Jihe East Company into the financial statements of Group since 30 September 2009.

Toll highway	Percentage of interests held	Toll revenue		Cost of services <sup>(1)</sup>		Profit before interests, tax and administrative expenses <sup>(1)</sup>	
		The Period (RMB'000)	Change	The Period (RMB'000)	Change	The Period (RMB'000)	Change
Meiguan Expressway	100%	161,415	16.01%	37,822	24.05%	119,164	13.90%
Jihe East <sup>(2)</sup>	100%	248,106	N/A	94,268	N/A	146,880	N/A
Jihe West	100%	197,425	22.57%	37,779	16.15%	154,843	25.01%
Yanpai Expressway	100%	73,661	19.68%	29,351	11.97%	42,311	26.31%
Yanba Expressway	100%	51,495	49.24%	32,138	38.16%	17,862	74.04%
Nanguang Expressway	100%	80,005	81.16%	35,840	31.93%	41,748	167.31%
Qinglian Project	76.37%	197,226	137.78%	100,609	84.69%	90,230	269.07%
<b>Total</b>		<b>1,009,333</b>	<b>92.85%</b>	<b>367,807</b>	<b>89.46%</b>	<b>613,038</b>	<b>96.29%</b>

Notes:

- (1) Cost of services and profit before interests, tax and administrative expenses for the Reporting Period excluded provisions for maintenance/resurfacing obligations of Jihe West, Yanba Expressway, Yanpai Expressway and Nanguang Expressway. For details on provisions for maintenance/resurfacing obligations, please refer to the description of the sections "Cost of services" and "Provisions for Maintenance/resurfacing Obligations" below.
- (2) Jihe East has been consolidated into the financial statements of the Group since 30 September 2009.



◆ Toll revenue

For the Reporting Period, the Group recorded toll revenue of RMB1,009,333,000, representing a YOY increase of 92.85%. Jihe East Company has been consolidated into the Group since 30 September 2009, which increased the Group's toll revenue by RMB248,106,000 for the Reporting Period (2009 Interim: unconsolidated), accounting for 24.58% of the Group's toll revenue. The main part of Qinglian Project commenced expressway operation on 1 July 2009. Toll revenue from Qinglian Project increased by 137.78% YOY for the Reporting Period. Yanba C commenced operation on 26 March 2010, which increased the total operation mileage of Yanba Expressway and resulted in a YOY increase of 49.24% in the toll revenue of Yanba Expressway. The YOY growth in the toll revenue of other toll highways amounted to 26.26%. For operating performance of toll highway projects during the Reporting Period, please refer to the content of "Business Review" above.

◆ Cost of services

During the Reporting Period, cost of services for the Group's toll highways recorded a YOY increase of 84.61% to RMB446,015,000 (2009 Interim: RMB241,605,000). Excluding the impact of "provisions for maintenance/resurfacing obligations", cost of services increased by 89.46% YOY. Jihe East Company has been consolidated into the Group since 30 September 2009, which increased the cost of services of the Group by RMB94,268,000 (2009 Interim: unconsolidated), accounting for 25.63% of the cost of services for the Group's toll highways. Qinglian Project recorded a YOY increase of 84.69% in cost of services for the Reporting Period due to the growth in traffic volume and unit amortisation amount after the operation of Qinglian Expressway since 1 July 2009. The cost of services for remaining toll highways increased by 23.83% YOY. As Jihe East Company increased its amortisation of premium by RMB53,877,000 for the Reporting Period, the overall depreciation and amortisation expenses of the Group experienced a significant YOY increase.

A detailed analysis of cost of services is as follows:

Cost of services item	The Period (RMB'000)	Percentage of total	2009 Interim (RMB'000)	Percentage of total	Change
Employee expenses	48,329	13.14%	33,081	17.04%	46.09%
Road maintenance expenses <sup>Note</sup>	35,058	9.53%	16,944	8.73%	106.91%
Depreciation and amortisation	259,763	70.62%	119,521	61.57%	117.34%
Other cost of services	24,657	6.71%	24,585	12.66%	0.29%
<b>Sub-total</b>	<b>367,807</b>	<b>100.00%</b>	<b>194,131</b>	<b>100.00%</b>	<b>89.46%</b>
Provisions for maintenance/resurfacing obligations	78,208	—	47,474	—	64.74%
<b>Total</b>	<b>446,015</b>	<b>—</b>	<b>241,605</b>	<b>—</b>	<b>84.61%</b>

Note: Road maintenance expenses excluded the provisions for maintenance/resurfacing obligations of Jihe West, Yanba Expressway, Yanpai Expressway and Nanguang Expressway.

The Group has made provisions for the maintenance/resurfacing obligations to Jihe West, Yanba Expressway, Yanpai Expressway and Nanguang Expressway during the Reporting Period. As the expansion works on Meiguan Expressway is about to commence, while the Liannan Section of Qinglian Project has not been completed, no provisions for maintenance/resurfacing obligations were made to these projects for the Reporting Period. As at 1 April 2009, the Group has adjusted the accounting estimates of the above provisions for maintenance/resurfacing obligations based on the review results of the maintenance/resurfacing plan, which resulted in a significant YOY increase in the provisions for maintenance/resurfacing obligations of the Group for the Reporting Period. For details, please refer to the description in the section "Provisions for Maintenance/Resurfacing Obligations" below.

## 2.2 Share of Profit of Jointly Controlled Entities and Associates

The Group's share of profit of jointly controlled entities and associates for the Reporting Period amounted to RMB132,158,000 (2009 Interim: RMB213,830,000), representing a YOY decrease of 38.19%. Excluding the impact of "provisions for maintenance/resurfacing obligations", a YOY decrease of 9.55% was recorded. Excluding the relevant data of Jihe East Company, the investment profit of the Group for the Reporting Period increased by 64.79% YOY, mainly due to the growth in the traffic volume of toll highways operated by invested enterprises. A detailed analysis on share of profit of jointly controlled entities and associates is as follows:

Principal toll highway	Percentage of interests held	Toll revenue		Cost of services of toll highway <sup>(1)</sup>		Profit attributable to the Group <sup>(3)</sup>	
		The Period (RMB'000)	Change in percentage	The Period (RMB'000)	Change in percentage	The Period (RMB'000)	Change in amount (RMB'000)
<b>Jointly controlled entities:</b>							
Wuhuang Expressway	55%	226,776	16.30%	105,386	17.53%	45,363	1,855
Changsha Ring Road	51%	12,961	14.90%	12,679	20.56%	1,332	-93
<b>Associates:</b>							
Shuiguan Expressway	40%	211,921	20.62%	43,208	11.73%	45,468	10,467
Shuiguan Extension	40%	41,879	28.65%	16,902	17.73%	4,363	2,020
Yangmao Expressway	25%	209,663	16.36%	71,037	7.22%	20,022	6,274
Guangwu Project	30%	68,534	28.22%	29,387	27.32%	4,083	3,469
Jiangzhong Project	25%	145,928	21.36%	78,925	20.32%	6,109	6,271
GZ W2 Expressway	25%	104,604	55.40%	46,697	27.30%	5,743	15,416
Nanjing Third Bridge	25%	146,085	22.97%	55,076	17.00%	5,660	8,164
<b>Total<sup>(2)</sup></b>		<b>1,168,351</b>	<b>22.40%</b>	<b>459,297</b>	<b>17.20%</b>	<b>138,143</b>	<b>53,843</b>

Notes:

- (1) Cost of services for the Reporting Period and the comparative figures of 2009 Interim excluded provisions for maintenance/resurfacing obligations made or adjusted. Profit attributable to the Group excluded the corresponding impacts. For details on provisions for maintenance/resurfacing obligations, please refer to the description in section "Provisions for Maintenance/Resurfacing Obligations" below.
- (2) Jihe East Company was changed from a jointly controlled entity to a subsidiary of the Company, and has been consolidated into the Group since 30 September 2009. The table excluded the figures of Jihe East Company for 2009 interim (2009 Interim: RMB211,565,000 of toll revenue, RMB48,652,000 of cost of services and RMB69,344,000 of profit attributable to the Group).
- (3) Share of profit of Consulting Company of RMB895,000 (2009 Interim: RMB73,000) was not included in profit attributable to the Group for the Reporting Period.

## 2.3 Profit from Other Highway-related Businesses

### ◆ Profit from construction under service concessions

During the Reporting Period, the Group recognised revenue and costs from construction under services concession arrangements for Nanguang Expressway, Qinglian Project, Outer Ring Expressway and the expansion of Meiguan Expressway which are within the construction period, based on their percentages of completion in accordance with the relevant requirements of IFRIC 12. The Group recognised profit from construction services based on the budgets of the projects and reasonable estimates of profitability of the construction services. According to estimates of actual construction costs of each project of the Group for the Reporting Period, the Company did not recognise profit from construction services for the aforementioned projects (2009 Interim: nil). A detailed analysis on revenue from construction services is as follows:

Self-constructed expressway	The Period (RMB'000)			2009 Interim (RMB'000)			Percentage of Service Completed	
	Revenue	Cost	Profit before tax	Revenue	Cost	Profit before tax	Current Period	Cumulative
Nanguang Expressway	68,990	68,990	—	60,320	60,320	—	1.41%	90.77%
Yanba C	—	—	—	1,047	1,047	—	—	100%
Qinglian Project	229,141	229,141	—	337,696	337,696	—	3.75%	89.62%
Outer Ring Expressway	383	383	—	3,500	3,500	—	—	—
Expansion of Meiguan Expressway	13,355	13,355	—	7,744	7,744	—	1.73%	4.46%
<b>Total</b>	<b>311,869</b>	<b>311,869</b>	<b>—</b>	<b>410,307</b>	<b>410,307</b>	<b>—</b>		

◆ Profit from entrusted construction management services

During the Reporting Period, the government's audit work on the total construction costs for Nanping (Phase I) and the estimated budget for Wutong Mountain Project had not been completed and thus the Company's original estimates for these projects remained unchanged. The service results of Coastal Project, Nanping (Phase II), Longhua Extension, Shenyun Project and Hengping Link Section could not be predicted reliably, while the Directors are of the view that future reimbursements of management expenses and taxes incurred are probable, therefore the Company recognised revenue and costs for the Reporting Period based on actual management expenses and taxes of RMB12,571,000 incurred.

◆ Profit from entrusted operation management services

During the Reporting Period, pursuant to the provisions of the entrusted operation management agreement, the Company recognised revenue from entrusted operation management services for Longda Project of RMB7,590,000 and a relevant profit of RMB7,195,000 after deducting relevant business tax.

### 3. Administrative Expenses and Finance Costs

The Group's administrative expenses for the Reporting Period amounted to RMB21,630,000 (2009 Interim: RMB26,604,000), representing a YOY decrease of 18.70%. Such decrease was mainly attributable to the decrease in specific expenses such as legal fee and consultancy fee. The Group's finance costs for the Reporting Period amounted to RMB261,023,000 (2009 Interim: RMB133,482,000), representing a YOY increase of 95.55%. Excluding the impact of "provisions for maintenance/resurfacing obligations", the Group's finance costs increased by 97.22% YOY. During the Reporting Period, the Group's finance costs for the Reporting Period increased significantly due to a rise of RMB118,895,000 in the expensed borrowing interests of Qinglian Project, despite YOY decrease in the Company's composite borrowing costs and increase in currency exchange gains. A detailed analysis on finance costs is as follows:

Item	The Period (RMB'000)	2009 Interim (RMB'000)	Change
Interest expenses	259,497	240,581	7.86%
Less: Interest capitalised	(9,209)	(119,448)	-92.29%
Exchange gain/loss and others	(12,513)	(567)	2106.88%
<b>Finance costs excluding time value of provisions for maintenance/resurfacing obligations</b>	<b>237,775</b>	<b>120,566</b>	<b>97.22%</b>
Add: Time value of provisions for maintenance/resurfacing obligations	23,248	12,916	79.99%
<b>Finance costs</b>	<b>261,023</b>	<b>133,482</b>	<b>95.55%</b>

#### 4. Income Tax Expenses

During the Reporting Period, the Group's income tax expenses amounted to RMB65,555,000 (2009 Interim: RMB19,220,000), representing a YOY increase of 241.08%. Excluding the impacts of "provisions for maintenance/resurfacing obligations", the Group's income tax expenses increased by 164.93% YOY. Excluding the relevant data of Jihe East Company, the income tax expenses for the Reporting Period recorded a YOY increase of 41.34%, mainly due to the increase in operating profit, and thus the corresponding increase in taxable income and tax rate (2010: 22%; 2009: 20%).

#### 5. Provisions for Maintenance/resurfacing Obligations

The impact of the Group's making and adjusting provisions for maintenance/resurfacing obligations on the Group's profit for the Reporting Period and 2009 Interim is analysed as follows:

Item	Impact of provisions for maintenance/resurfacing obligations (RMB'000)	
	Provisions made for the Period	Provisions made and adjusted for 2009 Interim
Cost of services	78,208	47,474
Of which: Jihe West	32,570	20,870
Yanpai Expressway	15,784	10,505
Yanba Expressway	18,856	10,942
Nanguang Expressway	10,998	5,157
Share of profit/loss of jointly controlled entities and associates <sup>Note</sup>	(6,880)	60,112
Profit before interests, tax and administrative expenses	(85,088)	12,638
Finance costs	23,248	12,916
Income tax Expenses	(25,364)	(15,098)
Profit	(82,972)	14,821

Note: The difference between the share of profit/loss of jointly controlled entities and associates for the Reporting Period and that for 2009 Interim was mainly due to the adjustments to provisions for maintenance/resurfacing obligations of Jihe East Company. For details on the adjustment, please refer to the related content of the Annual Report 2009 of the Company.

#### 6. Amortisation Policies of Concession Intangible Assets and Differences under Different Amortisation Methods

The Group's concession intangible assets are amortised based on the units-of-usage method, i.e. based on usage amount per unit, the amortisation amount is calculated by the percentage of the actual traffic volume in the respective periods to the total projected traffic volume during the toll operating period. The Group conducted regular reviews on the projected traffic volumes and made corresponding adjustments to ensure reliability and accuracy of the amortisation amount.

During the preliminary stages of toll highways' operation and before reaching their designated saturated traffic volumes, the amortisation amount calculated by the units-of-usage method is lower than that calculated by the straight-line method. With the growth in traffic volumes of various toll highways in the Reporting Period, the amortisation difference under the two methods of amortisation attributable to the Group based on its equity interests was RMB68,705,000 and the YOY amortisation difference greatly decreased. The adoption of different amortisation methods had no impact on the cash flow generated from various toll highway projects and thus had no impact on the valuation of various projects. Data for reference calculated for various toll highways for the Reporting Period is as follows:

Toll highway	Percentage of interests held	Amortisation amount of operating rights (RMB million)			Amortisation difference attributable to the Company based on its share of interests (RMB million)	
		Units-of-usage method	Units-of-usage method	<sup>(1)</sup> Straight-line method	The Period	2009 Interim
		The Period	2009 Interim			
<b>The Company and subsidiaries <sup>(2)</sup> :</b>						
Meiguan Expressway	100%	21	15	18	3	-3
Jihe East	100%	77	17	<sup>(3)</sup> 77	0	1
Jihe West	100%	18	14	14	4	0
Yanpai Expressway	100%	17	11	23	-6	-12
Yanba Expressway	100%	17	11	34	-17	-9
Nanguang Expressway	100%	15	8	43	-28	-35
<b>Jointly controlled entities and associates:</b>						
Wuhuang Expressway	55%	44	37	44	0	-4
Changsha Ring Road	51%	7	6	9	-1	-2
Shuiguan Expressway	40%	24	20	20	1	0
Shuiguan Extension	40%	10	8	12	-1	-2
Yangmao Expressway	25%	37	34	45	-2	-3
Guangwu Project	30%	17	14	29	-4	-4
Jiangzhong Project	25%	47	41	64	-4	-6
GZ W2 Expressway	25%	23	14	55	-8	-10
Nanjing Third Bridge	25%	34	27	55	-5	-7
<b>Total</b>					-68	-96

Notes:

- (1) Assuming the book values of the intangible assets are amortised evenly over the allowed operating periods granted by the concession grantors.
- (2) The Liannan Section of Qinglian Project has not been completed in the Reporting Period and the differences due to this project were not included.
- (3) Jihe East Company has been changed from a jointly controlled entity to a subsidiary of the Company since 30 September 2009. The amortisation amount of concession intangible assets of Jihe East Company for the Reporting Period included the amortisation of premium (Units-of-usage method: RMB54 million, straight-line method: RMB61 million).

## (II) Financial Position

### 1. Assets, Equity and Liabilities

The Group's financial position remains solid, with its assets comprising mainly concession intangible assets in high-grade toll highways, as well as investments in jointly controlled entities and associates. As at 30 June 2010, the Group's total assets amounted to RMB22,355,182,000 (31 December 2009: RMB22,253,514,000), representing an increase of 0.46% over the end of 2009. The increase was primarily due to the reconstruction of Qinglian Class 1 Highway into an expressway, the remaining construction and investment of Nanguang Expressway and the amortisation of related assets.

As at 30 June 2010, the Group's total equity amounted to RMB8,993,191,000 (31 December 2009: RMB8,909,852,000), representing an increase of 0.94% over the end of 2009. This was mainly attributable to the profit for the Reporting Period and the deduction of dividend distributed for 2009.

As at 30 June 2010, outstanding bills payable, bonds payable and bank borrowings of the Group amounted to RMB10,208,911,000, which was basically in line with that at the end of 2009 (31 December 2009: RMB10,178,834,000), of which Qinglian Project had used borrowings of RMB5.263 billion.

## 2. Capital Structure and Debt Repayment Capability

	30 June 2010	31 December 2009
<b>Debt-to-asset ratio</b> (Total liabilities / Total assets)	59.77%	59.96%
<b>Net borrowings-to-equity ratio</b> (Total borrowings – cash and cash equivalents) / Total equity)	108.63%	108.87%
	Jan ~ Jun 2010	Jan ~ Dec 2009
<b>Interest covered multiple</b> (Profit before interests and tax / interest expenses)	2.43	1.86
<b>EBITDA interest multiple</b> (Earnings before interests, tax, depreciation and amortisation / interest expenses)	3.38	2.49

The Company is always committed to maintaining a rational capital structure and enhancing its profitability, to maintain its good credit ratings and solid financial position. With the increase of the profit from toll highway projects and the operating cash flows for the Reporting Period, the Group recorded decreases in various financial leverage ratios. Given the Group's stable and robust operating cash flows, and expected growth in cash flow after the operation of new projects, the Directors of the Company are of the view that the financial leverage ratios remained at safe levels as at the end of the Reporting Period.

## 3. Foreign-currency Denominated Assets and Liabilities

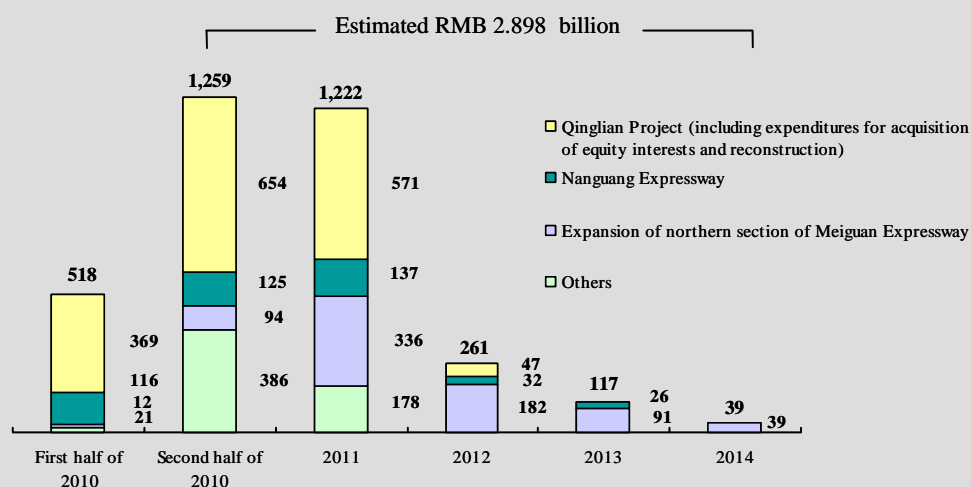
All major operations of the Group are located in China, and the majority of the Group's operating payments and capital expenditures are settled in RMB. As at the end of the Reporting Period, the Group had primarily RMB3,034,000 and RMB1,182,973,000 worth of foreign currency-denominated liabilities in US\$ and HK\$, respectively, while RMB1,079,000 worth of foreign currency-denominated assets were in HK\$. Foreign currency-denominated items were net liabilities after netting off. Despite the positive impact of the current upward trend of RMB exchange rate on the Group, the Company has arranged relevant financial instruments to lock up the exchange rate and interest rate for the foreign currency-denominated liabilities of two medium to long-term loans denominated in HK\$ respectively to minimise the risk of exchange rate and interest rate in the future. The Company has arranged "Non-Deliverable Cross Currency Swap" ("NDS") for the loan of HK\$420,000,000 with a maturity period of five years to lock up its interest rate and exchange rate, and "Non-Deliverable Forward ("NDF")" for the loan of HK\$227,000,000 with a maturity period of three years to lock up the exchange rate.

## (III) Capital and Financing

### 1. Capital Expenditure

During the Reporting Period, the Group's capital expenditures comprised mainly the reconstruction of Qinglian Class 1 Highway into an expressway and the remaining construction and investments of Nanguang Expressway, totalling approximately RMB518,000,000. As at 30 June 2010, the Group's capital expenditure plan comprised mainly construction and investments in the reconstruction of Qinglian Class 1 Highway into an expressway, remaining construction and investments of Nanguang Expressway and the expansion of Meiguan Expressway. It is expected that the Group's total capital expenditures will amount to approximately RMB2.898 billion by the end of 2014. The Group plans to satisfy such capital needs with its own capital reserves and bank borrowings. According to the Directors' assessment, the Group's financial resources and financing capability are sufficient for satisfying the needs of various capital expenditures.

## Capital Expenditure Plan (RMB million)

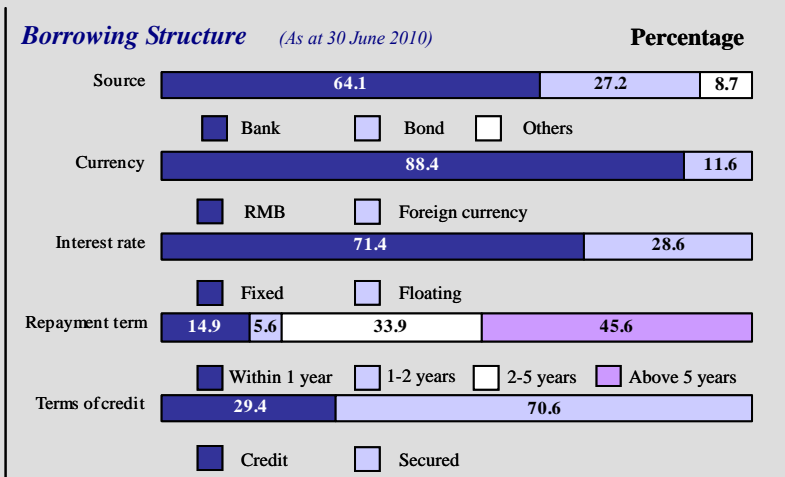


## 2. Operating Cash Flow

The toll revenue of the Group's principal toll highway operations is collected in cash, thereby giving a steady operating cash flow. During the Reporting Period, the Group's net cash inflow from operating activities and cash return on investments totalled RMB813,362,000 (2009 Interim: RMB701,191,000), representing a YOY increase of 16%. After deducting the net amount of the receivables and payables of RMB163,658,000 for 2009 Interim on behalf of Coastal Expressway (Shenzhen Section) by the Group, the Group's net cash inflow from operating activities and cash return on investments increased YOY by 51.31%, which mainly resulted from the growth in toll revenue generated from the toll highways operated and invested by the Group and the corresponding increase in profit and cash flow as a result of acquisition of interests in Jihe East Company.

## 3. Financial Strategies and Financing Arrangements

During the Reporting Period, under the impact of the macro-economic control measures adopted by China, various financial institutions adopted considerably tightening credit policies. To prevent bank credit risks and explore new ways of financing, the Group issued medium-term notes totaling RMB700 million and considerably expanded the scale of entrusted loans during the Reporting Period, so as to further optimise its debt structure and reduce its capital costs. In order to lower the risk of fluctuations in finance costs, based on the expectation in future changes in RMB exchange rate and foreign currency interest rates, the Group executed transaction arrangements under NDS and NDF during the Reporting Period, which locked up the exchange and interest rates of medium to long-term foreign currency loans totalling HK\$647 million, and thus kept the related borrowing cost at a lower level. During the Reporting Period, the Company continued to maintain the highest rating of AAA in credit rating for borrowing enterprises. Corporate bonds and Bonds with Warrants continued to maintain at the original credit rating of AAA, while the credit rating for the medium-term notes issued by the Group during the Reporting Period was AA+. The Group's composite borrowing costs for the Reporting Period amounted to 4.95%, which is 0.52 percentage point lower than that in 2009 (2009: composite borrowing costs of 5.47%).



As at 30 June 2010, the Group had obtained a total of RMB14.99 billion of banking facilities, of which RMB7.2 billion was credit facilities specifically for projects under construction and RMB7.79 billion was general credit facilities. At the end of the Reporting Period, unutilised banking facilities available amounted to RMB6.8 billion, of which RMB1.5 billion was credit facilities specifically for projects under construction and RMB5.3 billion was general banking credit facilities.

During the Reporting Period, there was no proceeds raised by the Company nor was there any proceeds raised in prior period that was utilised in the Reporting Period (as defined by CSRC).

#### (IV) Changes in Accounting Estimates

According to the requirements of the Company's related accounting policies and systems, in general consideration of the actual situation of major toll highways, the Group has changed the related accounting estimates of the unit amortisation amount of concession intangible assets of Jihe West, Yanpai Expressway, Meiguan Expressway and Qinglian Class 2 Road since 1 January 2010, based on the adjusted forecast of total standard traffic volume of the above sections for future operating period. The above changes in accounting estimates reduced the equity attributable to the equity holders of the Company as at 30 June 2010 by approximately RMB11,225,000 and Profit for the Reporting Period by RMB11,225,000. The change had no material impact on the financial position and operating results of the Group as a whole.

### III. Outlook and Plans

For the second half of 2010, it is expected that the external economic environment will not be susceptible to material adverse changes, while the stability or growth of the operating performance of toll highways will continue in the short term. However, the economic situation is complicated and subject to changes due to various factors. Our concerns will remain on the economic development trend, assessing of the impacts brought by changes in operating environment on the Company's operation and development, as well as the adoption of timely feasible measures.



With Shenzhen Special Economic Zone formally expanded in July 2010, regional trading activities are expected to be more active, resulting in strong demand for, and heavy pressure on traffic. On the other hand, a temporary “occasional toll free pass measures” were implemented in Guangdong Province during the peak hours of traffic volume during the May Day Holiday. As the period of implementation was short, the revenue of the Group for the Reporting Period was basically not affected. However, implementation of policies of similar natures will require the Group to enhance the capacity at the toll stations and to input more management resources, which will also bring challenges to the Group’s operation management mode and scheme in the future.

Since the first quarter of the year, signs of tightening have been obvious in the credit policy of the State. The approval of bank loans and credit facility is strictly controlled and overall cost of financing of the market increased, whereas the pressure of rate hike is relieved to some extent. In view of the changes in the credit market, timely understanding of the policies and requirements, and adjustments on financing strategies and arrangements will enable the Group to capture market opportunities and reduce its risks of finance.

During the Reporting Period, the Group facilitated the progress of all tasks proactively, promptly attended to the changes in the external environment and made corresponding adjustment to the business strategies, laying a solid foundation for achieving the operating objectives for the year. The focal points of work of the Group in the second half of the year include:

- ◆ assuring passing capacity, enhancing service quality, strengthening marketing strategies and ensuring achievement of the toll collection target. In the second half of the year, the Company will focus on the adoption of a multi-tier marketing strategy for the Yanba Expressway and further enhance the emergency response during the peak hours of each project.
- ◆ enhancing the management of road assets maintenance and reinforcing the in-depth study of the maintenance planning in terms of "The optimal cost of the whole lifespan cycle". Having considered the specific construction conditions, the physical condition of the road assets and the work progress, some of the specific maintenance constructions or settlement is adjusted to be conducted in the second half of the year. It is expected that there will be a significant increase in the road maintenance expenses to be incurred for the second half of the year over that for the first half of the year.
- ◆ strengthening the supervision and management of the construction and entrusted construction projects to achieve the designated targets on safety, quality, cost and schedules.
- ◆ implementing the coordination for the operation and reconstruction arrangement of the South Section of Meiguan Expressway, strengthening the feasibility study of optimising the assets pool and proactively pushing ahead the research of new industries.
- ◆ persistently attending to and studying the changes in the credit environment and market policies, strengthening the management of financing and taxation, and controlling the total cost of capital.

The Group will continue to seize market opportunities and control risks reasonably in a practical manner for the constant enhancement of the shareholders' value and return.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## PROFILE OF SHAREHOLDERS

As at the end of the Reporting Period, based on the shareholders' registers provided by the share registrars and the transfer offices of the Company in the PRC and Hong Kong, the Company had 41,951 shareholders in total, including 41,649 holders of domestic shares and 302 holders of H Shares.

As at the end of the Reporting Period, the information of the top ten holders of non-restricted circulating shares of the Company based on the shareholders' registers provided by the share registrars and the transfer offices of the Company in the PRC and Hong Kong were as follows:

Name of shareholder	Number of shares held	Type of shares
HKSCC Nominees Limited (Note)	710,303,098	H Share
Xin Tong Chan Development (Shenzhen) Company Limited	654,780,000	A Share
Shenzhen Shen Guang Hui Highway Development Company	411,459,887	A Share
Huajian Transportation and Economic Development Centre	87,211,323	A Share
Guangdong Roads and Bridges Construction Development Company Limited	61,948,790	A Share
Ip Kow	15,126,000	H Share
Au Siu Kwok	11,000,000	H Share
Pictet Asset Management Limited - Pictet Fund (Luxemburg)	7,378,492	A Share
BOC - China AMC Sector Selected Securities Investment Fund ( LOF )	5,133,698	A Share
CMB - Southern Strategy Optimised Securities Investment Fund	1,570,175	A Share

Note: The H Shares held by HKSCC Nominees Limited were held on behalf of various clients.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. During the Reporting Period, the Company has fully adopted and complied with the code provisions of the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Listing Rules of HKEx. The current corporate governance practices of the Company have gone beyond the requirements of the aforesaid code provisions in certain aspects.

## REVIEW OF INTERIM RESULTS

The Audit Committee of the Company has reviewed and endorsed the Interim Results Announcement and the Interim Report for the six months ended 30 June 2010 and the relevant financial information has not been audited.

The auditor of the Company, PricewaterhouseCoopers, has performed a review on the interim financial information of the Group for the six months ended 30 June 2010 prepared in accordance with Hong Kong Accounting Standard 34, "Interim Financial Reporting", in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and a report dated 20 August 2010 was issued by them.

## DEFINITIONS

### 1. Names of Highway and Road Project

Changsha Ring Road	Changsha National Highway Ring Road (Northwestern Section), located in Hunan Province
Coastal Expressway (Shenzhen Section)	The section from Nanshan district of Shenzhen to Dongbao River (the boundary between Dongguan City and Shenzhen City) of the coastal expressway from Guangzhou to Shenzhen
Coastal Project	The entrusted management of Coastal Company by the Company, including the management of Coastal Expressway (Shenzhen Section) during the construction period and operation period. During the Reporting Period, it specifically refers to the entrusted management of Coastal Expressway (Shenzhen Section) during the construction period
Guangwu Project	The section from Ma'an to Hekou of the expressway from Guangzhou, Guangdong to Wuzhou, Guangxi (called <u>Guangwu Expressway</u> for short), located in Guangdong Province
GZ W2 Expressway	Xiaotang to Maoshan Section of Guangzhou Ring Expressway, also referred to as Guangzhou Western Second Ring Expressway, located in Guangdong Province
Hengping Project	The entrusted construction management of Shenzhen Hengping Class 1 Highway and the connecting section undertaken by the Company, among which the link section between Hengping Class 1 Highway and National Highway 205 is called <u>Hengping Link Section</u>
Jiangzhong Project	The expressway from Zhongshan to Jiangmen and the second phase of the expressway from Jiangmen to Heshan, located in Guangdong Province
Jihe Expressway	The expressway from Shenzhen airport to He'ao in Shenzhen City, comprising <u>Jihe East</u> and <u>Jihe West</u>
Longda Expressway	The expressway from Longhua, Shenzhen to Dalingshan, Dongguan
Longda Project	The entrusted management of 89.93% equity interest in Longda Company by the Company, including the daily operation management of Longda Expressway
Longhua Extension	The entrusted construction management of Longhua Extension of Longda Expressway undertaken by the Company
Meiguan Expressway	The expressway from Meilin to Guanlan in Shenzhen City
Nanguang Expressway	The expressway from Xili to Gongming in Shenzhen City, also referred to as Liming Avenue
Nanjing Third Bridge	Nanjing Yangtze Third Bridge, located in Jiangsu Province
Nanping Project	The entrusted construction management of Shenzhen Nanping Freeway (also referred to as Nanping Avenue) undertaken by the Company, among which the first phase of Nanping Freeway is called <u>Nanping (Phase I)</u> and the second phase of Nanping Freeway is called <u>Nanping (Phase II)</u> , comprising section A and section B
Outer Ring Expressway	Shenzhen Outer Ring Expressway
Qinglian Project	<u>Qinglian Expressway</u> , <u>Qinglian Class 1 Highway</u> , <u>Qinglian Class 2 Road</u> and/or the reconstruction into an expressway for Qinglian Class 1 Highway from Qingyuan to Lianzhou, as the case may be, located in Guangdong Province, among which the Lianzhou to Fengbu section of Qinglian Class 1 Highway approximately 27km having commenced reconstruction into an expressway since the first half of 2009 due to adjustments to the planning of connecting road network is called <u>Liannan Section</u>
Shenyun Project	The entrusted construction management of Shenyun-North Ring Interchange renovation undertaken by the Company

Shuiguan Expressway	The expressway from Shuijingcun to Guanjintou in Shenzhen City, also referred to as the No.2 Longgang Passage
Shuiguan Extension	An extension to Shuiguan Expressway, Phase I of Qingping Expressway (the expressway from Yulongkeng to Pinghu in Shenzhen City, also referred to as Yuping Avenue)
Wuhuang Expressway	The expressway from Wuhan to Huangshi, located in Hubei Province
Wutong Mountain Project	The entrusted construction management of Shenzhen Wutong Mountain Avenue (Ancillary Road) and Jihe Expressway Yantian Subsidiary Route Checkpoint Station undertaken by the Company
Yanba Expressway	The expressway from Yantian to Bagang in Shenzhen City, comprising <u>Yanba A</u> , <u>Yanba B</u> and <u>Yanba C</u>
Yangmao Expressway	The expressway from Yangjiang to Maoming, located in Guangdong Province
Yanpai Expressway	The expressway from Yantian to Paibang in Shenzhen City, also referred to as Yantian Subsidiary Route of Jihe Expressway

## 2. Enterprise Invested

Consulting Company	深圳高速工程顧問有限公司 (Shenzhen Expressway Engineering Consulting Company Limited)
Jihe East Company	深圳機荷高速公路東段有限公司 (Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited), which owns Jihe East
Qinglian Company	廣東清連公路發展有限公司 (Guangdong Qinglian Highway Development Company Limited), which owns Qinglian Project
Qinglong Company	深圳清龍高速公路有限公司 (Shenzhen Qinglong Expressway Company Limited), which owns Shuiguan Expressway

## 3. Others

A Shares	Renminbi-denominated ordinary shares of the Company with a par value of RMB1.00 each, which were issued in the PRC and subscribed in RMB and are listed on SSE
Board	The board of Directors of the Company
Bonds with Warrants	Convertible corporate bonds, in which bonds and subscription warrants are tradable separately
Coastal Company	深圳市廣深沿江高速公路投資有限公司 (Shenzhen Guangshen Coastal Expressway Investment Company Limited), which is engaged in the construction and operation of Coastal Expressway (Shenzhen Section)
Company, the Company	Shenzhen Expressway Company Limited
CSRC	China Securities Regulatory Commission
Director(s)	The director(s) of the Company
Group, the Group	The Company and its consolidated subsidiaries
H Shares	Overseas-listed foreign shares of the Company with a par value of RMB1.00 each, which were issued in Hong Kong and subscribed in HK\$ and are listed on HKEx
HK\$	Hong Kong dollars, the lawful currency of the Hong Kong Special Administration Region of the PRC
HKEx	The Stock Exchange of Hong Kong Limited
HKFRS	Hong Kong Financial Reporting Standards

IFRIC 12	HK(IFRIC) - Int 12 “Service Concession Arrangements” issued by the Hong Kong Institute of Certified Public Accountants
Listing Rules	The Rules Governing the Listing of Securities on HKEx and/or the Rules Governing the Listing of Stocks on SSE (as the case may be)
Longda Company	深圳龍大高速公路有限公司(Shenzhen Longda Expressway Company Limited), which owns Longda Expressway
PRC	The People’s Republic of China, which for the purpose of this announcement, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
the Period, the Reporting Period	For the six months ended 30 June 2010
RMB	Renminbi, the lawful currency of the PRC
SSE	The Shanghai Stock Exchange

By Order of the Board  
**Yang Hai**  
Chairman

Shenzhen, the PRC, 20 August 2010

*As at the date of this announcement, the directors of the Company are Mr. Yang Hai (Chairman of the Board), Mr. Wu Ya De (Executive Director and President), Mr. Li Jing Qi (Non-executive Director), Mr. Zhao Jun Rong (Non-executive Director), Mr. Tse Yat Hong (Non-executive Director), Mr. Lin Xiang Ke (Non-executive Director), Ms. Zhang Yang (Non-executive Director), Mr. Chiu Chi Cheong, Clifton (Non-executive Director), Mr. Lam Wai Hon, Ambrose (Independent non-executive Director), Mr. Ting Fook Cheung, Fred (Independent non-executive Director), Mr. Wang Hai Tao (Independent non-executive Director) and Mr. Zhang Li Min (Independent non-executive Director).*

*This Results Announcement, which has been published on the website of HKEx at <http://www.hkex.com.hk>, only gives a summary of the information and particulars contained in the full Interim Report of the Company. A detailed Interim Report containing all the information to accompany interim report required by Appendix 16 to the Listing Rules will be subsequently published on the website of HKEx at <http://www.hkex.com.hk> in due course.*