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## 2009 INTERIM RESULTS ANNOUNCEMENT

The directors of GZI Transport Limited (“Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, “Group”) for the six months ended 30 June 2009 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited)	
		Six months ended 30 June	
	Note	2009	2008
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	<b>506,858</b>	493,695
Other income		<b>1,494</b>	5,590
Other gains	5	<b>81,557</b>	37,438
Business tax		<b>(17,304)</b>	(18,119)
Amortisation of intangible operating rights		<b>(97,954)</b>	(113,877)
Toll highways and bridges operating expenses	6	<b>(91,098)</b>	(59,081)
General and administrative expenses	6	<b>(49,231)</b>	(49,294)
Impairment losses on goodwill		<b>(1,474)</b>	(2,366)
Loss for the period of disposal group	13	<b>(5,800)</b>	—
Operating profit before impairment losses on intangible operating rights		<b>327,048</b>	293,986
Impairment losses on intangible operating rights	10	<b>(172,200)</b>	—
Interest income on loans to associates		<b>17</b>	4,632
Finance costs - net		<b>(31,764)</b>	(9,428)
Share of profits less losses of associates		<b>142,575</b>	165,041
Share of loss of jointly controlled entity		<b>(11,367)</b>	(19,084)
Profit before income tax		<b>254,309</b>	435,147
Income tax	7	<b>(50,989)</b>	(40,098)
Profit for the period		<b>203,320</b>	395,049

## CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited)	
		Six months ended 30 June	
	Note	2009	2008
		<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
Equity holders of the Company		<b>176,264</b>	329,958
Minority interests		<b>27,056</b>	65,091
		<u><b>203,320</b></u>	<u>395,049</u>
Earnings per share for profit attributable to the equity holders of the Company – Basic and diluted	8	<u><b>HK10.53 cents</b></u>	<u>HK19.72 cents</u>
Interim dividend	9	<u><b>66,926</b></u>	<u>133,853</u>

**CONDENSED CONSOLIDATED INTERIM STATEMENT  
OF COMPREHENSIVE INCOME**

	<b>(Unaudited)</b>	
	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>Profit for the period</b>	<b>203,320</b>	395,049
<b>Other comprehensive income</b>		
Fair value gains on available-for-sale financial assets, net of tax	—	9,983
Currency translation differences	<b>(5,689)</b>	424,902
<b>Total comprehensive income for the period</b>	<b>197,631</b>	829,934
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	<b>171,555</b>	674,299
Minority interests	<b>26,076</b>	155,635
	<b>197,631</b>	829,934

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited)	
		As at	As at
		30 June	31 December
		2009	2008
Note		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
		7,015,025	7,048,250
		656	665
		60,486	37,629
		8,800	8,800
		329,220	269,151
		2,121,411	2,090,232
		147,735	147,735
	11	167,748	—
		156,144	125,994
		<u>10,007,225</u>	<u>9,728,456</u>
<b>Current assets</b>			
	12	13,240	12,304
		69,153	30,195
		2,275,945	2,378,898
		<u>2,358,338</u>	<u>2,421,397</u>
	13	303,195	—
		<u>12,668,758</u>	<u>12,149,853</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited)	
		As at	As at
	Note	30 June 2009	31 December 2008
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Share capital		167,316	167,316
Reserves		8,270,096	8,232,394
		<u>8,437,412</u>	<u>8,399,710</u>
Minority interests		1,605,315	1,652,667
<b>Total equity</b>		<u><b>10,042,727</b></u>	<u><b>10,052,377</b></u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		1,370,750	978,873
Deferred income tax liabilities		872,192	816,513
		<u>2,242,942</u>	<u>1,795,386</u>
<b>Current liabilities</b>			
Trade and other payables and accrued charges	14	125,319	141,108
Amount due to a minority shareholder of subsidiaries		61,064	11,340
Amounts due to holding companies		32,477	3,066
Current income tax liabilities		14,583	10,506
Borrowings due within one year		143,985	136,070
		<u>377,428</u>	<u>302,090</u>
Liabilities associated with assets classified as held for sale	13	5,661	—
<b>Total liabilities</b>		<u><b>2,626,031</b></u>	<u><b>2,097,476</b></u>
<b>Total equity and liabilities</b>		<u><b>12,668,758</b></u>	<u><b>12,149,853</b></u>
<b>Net current assets</b>		<u><b>2,278,444</b></u>	<u><b>2,119,307</b></u>
<b>Total assets less current liabilities</b>		<u><b>12,285,669</b></u>	<u><b>11,847,763</b></u>

## NOTES

### 1 Basis of preparation

This interim financial information for the six months ended 30 June 2009 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and should be read in conjunction with the annual financial statements for the year ended 31 December 2008.

### 2 Accounting policies

The accounting policies adopted are consistent with those of the Group’s annual financial statements for the year ended 31 December 2008, except for changes in accounting policies as mentioned below.

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

The following new standards and amendments to standards are mandatory for adoption for the financial year beginning 1 January 2009 for the Group.

HKAS 1 (revised)	Presentation of Financial Statements
HKAS 23 (amendment)	Borrowing Costs
HKAS 32 and HKAS 1 (amendment)	Financial Instruments: Presentation
HKFRS 2 (amendments)	Share-based Payments
HKFRS 8	Operating Segments

The adoption of these new standards and amendments to standards do not have significant impact on the Group’s interim financial information except for HKAS 1 (revised) and HKFRS 8 which require additional disclosures in the financial statements.

HKAS 1 (revised), “Presentation of financial statements”. The revised standard prohibits the presentation of items of income and expenses (that is “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity. All “non-owner changes in equity” are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present two statements: an income statement and a statement of comprehensive income. The interim financial information has been prepared under the revised disclosure requirements.

HKFRS 8, “Operating segments”. HKFRS 8 replaces HKAS 14, “Segment reporting”. It requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes. This did not result in an increase in the number of reportable segments presented.

The HKICPA has made amendments to a number of HKFRS in May 2009 in response to the annual improvement projects which do not have any significant impact on the Group's accounting policies and financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

		<b>Effective for accounting periods beginning on or after</b>
HKAS 27 (revised)	Consolidated and Separate Financial Statements	1 July 2009
HKFRS 3 (revised)	Business Combinations	1 July 2009
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owner	1 July 2009
HK(IFRIC)-Int 18	Transfer of Assets from Customers	1 July 2009

Management is in the process of making an assessment of the impact of these new standards, amendments to standards and interpretations and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial positions.

### **3 Significant accounting estimates and assumptions**

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

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

#### *Impairment of intangible operating rights*

The Group tests whether intangible operating right has suffered any impairment if such indicator exists. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit to which the intangible operating right belongs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, impairment loss may arise.

As at 30 June 2009, management identified impairment indicator for the intangible operating rights of certain Class I highways which the Group operates. The impairment is a result of the continuation of the adverse market conditions. During the period, impairment loss of HK\$172.2 million is charged to the consolidated income statement in accordance with HKAS 36 "Impairment" (note 10).

#### *Provision for withholding income tax on undistributed profits*

The Group is subject to withholding income tax on undistributed profit of its foreign-invested enterprises. Significant judgement is required in determining the dividend pay-out policy of the foreign-invested enterprises controlled by the Group and the amount of the provision for withholding income tax. The Group monitors its dividend pay-out policy and may demand for dividend distribution from the foreign-invested enterprises controlled by the Group. This may result in additional tax provisions as disclosed in note 7.

#### *Current income tax and deferred income tax*

The Group is subject to income tax in mainland China. Significant judgement is required in determining the amount of the provision for income tax and the timing of payment of the related income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and income tax in the periods in which such estimate is changed.

#### *Amortisation of intangible operating rights*

Amortisation of intangible operating rights is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the assets.

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

At present, the range of annual traffic growth rates that have been projected for individual toll highways and bridges is around 0% to 65%. The wide range of growth rates is due to the fact that traffic volumes of certain toll highways and bridges of the Group have become saturated; while a toll highway owned by the Group's jointly controlled entity commenced operation in late 2006 and it is forecasted that the growth rate of this toll highway would remain at a high level in the coming years.

## **4 Revenue**

Revenue recognised for the period represents toll revenue on highways and bridges.

The chief operating decision-maker has been identified as the Board of Directors of the Company. The Board of Directors reviews the Group's internal reporting in order to assess performance of the Group's toll highways and bridges projects in mainland China. The Board of Directors assesses the performance of the single operating segment based on a measure of profit after tax.



No segment analysis of the Group's revenue and contribution to operating profit is presented as the Group's financial information already provide the management information on the assessment of the performance of the Group.

## 5 Other gains

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Exchange gain	234	37,427
Waiver of bank loan interest expenses	15,467	—
Gain on disposal of an intangible operating right (note 11)	65,856	—
Others	—	11
	<u>81,557</u>	<u>37,438</u>

## 6 Expenses by nature

Expenses included in toll highways and bridges operating expenses and general and administrative expenses are analysed as follows:

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amortisation of prepaid operating lease payments	9	9
Depreciation of property, plant and equipment	5,620	2,717
Toll highways and bridges maintenance expenses	55,710	34,720
Staff costs (including Directors' remuneration)		
– Wages and salaries	45,594	43,510
– Pension costs (defined contribution plans)	2,758	2,313
– Social security costs	4,326	2,972
– Staff welfare	7,471	3,605
	<u>77,478</u>	<u>87,137</u>

## 7 Income tax

- (a) No provision for Hong Kong profits tax has been made for the period as the Group has no income assessable to Hong Kong profits tax during the period (2008: Nil).
- (b) During the six months ended 30 June 2009, PRC enterprise income tax was provided on the profits of the Group's subsidiaries, associates and jointly controlled entity in mainland China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC ("New CIT Law"), under which all domestic-invested enterprises and foreign-invested enterprises are subject to a standard corporate income tax rate of 25% with effect from 1 January 2008. The Group's principal income tax rate is gradually increased to the standard rate of 25% over a period of 5 years starting from 1 January 2008. The applicable principal income tax rate for the six months ended 30 June 2009 is 20% (2008: 18%).

In addition, dividend distribution out of profit of foreign-invested enterprises earned after 1 January 2008 is subject to withholding income tax at a tax rate of 5% or 10%. During the period, withholding income tax was provided for undistributed profit of the Group's associates in the PRC at tax rates of 5% or 10% (2008: 10%). No provision for withholding income tax was made for undistributed profit of the Group's subsidiaries in the PRC since the Group had sufficient cash surplus as at 30 June 2009 and would not demand for dividend distribution from the subsidiaries in the PRC in the coming future. The Group monitors the dividend pay-out policy and would consider adjusting the provision for the withholding income tax when there is change in the dividend pay-out policy. The corresponding unprovided withholding income tax in relation to undistributed profit, recognised based on HKFRS, of the Group's subsidiaries in the PRC as at 30 June 2009 amounted to HK\$50.5 million.

(c) The amount of income tax charged to the condensed consolidated income statement represents:

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current income tax		
PRC enterprise income tax	29,302	23,555
Deferred income tax	21,687	16,543
	<u>50,989</u>	<u>40,098</u>

## 8 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.

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
Profit attributable to equity holders of the Company (HK\$'000)	<u>176,264</u>	<u>329,958</u>
Weighted average number of ordinary shares in issue ('000)	<u>1,673,162</u>	<u>1,673,162</u>
Basic and diluted earnings per share (HK cents)	<u>10.53</u>	<u>19.72</u>

The diluted earnings per share for the six months ended 30 June 2009 equals to the basic earnings per share as there are no potential dilutive ordinary shares in issue during the period.

## 9 Dividend

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim, proposed, of HK\$0.04 (2008: HK\$0.08 per share)	<u>66,926</u>	<u>133,853</u>

The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

## 10 Impairment loss of toll operating rights

With the continuation of the adverse market conditions, the Directors had assessed the carrying value of the toll operating rights of Class I highways held by the Group, and had identified impairment indicator in respect of certain toll operating rights of Class I highways, including Guangcong Highway Section I, Guangcong Highway Section II and Provincial Highway 355, Guanghua Highway and Guangshen Highway. An impairment loss of HK\$172.2 million, based on independent valuation, was recognised in the consolidated income statement during the period, resulting in the carrying amount of these toll operating rights being written down to their recoverable amounts.

## 11 Other non-current receivables

Non-current receivable represents the non-current portion of present value of consideration receivable, which was discounted at rate of 5.32%, in relation to the disposal of the Group's toll operating right of Xiang Jiang Bridge II during the six months ended 30 June 2009. As at 30 June 2009, the total balance of the consideration receivable is RMB169.6 million (approximately HK\$192.3 million) which will be settled by 26 half yearly installments from 1 January 2009 until end of the concessionary period, i.e. 30 November 2021. The resulted gain on disposal of HK\$65.8 million was recognised in the consolidated income statement during the period.

## 12 Trade receivables

Trade receivables are toll revenue collected by other parties on behalf of the Group. The ageing of the balance is within 30 days.

## 13 Disposal group

The Taihe toll station of Guangcong Highway Section I, a Class I highway held by Guangzhou Taihe Highways Company Limited ("Taihe Highways Limited"), was closed down since January 2009 for relocation at the request of the Guangzhou Municipal People's Government ("GZ Government"). In the course of negotiation for the relocation and compensation for the loss in respect thereof, on 30 April 2009, the GZ Government offered to the Group that the PRC joint venture partner of Taihe Highways Limited, namely, Guangzhou Highways Development Company ("GHDC"), would acquire the Group's entire 80% equity interest in and net receivable from Taihe Highways Limited. As of the date of authorisation for the issuance of this interim financial information, the transaction is pending negotiation between the Group and GHDC on the consideration and other terms of the proposed disposal.

On 30 April 2009, Taihe Highways Limited was classified as a disposal group held for sale.

The results of Taihe Highways Limited for the period since it was classified as a disposal group are as follows:

	<b>Six months ended 30 June 2009 HK\$'000</b>
Revenue	<b>367</b>
Expenses	<b>(6,167)</b>
	<hr/>
Loss for the period of disposal group	<b>(5,800)</b>
	<hr/> <hr/>

The major classes of assets and liabilities of Taihe Highways Limited are as follows:

	<b>As at 30 June 2009 HK\$'000</b>
<b>Assets</b>	
Intangible operating right	277,368
Property, plant and equipment	105
Other receivables, deposits and prepayments	57
Bank balances and cash	<u>25,665</u>
Assets classified as held for sale	<u>303,195</u>
<b>Liabilities</b>	
Deferred income tax liabilities	5,545
Trade and other payables and accrued charges	<u>116</u>
Liabilities associated with assets classified as held for sale	<u>5,661</u>
<b>Net assets classified as held for sale</b>	<u><u>297,534</u></u>

#### 14 Trade and other payables and accrued charges

	<b>As at</b>	
	<b>30 June 2009 HK\$'000</b>	<b>31 December 2008 HK\$'000</b>
Trade payables	62,038	84,837
Other payables and accrued charges	<u>63,281</u>	<u>56,271</u>
	<u><u>125,319</u></u>	<u><u>141,108</u></u>

Trade payables represent construction costs payables to contractors. The ageing of the balance is within 90 days.

## MANAGEMENT DISCUSSION AND ANALYSIS

### INTERIM RESULTS AND DIVIDEND

In the first half of 2009 (reporting period), operating revenue of the Group was HK\$506.9 million, representing an increase of 2.7 percent over the same period in 2008; operating profit before impairment losses on intangible operating rights was HK\$327.0 million, representing an increase of 11.2 percent over the same period in 2008. This increase in operating profit before impairment losses on intangible operating rights, offset by a decline in the carrying value of certain Class I highways operated by the Group of approximately HK\$172.2 million, led to a decrease in the profit attributable to the equity holders of the Company to HK\$176.3 million, representing a decrease of 46.6 percent over the same period in 2008.

The Board has resolved to declare an interim dividend for 2009 of HK\$0.04 (2008: HK\$ 0.08) per share.

### BUSINESS REVIEW

#### Toll summary of toll roads and bridges Six months ended 30 June 2009

	Average daily toll traffic volume		Average daily toll revenue		Weighted average toll fare per vehicle	
	(vehicle/day)	Change %	(RMB/day)	Change %	(RMB)	Change %
<b>Expressways and Bridges</b>						
GNSR Expressway <sup>(a)</sup>	<b>82,531</b>	5.8	<b>1,499,169</b>	15.9	<b>18.2</b>	9.5
Humen Bridge <sup>(b)</sup>	<b>54,568</b>	-20.9	<b>2,239,080</b>	-24.7	<b>41.0</b>	-4.8
Xian Expressway <sup>(a)</sup>	<b>38,957</b>	7.9	<b>520,529</b>	7.8	<b>13.4</b>	-0.1
Northern Ring Road <sup>(b)</sup>	<b>157,187</b>	-1.9	<b>1,456,094</b>	-8.7	<b>9.3</b>	-6.9
Shantou Bay Bridge <sup>(b)</sup>	<b>12,034</b>	2.0	<b>447,423</b>	3.0	<b>37.2</b>	1.0
GWSR Expressway <sup>(b)</sup>	<b>11,000</b>	23.4	<b>371,899</b>	32.2	<b>33.8</b>	7.1
Cangyu Expressway <sup>(a) (1)</sup>	<b>3,109</b>	N/A	<b>76,713</b>	N/A	<b>24.7</b>	N/A

	Average daily toll traffic volume		Average daily toll revenue		Weighted average toll fare per vehicle	
	(vehicle/day)	Change %	(RMB/day)	Change %	(RMB)	Change %
<b>Expressway work-in-progress</b>						
Qinglian Highways <sup>(b)</sup>	24,693	154.3	458,713	277.8	18.6	48.6
<b>Class I Highways and Bridges</b>						
Guangshen Highway <sup>(a)</sup>	10,416	-28.6	69,642	-27.4	6.7	1.7
Guangshan Highway <sup>(a)</sup>	14,729	-21.7	141,516	-19.3	9.6	3.1
Guangcong Highway Section II & Provincial Highway 355 <sup>(a)</sup>	15,351	-8.1	111,354	-9.3	7.3	-1.3
Guanghua Highway <sup>(a)</sup>	6,991	-38.4	58,999	-38.8	8.4	-0.8

<sup>(a)</sup> Subsidiary (consolidated in the financial statements)

<sup>(b)</sup> Associate/Jointly Controlled Entity (equity accounted for in the financial statements)

<sup>(1)</sup> Acquisition of Cangyu Expressway was completed in mid January 2009.

## Overview of Operating Performance

In spite of the outbreak of the global financial crisis in 2008 and the continuous implementation of the “green channel” toll fee waiver policy, the expressways of the Group, excluding Northern Ring Road and Humen Bridge, maintained growth in average daily toll traffic volume and average daily toll revenue in the reporting period as the domestic economic stimulus policy began to pay off. The acquisition of the 90.0 percent equity interests in Cangyu Expressway linking Cangwu County of Wuzhou City in Guangxi Zhuang Autonomous Region to Yunan County of Guangdong Province was completed in mid January 2009, which further increased the proportion of expressway projects in the Group’s assets. As shown in the table below, proportion of revenue from expressways and bridges in total revenue increased from 62.0 percent in 2005 to 90.0 percent in the first half of 2009.

## Revenue structure and proportion from 2005 to the first half of 2009

	<b>First half of 2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Class I highways	10%	18%	22%	27%	38%
Expressways and bridges	90%	82%	78%	73%	62%
Total	100%	100%	100%	100%	100%

*(Note: attributable revenue figures of non-controlling expressways and bridges were used.)*

During the reporting period, the Group managed to achieve growth of 2.7 percent in its operating revenue despite the deteriorating operating performance of class I highways and the cessation of toll collection in the Taihe toll station of Guangcong Highway Section I, and Xiang Jiang Bridge II since January 2009.

Guangshen Highway, Guanghua Highway and Section I and Section II of Guangcong Highway operated by the Group recorded an impairment in their carrying values during the reporting period. The impairment is a result of the continuation of the adverse market conditions, especially the substantial drop in international trade/foreign consumption, which had affected the performance of these Class I highways of the Group. As a result, profit attributable to the equity holders of the Company decreased by 46.6 percent over the same period last year.

The management anticipates the operating environment will continue to be very challenging in the second half of 2009.

One of the key challenges that the management will have to confront with is a major overhaul at the Northern Ring Road in anticipation of the Asian Games to be held in Guangzhou in 2010. The overhaul, which aims to provide a safer and more pleasant driving condition will take about approximately five months, and it is therefore expected that the traffic volume and toll revenue of Northern Ring Road in the second half of 2009 will be temporarily affected (for details, please refer to “Future Prospects and Development Strategy”).

## **Performance Analysis of Expressways and Bridges**

### *GNSR Expressway*

During the reporting period, the average daily toll traffic volume was 82,531 vehicles and the average daily toll revenue was RMB1,499,169, representing an increase of 5.8 percent and 15.9 percent over the first half of 2008 respectively.

The increases were due to the fact that upon the completion and opening to traffic of Guangzhou Eastern Second Ring Expressway in mid December 2008, the number of vehicles travelling to northern Guangdong, eastern Guangdong and western Guangdong areas or heading south to the Pearl River Delta (“PRD”) region from areas such as Huangpu and Panyu via the GNSR Expressway rose. Additionally, from mid March to May 2009, the Shabei to Huanfo interchange ramp of Northern Ring Road was closed temporarily for maintenance due to ground settlement, which also helped to divert traffic to GNSR Expressway. At the same time, there was a change in the vehicle type ratio in the first half of 2009; and the toll traffic percentage of vehicles belonging to Type V, which are charged a higher toll fee, increased by 13.4 percent as compared with the same period in 2008; while the toll traffic percentage of vehicles belonging to Type II decreased by 20.8 percent as compared with the same period last year. As a result, the weighted average toll fare per vehicle increased by 9.5 percent as compared with the same period last year.

However, the opening of the Phase III of Huanan Expressway in late June 2009 may divert part of the traffic from GNSR Expressway, even though currently the diversion effect has not been apparent. The management will monitor the situation closely.

### *Humen Bridge*

During the reporting period, the average daily toll traffic volume was 54,568 vehicles and the average daily toll revenue was RMB2,239,080, representing a decrease of 20.9 percent and 24.7 percent over the first half of 2008 respectively.

Due to the decrease in foreign demand as a result of the financial crisis, some of the factories and enterprises in the PRD were forced to close down, suspend production or move out, resulting in a marked decrease in the demand for logistics and transportation services. At the same time, given that Humen Bridge mainly catered to vehicles in the export industries and that traffic flow was boosted in the same period last year by the complete one-way closure of GS Superhighway then, the toll traffic volume and toll revenue of Humen Bridge declined significantly in the first half of 2009. These factors, plus the enhanced implementation of penalties to curb overloading since September 2008, caused a significant decrease of 39.0 percent in the toll traffic percentage of vehicles belonging to Type V as compared with the same period last year.



The management believes that impact of the economic stimulus policies adopted by the PRC government should gradually come through and the economic condition in the PRD region will continue to improve in the near future. Such improvement shall bode well for the Group's toll road operation in the region.

#### *Xian Expressway*

During the reporting period, the average daily toll traffic volume was 38,957 vehicles and the average daily toll revenue was RMB520,529, representing an increase of 7.9 percent and 7.8 percent respectively as compared to the first half of 2008.

Reasons for the increase in traffic volume in the first half of 2009 included: (1) road condition was relatively favorable. In contrast to the abnormal decrease in traffic volume due to the snow storm during the same period last year, there was little rain and snow in Northwest China and the Guanzhong area in 2009, which was favorable for land transportation. As such, traffic volume was normal; (2) expansive construction of roads in the vicinity of Xian Expressway resulted in a temporary inflow of additional vehicles into Xian Expressway; (3) the increase in development activities along Xian Expressway and the continued growth of the tourism industry in Xian led to traffic volume growth; and (4) the diversion effect of the traffic flow was not sufficiently apparent as the adjacent trunk expressways were not fully open to traffic yet.

On the other hand, the construction of the Guanting Flyover of the East Three Ring Road of Xian City and the Binhe Avenue section crossing Xian Expressway from 9 April to 9 September 2009 caused a two-way closure of a 1.5 km long section of Xian Expressway, which forced some vehicles to use the adjacent Huaqing Trunk Expressway.

### *Northern Ring Road*

During the reporting period, the average daily toll traffic volume was 157,187 vehicles and the average daily toll revenue was RMB1,456,094, representing a decline of 1.9 percent and 8.7 percent respectively as compared to the first half of 2008.

Main reasons for the decline included: (1) non-local trucks above 5 tons were prohibited from using the Guangqing to Guangdan section of the Northern Ring Road with effect from 2009, which resulted in a significant decrease of approximately 14.4 percent in the traffic volume of Type V trucks as compared to the same period last year;(2) the ramp towards Foshan of the Shabei exit of the Northern Ring Road was closed temporarily from mid March to mid April 2009 due to the construction of the Wuguang Railway; and the ramp towards Shabei of the Xunfengzhou exit of the Northern Ring Road was also closed temporarily from 25 April to May 2009. Accordingly, toll traffic volume decreased.

### *Shantou Bay Bridge*

During the reporting period, the average daily toll traffic volume was 12,034 vehicles and the average daily toll revenue was RMB447,423, representing an increase of 2.0 percent and 3.0 percent respectively as compared to the first half of 2008.

Due to the financial crisis, more passenger vehicles operated by enterprises in Shantou City chose to use Queshi Bridge (parallel to Shantou Bay Bridge) which has implemented the “annual pass policy for local vehicles” with a view to save costs in the first half of 2009. Accordingly, the traffic volume of light-duty truck belonging to Type II and medium sized trucks and passenger vehicles belonging to Type III continued to decline in the first half of 2009. Despite the unfavorable economic condition, traffic volume of large and heavy vehicles belonging to Types IV and V, which had been the main source of revenue for Shantou Bay Bridge in the past two years, managed to register a stable average growth rate of approximately 7.8 percent in the first half of 2009. As a result, Shantou Bay Bridge managed to maintain growth in average daily toll traffic volume and average daily toll revenue in the first half of 2009. As the second quarter is a comparatively low season for the logistics industry and toll revenue of Shantou Bay Bridge in the second half of the year has generally been higher than that in the first half in recent years, the growth trend may continue in the second half of 2009.

### *GWSR Expressway*

During the reporting period, the average daily toll traffic volume was 11,000 vehicles and the average daily toll revenue was RMB371,899, representing an increase of 23.4 percent and 32.2 percent respectively as compared to the first half of 2008.

In the first half of 2009, additional traffic signs were erected on the southern section of GWSR Expressway and Sanshui Second Bridge, entrances and exits of Guangqing Expressway, GNSR Expressway, Guangsan Expressway and Jiebei Expressway and junctions where logistics centers were mostly located, in order to attract vehicles in adjacent areas to use GWSR Expressway. As a result of this initiative and improvement in the adjacent road networks, GWSR Expressway continued to maintain stable growth in average daily toll traffic volume and average daily toll revenue in the first half of 2009.

### *Cangyu Expressway*

During the reporting period, the average daily toll traffic volume was 3,109 vehicles and the average daily toll revenue was RMB76,713.

The Group completed the acquisition of a 90.0 percent equity interest in Cangwu Guihai Cangyu Expressway Co., Ltd. (Cangyu Expressway Co., Ltd.) from independent third parties in mid January 2009. For reference purpose only, the average daily toll traffic volume and average daily toll revenue of Cangyu Expressway Co., Ltd. during the reporting period increased by approximately 2.9 times and 4.9 times over the same period last year (prior to the acquisition). The strong increase was mainly due to: (1) the completion of a major overhaul and the re-opening of Provincial Highway 368 connecting Cangyu Expressway to Guangdong Province in late 2008 which contributed to an increase in the traffic volume of Cangyu Expressway; and (2) introduction of measures to strengthen toll management, install monitoring equipment, standardize and improve signboards at various junctions of Cangyu Expressway, and enhance promotional efforts.

In addition, the Hekou to Pingtai section of Guangwu Expressway, which connects with Cangyu Expressway, is expected to be open to traffic next year and help further increase the traffic volume of Cangyu Expressway.

## **Expressway work-in-progress**

### *Qinglian Highways (expressway work-in-progress)*

During the reporting period, the average daily toll traffic volume was 24,693 vehicles and the average daily toll revenue was RMB458,713, representing a sharp increase of 154.3 percent and 277.8 percent respectively as compared to the first half of 2008. The sharp rise was mainly attributed to the completion of the reconstruction works of Qinglian Class I Highway's Fengtoulung to Lianzhou section and the Fengbu to Jingkou section (total length of approximately 188.0 km) in the first half of 2009 which have started to collect toll fee based on expressway rates effective from 1 July 2009. During the same period last year, that section was still under reconstruction stage.

The Lianzhou to Fengbu section of Qinglian Class I Highway (Liannan Section) commenced its reconstruction works in the first half of 2009 pursuant to the planning adjustment of associated road network. The reconstruction works will be completed within two years.

## **Performance of Class I Highways**

### *Guangshen Highway, Guangshan Highway, Guangcong Highway Section II and Provincial Highway 355, Guanghua Highway*

During the reporting period, the average daily toll traffic volume and average daily toll revenue of the above-mentioned four class I roads were 47,487 vehicles and RMB 381,511 respectively, representing a decline of 22.7 percent and 22.2 percent over the first half of 2008. The management of the Group anticipates that the performance of the above-mentioned four class I roads will continue to be affected by the gradual improvement in adjacent road network and the rapid development of the expressway network. As a result of the extension of the "green channel" toll free policy, tolls on whole carrier vehicles lawfully carrying fresh agricultural products and materials will continue to be waived. Also, policies aimed at clamping down on overloaded vehicles would continue to have an adverse impact on toll revenue.

The management of the Group expects that the proportion of toll revenue from class I roads will further decrease as the Group actively increases its investment in expressways.

## FINANCIAL REVIEW

### Key Operating Results Figures

	Six months ended 30 June		
	2009	2008	Change
	HK\$'000	HK\$'000	%
Revenue	<b>506,858</b>	493,695	2.7
Operating profit before impairment			
losses on intangible operating rights	<b>327,048</b>	293,986	11.2
Finance costs - net	<b>31,764</b>	9,428	236.9
Net contributions from associates	<b>142,592</b>	169,673	-16.0
Net loss from jointly controlled entity	<b>(11,367)</b>	(19,084)	-40.4
Income tax	<b>50,989</b>	40,098	27.2
Profit attributable to equity holders of the Company	<b>176,264</b>	329,958	-46.6

### Analysis of operating results

#### *Revenue*

The Group reported revenue of HK\$506.9 million in the first half of 2009, a 2.7 percent growth over the same period in 2008. The revenue growth from GNSR Expressway (18.7 percent), Xian Expressway (10.7 percent) and revenue contribution from newly acquired Cangyu Expressway of approximately HK\$13.8 million have offset the loss in revenue caused by the cessation of toll operating rights in Guangcong Highway I and Xiang Jiang Bridge II since 1 January 2009.

## Revenue structure and proportion

<i>(HK\$'000)</i>	<b>Revenue for the six months ended 30 June 2009</b>	<b>Proportion to total revenue %</b>	<b>Change %</b>
<b>Subsidiaries</b>			
Guangshen Highway	<b>14,293</b>	2.8	-25.6
Guangshan Highway	<b>29,045</b>	5.7	-17.4
Guangcong Highway Section II & Provincial Highway 355	<b>22,854</b>	4.5	-7.1
Guanghua Highway	<b>12,109</b>	2.4	-37.4
GNSR Expressway	<b>307,687</b>	60.7	18.7
Xian Expressway	<b>107,116</b>	21.2	10.7
Cangyu Expressway <sup>(1)</sup>	<b>13,754</b>	2.7	N/A
<b>Total</b>	<b><u>506,858</u></b>	<b><u>100.0</u></b>	<b>2.7</b>
<b>Associates &amp; Jointly Controlled Entity (attributable to the Group)</b>			
Humen Bridge	<b>127,688</b>	46.1	-22.9
Northern Ring Road	<b>72,797</b>	26.3	-6.5
Qinglian Highways	<b>22,225</b>	8.0	254.9
Shantou Bay Bridge	<b>27,549</b>	9.9	5.5
GWSR Expressway	<b>26,714</b>	9.7	35.4
<b>Total</b>	<b><u>276,973</u></b>	<b><u>100.0</u></b>	<b>-6.3</b>

(1) The acquisition of Cangyu Expressway was completed in mid-January 2009. For comparison purpose, revenue for the first six months of 2009 grew by 290.6 percent when compared to the first six months of 2008.

(2) Toll collection of Guangcong Highway Section I ceased on 1 January 2009.

(3) Toll collection of Xiang Jiang Bridge II ceased on 1 January 2009.

### ***Operating profit before impairment losses on intangible operating rights***

The Group's operating profit before impairment losses on intangible operating rights in the first half of 2009 increased by 11.2 percent to HK\$327.0 million as compared with the first half of 2008. With the loss in operating profit contribution from Guangcong Highway I and Xiang Jiang Bridge II due to the cessation of their toll operating rights since 1 January 2009, there was an one-off gain on disposal of asset of approximately HK\$65.9 million (before minority share of HK\$13.0 million) related to Xiang Jiang Bridge II included in the first half of 2009. Compensation arrangement for Guangcong Highway Section I is expected to be finalized in the second half of 2009. GNSR Expressway has contributed HK\$212.3 million (23.6 percent growth as compared with first half of 2008) to the the Group in the first half of 2009. Cangyu Expressway which was acquired by the Group in mid January 2009 has contributed operating profit of HK\$22.1 million to the Group in the first half of 2009. Operating profit of Xian Expressway has dropped by 22.6 percent after an adjustment of approximately HK\$18.8 million applicable to prior years' operating expenses put through in the first half of 2009; otherwise its operating profit would have increased by 7.6 percent. Due to the stability of Renminbi-HK dollar exchange rate in the first half of 2009, a very minimal exchange gain was recognized from translation of monetary assets and liabilities in the current period as compared to approximately HK\$37.4 million exchange gain recognized in the first half of 2008.

### ***Impairment losses on intangible operating rights***

The Group has recorded impairment losses of approximately HK\$172.2 million (before minority share of HK\$52.7 million) recorded in the first half of 2009 in respect of the class I highways which profit contribution in aggregate represented approximately 3.0 percent (first half 2008: 8.1 percent) of the profit attributable to equity holders of the Company.

### ***Finance costs — net***

Finance costs (net of interest income) increased by 236.9 percent to HK\$31.8 million in the first half of 2009 mainly due to increase in gross finance costs and decrease in interest income. The gross finance costs in the first half 2009 amounted to HK\$41.3 million, 10.6 percent higher than the corresponding period in 2008. The higher finance costs incurred during the current period was due to additional interest of approximately HK\$12.4 million on the existing bank loan at the newly acquired Cangyu Expressway Co., Ltd. Bank interest income earned in the first half 2009 was lower than the corresponding period in 2008 as bank deposit rate over the period declined.

### ***Share of profits less losses of associates and interest income on loans to associates***

The overall net contributions from the Group's associates declined 16.0 percent in the first half of 2009 amounting to HK\$142.6 million. Net contributions from Humen Bridge and Northern Ring Road dropped 27.5 percent and 11.0 percent respectively in the first half of 2009 to HK\$89.2 million and HK\$35.7 million. With the completion of the re-construction works of approximately 188.0 km Qinglian Expressway, net contribution thereof jumped to HK\$4.4 million in the first half of 2009 as compared to the HK\$5.8 million deficit recorded in the first half of 2008. Shantou Bay Bridge's net contribution in the first half of 2009 showed a 8.6 percent rise as compared with the same period in 2008.

### ***Share of loss of jointly controlled entity***

Stepping into its third year of operation, operating loss of GWSR Expressway Co. in the first half of 2009 continued to narrow down to HK\$11.4 million, an improvement of 40.4 percent as compared with the first half of 2008.

### ***Income tax***

Total income tax of HK\$51.0 million in the first half of 2009 which represented a 27.2 percent increase as compared with the first half of 2008 was mainly due to the commencement of taxation at GNSR Expressway Co. and upward adjustment of the PRC income tax rate. Year 2009 is the first taxable year at GNSR Expressway Co. and its enterprise income tax incurred in the first half of 2009 amounted to approximately HK\$18.5 million. While the overall PRC taxable income level in the current period was comparatively lower than 2008, income tax rate applicable to the Group's PRC subsidiaries and associates in 2009 was increased to 20.0 percent (2008: 18.0 percent) under the 5 year transition period provided by the New Corporate Income Tax Law ("CITL") of the PRC.

### ***Profit attributable to equity holders of the Company***

The Group reported its profit attributable to equity holders in the first half of 2009 of approximately HK\$176.3 million, a drop of 46.6 percent over the same period last year. The acquisition of Cangyu Expressway Co., Ltd. in mid January 2009 contributed HK\$7.2 million to the Group's attributable profit, representing approximately 4.1 percent of the total attributable profit. Among our profit contributors, GNSR Expressway and Shantou Bay Bridge recorded their 2009 first half profit of HK\$102.3



million (20.7 percent growth) and HK\$13.2 million (8.6 percent growth) while Xian Expressway, Humen Bridge and Northern Ring Road declined by 24.5 percent, 27.5 percent and 11.0 percent respectively in the current period. The decline in profit of Xian Expressway was mainly due to the HK\$18.8 million adjustment mentioned earlier; otherwise, Xian Expressway would have recorded a profit growth of 12.5 percent.

### *Interim dividend*

The Directors resolved to declare an interim dividend for 2009 of HK\$0.04 (2008 HK\$0.08) per share payable on 22 October 2009 to shareholders whose names appear on the register of members on 6 October 2009. Interim dividend payout ratio will be 38.0 percent (2008: 40.6 percent).

### **Key Financial Position Figures**

	(Unaudited)		Change %
	30 June 2009 HK\$'000	31 December 2008 HK\$'000	
Non-current assets	10,007,225	9,728,456	2.9
Non-current liabilities	2,242,942	1,795,386	24.9
Bank balances and cash	2,275,945	2,378,898	-4.3
Total borrowings	1,514,735	1,114,943	35.9
Bank borrowings	1,174,170	759,723	54.6
Current ratio (excluding assets held for sale)	6.2 times	8.0 times	
Interest coverage	12 times	15 times	
Capital and reserves attributable to the Company's equity holders	8,437,412	8,399,710	0.4

### **Analysis of financial position**

#### *Non-current assets*

The Group is principally engaged in investment in and development, operation and management of toll highways and bridges. The non-current assets are mainly intangible operating rights in toll expressways and bridges. As at 30 June 2009, non-current assets related to the PRC subsidiary holding Guangcong Highway I amounted to approximately HK\$303.2 million was reclassified to current assets as "assets held for sale" leaving the Group's non-current assets balance amounting to HK\$10.0 billion; which was 2.9 percent higher than the figure as at 31 December 2008. Such increase was mainly derived from the acquisition of Cangyu Expressway Co., Ltd. in mid January 2009.

### *Non-current liabilities*

As at 30 June 2009, the Group's non-current liabilities increased by 24.9 percent to HK\$2.2 billion. Non-current liabilities of the Group included long term borrowings (i.e. maturity beyond one year) of HK\$1.37 billion (31 December 2008: HK\$978.9 million) and deferred income tax liabilities of HK\$872.2 million (31 December 2008: HK\$816.5 million). Long term borrowings included long term bank borrowings of approximately HK\$1.03 billion (31 December 2008: HK\$623.7 million) and loans from minority shareholders of subsidiaries of HK\$340.6 million (31 December 2008: HK\$355.2 million) which are all denominated in Rmb. The increase in long term bank borrowings was mainly due to bank loan from the newly acquired Cangyu Expressway Co., Ltd. of approximately HK\$437.1 million. The decrease in the loans from minority shareholders of subsidiaries was due to the written off of a loan from a minority shareholder of the subsidiary holding Xiang Jiang Bridge II. Deferred income tax liabilities at 30 June 2009 increased mainly due to deferred tax liability which arose from fair value adjustment created in the acquisition of Cangyu Expressway Co., Ltd. of HK\$38.3 million and the current period provision of deferred income tax.

### *Cash flows*

The Group's bank balances and cash as at 30 June 2009 amounted to approximately HK\$2.3 billion which was very similar to the level as at 30 June 2008 and 31 December 2008.

Net cash generated from operating activities during the period ended 30 June 2009 amounted to approximately HK\$307.4 million (30 June 2008: HK\$336.9 million) which was after deduction of interest expenses of approximately HK\$50.1 million (30 June 2008: HK\$37.4 million) and China enterprise income tax of approximately HK\$25.0 million (30 June 2008: HK\$20.5 million).

Net cash used in investing activities during the period ended 30 June 2009 amounted to approximately HK\$143.2 million (30 June 2008: HK\$59.2 million). On the outflow side, capital expenditures amounted to approximately HK\$262.4 million (30 June 2008: HK\$196.5 million). On the inflow side, investment returns from associates amounted to approximately HK\$108.7 million (30 June 2008: HK\$108.9 million); bank interest income amounted to approximately HK\$9.7 million (30 June 2008: HK\$27.9 million).

Net cash used in financing activities during the period ended 30 June 2009 amounted to approximately HK\$241.5 million (30 June 2008: HK\$257.8 million). Apart from the initial bank loan of approximately HK\$431.6 million brought into the Group upon the acquisition of Cangyu Expressway Co., Ltd., new bank loans drawn by Cangyu Expressway Co., Ltd. during the current period amounted to approximately HK\$5.6 million (30 June 2008: nil). Cash used in financing activities was mainly repayments of bank loans amounting to approximately HK\$22.7 million (30 June 2008: HK\$81.2 million); investment returns to minority shareholders of subsidiaries of approximately HK\$90.5 million (30 June 2008: HK\$46.9 million); and dividends paid of HK\$133.9 million (30 June 2008: HK\$129.7 million).

### ***Current ratio***

Excluding the assets and liabilities classified as held for sale, the current ratio (current assets over current liabilities) as at 30 June 2009 was 6.2 times (31 December 2008: 8.0 times). Bank balances and cash are the major components of the Group's current assets. Included in the Group's current liabilities as at 30 June 2009 was a short term bank borrowing (i.e. maturity within one year) of approximately HK\$144.0 million (31 December 2008: HK\$136.1 million). In the opinion of the management, with such a large amount of cash sitting on the balance sheet at 30 June 2009 coupled with a stable stream of operating cash flow and steady cash return from investments, liquidity risk is not an issue for the Group.

### ***Interest coverage***

The interest coverage is measured by the ratio of earnings before interests, tax, depreciation and amortisation ("EBITDA") to interest expenses (with cashflow effect). With the increase in gross finance costs, interest coverage for the six months ended 30 June 2009 was 12 times (Corresponding period in 2008: 15 times).

### ***Capital expenditures and investments***

The acquisition of a 90.0 percent equity interest in Cangyu Expressway Co., Ltd. was completed in mid January 2009 with relevant capital expenditure of approximately HK\$184.5 million (31 December 2008: balance consideration paid for the acquisition of additional 2.78 percent equity interest in Humen Bridge Co. of HK\$193.5 million apart from the deposit paid in late 2007 of approximately HK\$17.4 million). During the current period, balance of the capital injection into GWSR Expressway Co. of approximately HK\$71.4 million was paid. Additions to interests in toll highways and bridges and other fixed assets during the current period amounted to HK\$6.5 million (31 December 2008: HK\$3.0 million).

## Capital structures

	<b>30 June 2009</b>	31 December 2008
	<b>HK\$'000</b>	HK\$'000
Bank borrowings	<b>1,174,170</b>	759,723
Loans from minority shareholders	<b>340,565</b>	355,220
Total borrowings	<b>1,514,735</b>	1,114,943
Capital and reserves attributable to Company's equity holders	<b>8,437,412</b>	8,399,710
Total capitalization	<b>9,952,147</b>	9,514,653
Gross gearing ratio (total borrowings/total capitalization)	<b>15.2%</b>	11.7%

Bank borrowings of the Group as at 30 June 2009 amounted to approximately HK\$1.17 billion which were RMB floating rate loans obtained in mainland China and secured by way of pledge of the respective toll collection rights of subsidiaries holding the toll expressways. About 12.3 percent of total bank borrowings amounting to approximately HK\$144.0 million are repayable within one year and about 87.7 percent or approximately HK\$1.03 billion are long term. The effective interest rate of these bank borrowings as at 30 June 2009 was 6.42 percent (31 December 2008: 6.72 percent) per annum.

Loans from minority shareholders are part of capital contributions made by minority shareholders in respect of their respective equity shareholdings in certain subsidiaries in accordance with the terms of the relevant joint venture agreements to set up those subsidiaries. These loans are unsecured and denominated in RMB. During the current period, a loan amounting to approximately HK\$15.4 million was waived by a minority shareholder. Except for minority shareholder's loan of one subsidiary in the amount of approximately HK\$146.3 million which bore interest at the prevailing RMB long term lending rate of 5.94 percent per annum, the rest were interest-free loans stated at fair values.

As at 30 June 2009, the capital and reserves attributable to the Company's equity holders amounted to HK\$8.4 billion, accounting for 84.8 percent of the Group's total capitalisation. As at 31 December 2008, the capital and reserves attributable to the Company's equity holders amounted to HK\$8.4 billion, accounting for 88.3 percent of the Group's total capitalisation. Capital and reserves attributable to the Company's equity holders as at 30 June 2009 was 0.4 percent higher than that as at 31 December 2008, which was due to the increase in net profit retained for the period after appropriation of 2008 final dividend.

## **TREASURY POLICIES**

The Group has always been prudent in its treasury policies, maintaining high liquidity and low financial gearing. As at 30 June 2009, the Group's bank balances and cash amounted to HK\$2.3 billion and its gearing ratio (total borrowings to total capitalization) stood at 15.2 percent.

A substantial portion of the Group's cash and cash equivalents was derived from the HK\$2.19 billion proceeds raised by way of an open offer last August 2007. The Group's principal operations are in China and most of the income is denominated in RMB. The main cash outflows in Hong Kong were related to cash dividend payments to shareholders and Hong Kong head office administrative expenditures. The Group will capitalize on the different levels of liquidity offered by both Hong Kong and China in implementing its financing strategy.

Management considers that with the Group's current bank borrowings which are denominated in RMB and that no speculative derivative or structured product transactions, collateralized debt obligations or off-balance sheet liabilities have been entered into by the Group, currency exposure is minimal. However, management will from time to time closely review and monitor the currency exposure of its HK dollar and US dollar denominated bank balances and cash at 30 June 2009 of HK\$1.77 billion. The Group will adopt appropriate hedging strategy such as currency swaps as and when it considers appropriate to hedge its currency risks.

The Group's policy on interest rate risk management is to monitor and review from time to time the interest rate fluctuation, and refinance at a lower cost for existing loans or enter into new bank facilities when favourable pricing opportunities arise.

## **CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

The Group has no material capital commitments and significant contingent liabilities as at 30 June 2009.

## **EMPLOYEES**

As at 30 June 2009, the Group had approximately 1,232 employees of which about 1,011 were directly engaging in the daily operation, management and supervision of toll projects. The Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. The Group has also adopted a share option scheme which would award its employees according to the performance of the Group and individual employees.

## **FUTURE PROSPECTS AND DEVELOPMENT STRATEGY**

In recent years, the Group's various investment projects have been able to generate stable and considerable profit and cash flow. After successfully raising funds through a rights issue in August 2007, the Group has secured ample funding for future investment purposes. As at 30 June 2009, the balance of the Group's cash and bank deposits amounted to HK\$2.3 billion. As such, the Group will explore mature projects in target areas as well as new projects with satisfactory return and good development prospects, so as to enhance the overall asset size, profitability, and risk profile. In addition, the Group will continue to enhance its internal management control and increase its strength in operational management.

### **Principal investment focus: PRD region**

The projects in which the Company has invested mainly focus on PRD region of Guangdong province, especially the peripheral area of Guangzhou city. The Group has accumulated rich and practical experience in the construction and operation of expressways and bridges locally and has cultivated key management talents in such areas of expertise.

Projects such as the GNSR Expressway, Humen Bridge, Northern Ring Road, Xian Expressway and Shantou Bay Bridge are a major and stable source of revenue of the Group. They have shown good development trends, with both GWSR Expressway and Cangyu Expressway expected to be growth drivers of the Group.

Against the background of rapid economic development, the construction of highways in Guangdong province is still unable to satisfy the continuous growth in demand for passenger and cargo turnovers. The PRD region, especially the peripheral area of Guangzhou city, still suffers from frequent traffic congestion. In view of this, Guangdong province plans to invest RMB 220 billion to expand expressways within the province from 3,520km to 5,500km from 2008 to 2012. As a result, the construction of highways in the region still has much room for investment. This is in line with the Group's strategy of increasing its investment in highways as well as the proportion of revenue and profit from the highway sector.

With the prospect of economic conditions becoming less volatile, the economic development of Mainland China, especially PRD region is expected to further gain strength in the second half of 2009. In order to cope with the impact from the financial crisis on China's economy, in addition to the RMB 4,000 billion group policies implemented by the government, investment policies for infrastructure are also being relaxed. It is therefore expected that investment in highway infrastructure projects in China will accelerate. The Group looks to capitalize on such opportunities by expanding its investment in Guangdong province, especially highway infrastructure projects in the PRD, so as to further optimize its investment portfolio and solidify its development scale.

## **Regions being studied: The Pan-Bohai region and the central and western regions**

The Group has closely monitored the development of economic hotspots in the PRC and has actively sought to expand its expressway projects. Investment in projects such as Xian Expressway in Shaanxi province has incurred satisfactory returns to the shareholders. Currently, the Group is monitoring developments in the following regions:

- Pan-Bohai region: at the forefront of economic output and development speed in China.

With Beijing and Tianjin as its centre, the Pan-Bohai region possesses outstanding advantages in economic and infrastructure developments. With support from central government's policies in recent years, the economic development of Tianjin City has sustained rapid growth. In the first half of 2009, the GDP of Tianjin grew by 16.2% over the same period last year, among which, the gross retail sales proceeds grew by 20.7% and fixed assets investment by 45.4% over the same period last year. Taking into account the fact the traffic volume of expressways is closely related to the economic development of the area, the Group is keen to explore investment opportunities in the region.

- Central and western regions: low investment cost and favourable policies

The economy development of central and western regions has been slower than that in the Eastern coastal areas. However, with the "Western development program" proposed by the central government and a series of favourable policies, the economic growth speed of those areas has started to pick up. For instance, in the first half of 2009, the GDP of Guangxi Zhuang Autonomous Region grew by 13.5% over the same period last year, considerably higher than the overall growth level in China. In addition, since the economic development of those areas has been relatively slow, the investment cost of highways is comparatively lower and the policies for highway toll fee are relatively more favourable. The Group successfully acquired Cangyu Expressway in Wuzhou Autonomous Region in mid-January 2009 and the management is currently looking out for highway projects which are relatively mature but with improvement potential.

## **Exploring other related infrastructure projects**

In view of the fact that China has vowed to invest heavily in infrastructure projects in recent years, the Group also pays close attention to large scale projects such as ports and terminals, in addition to its principal focus on highway infrastructure.

## **Meeting challenges**

Looking forward to the second half of 2009, the Group will still have to confront such challenges as: (1) the Northern Ring Road going through a major overhaul in order to welcome the Asian Games to be held in Guangzhou in 2010. At the same time, the Guangqing to Cencun section of Northern Ring Road will undergo a dual-direction closure for maintenance from 18 July 2009 which will last for about five months. During the dual-direction closure of Northern Ring Road, vehicles will have to make a detour to GNSR Expressway and GWSR Expressway, and thus it is expected that the traffic volume of these two expressways will increase. Currently, we are not able to estimate whether such an increase would be sufficient to offset the adverse effects suffered by Northern Ring Road; (2) the opening to traffic upon construction completion of the trunk expressway near Xian Expressway and its likely diversion effect. It is expected that the growth rate of traffic volume and toll revenue of Xian Expressway may gradually slow down in the second half of 2009 as a result.

The Group will continue to actively seek investment opportunities and raise the proportion of expressways in its investment portfolio. At the same time, the Group will explore opportunities in other infrastructure projects. In terms of operation and management, the Group will strive to improve its management system, build up its internal control, and enhance its capability so as to create greater value for its shareholders.

## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions of the Code on Corporate Governance Practices (“Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2009, except for the following deviation:

### **Code Provision A.4.1**

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. None of the non-executive directors of the Company is appointed for a specific term. However, all the non-executive directors of the Company are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company’s Bye-laws. All the non-executive directors of the Company had retired by rotation and have been re-elected during the past three years.



## **REVIEW OF INTERIM RESULTS**

The results of the Group for the six months ended 30 June 2009 have been reviewed by the Audit Committee and by the Company's auditor in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

The Company has not redeemed any of its shares during the six months ended 30 June 2009. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Friday, 2 October 2009 to Tuesday, 6 October 2009, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Share Registrar, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Wednesday, 30 September 2009.

By order of the Board  
**Zhang Zhaoxing**  
*Chairman*

Hong Kong, 25 August 2009

As at the date of this announcement, the Board comprises:

Executive Directors: ZHANG Zhaoxing (Chairman), LI Xinmin, QIAN Shangning, LIANG Ningguang, LIANG Yi, LIU Yongjie, CAI Tielong, CHEN Guanzhan, YUAN Hongping, ZHANG Siyuan, LUO Jinbiao and ZHANG Huping

Independent Non-executive  
Directors:

FUNG Ka Pun, LAU Hon Chuen Ambrose and CHEUNG Doi Shu