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

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 03399)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

- Revenue of the Group in 2011 was approximately RMB 5,145 million, representing a decrease of approximately RMB 979 million or 16% over 2010.
- Net profit attributable to owners of the Company for the year of 2011 was approximately RMB 82,862,000, representing a decrease of approximately RMB22,552,000 or 21% over 2010.
- Basic earnings per share attributable to owners of the Company for the year of 2011 was RMB0.2 per share, representing a decrease of RMB0.05 or 20% over 2010.
- The Board recommended the payment of final dividend of 2011 of RMB0.06 per share (pre-tax).

The board of directors (the "Board") of Guangdong Nan Yue Logistics Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the ''Group'') for the twelve months ended 31 December 2011. The audited annual results of the Group have been reviewed by the audit committee of the Company (the "Audit Committee"), comprising a majority of independent non-executive directors of the Company.

The Company's financial statements were used to be prepared in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP") for disclosure purposes in Hong Kong. According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" published by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in December 2010, with effect from this financial year, the Company decided to prepare its financial statements for disclosure purposes in Hong Kong in accordance with the "Accounting Standards for Business Enterprises" and other related regulations issued by the China Ministry of Finance ("CAS"). The adoption of CAS has been applied retrospectively and the comparative financial information for the previous year is restated in accordance with CAS. The effect of change in the adoption of accounting standard is not significant to the shareholders' equity.

The audited consolidated balance sheet of the Group, the audited consolidated income statement of the Group, the audited consolidated statement of cash flow of the Group and the audited consolidated statement of changes in equity of the Group and the explanatory notes 1 to 6 as presented below are extracted from the audited consolidated financial statements of the Group for the twelve months ended 31 December 2011 approved by the Board on 15 March 2012 and are consistent with the audited consolidated financial statements according to the review conducted by Deloitte Touche Tohmatsu Certified Public Accountants Ltd. The procedures implemented by Deloitte Touche Tohmatsu Certified Public Accountants Ltd. do not constitute an assurance engagement in accordance with Auditing Standards for the Chinese Certified Public Accountants, Reviewing Standards for Chinese Certified Public Accountants（中國註冊會計師審閱準則）and Other Assurance Engagement Standards for Chinese Certified Public Accountants（中國註冊會計師其他鑒證準則）. Therefore, Deloitte Touche Tohmatsu Certified Public Accountants Ltd. has not made any assurance opinions regarding this announcement.

CONSOLIDATED BALANCE SHEETS
At 31 December 2011

	Note	**As at 31 December 2011** *RMB*	**31 December 2010** *RMB* *(restated)*
ASSETS			
Current Assets:			
Cash and bank balances		2,092,231,222.60	1,683,100,952.37
Notes receivable		4,435,000.00	32,383,500.62
Accounts receivable	6(1)	898,769,092.76	624,806,299.74
Prepayments		98,474,416.62	137,972,083.27
Dividends receivable		94,792.23	—
Other receivables		245,282,907.29	210,811,316.25
Inventories		379,812,174.60	570,522,385.33
Total Current Assets		3,719,099,606.10	3,259,596,537.58
Non-current Assets:			
Long-term receivables		22,349,501.66	12,000,000.00
Long-term equity investments		93,064,332.82	70,699,687.29
Investment properties		11,439,275.14	7,433,091.41
Fixed assets		422,895,591.09	407,075,957.70
Construction in progress		16,492,341.79	17,499,341.79
Intangible assets		356,932,310.99	359,457,240.63
Development expenditure		—	110,970.00
Long-term prepaid expenses		7,667,377.15	11,717,922.52
Deferred tax assets		157,511,642.95	159,555,976.74
Total Non-current Assets		1,088,352,373.59	1,045,550,188.08
TOTAL ASSETS		4,807,451,979.69	4,305,146,725.66

CONSOLIDATED BALANCE SHEETS (Continued)
At 31 December 2011

		As at	
	Note	**31 December 2011**	**31 December 2010**
		RMB	*RMB*
			(restated)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term borrowings	6(2)	60,000,000.00	—
Notes payable		621,558,443.87	705,783,187.96
Accounts payable	6(3)	1,438,110,353.08	1,110,411,283.41
Receipts in advance		442,492,499.55	757,064,148.36
Employee benefits payable		60,667,664.93	46,251,995.03
Taxes payable		138,164,981.99	154,257,865.17
Interests payable		10,536,095.95	—
Dividends payable		1,176,000.00	—
Other payables		149,561,112.61	171,062,102.94
Other current liabilities		567,693,227.72	—
Total Current Liabilities		3,489,960,379.70	2,944,830,582.87
Non-current Liabilities:			
Long-term payables		—	6,954,653.98
Deferred tax liabilities		989,134.34	995,189.47
Other non-current liabilities		4,455,593.10	4,450,000.00
Total Non-current Liabilities		5,444,727.44	12,399,843.45
TOTAL LIABILITIES		3,495,405,107.14	2,957,230,426.32

CONSOLIDATED BALANCE SHEETS (Continued)
At 31 December 2011

	Note	**As at 31 December 2011** *RMB*	**31 December 2010** *RMB (restated)*
Shareholders' Equity:			
Share capital		417,641,867.00	417,641,867.00
Capital reserve		274,825,436.40	344,390,293.02
Special reserve		2,954,571.68	1,379,199.25
Surplus reserve		120,497,853.66	110,174,201.20
Retained profits		353,921,236.48	308,946,768.14
Translation difference arising on translation of financial statements denominated in foreign currencies		(34,800,450.16)	(29,370,460.60)
Equity attributable to owners of the Company		1,135,040,515.06	1,153,161,868.01
Equity attributable to minority interests		177,006,357.49	194,754,431.33
TOTAL SHAREHOLDERS' EQUITY		1,312,046,872.55	1,347,916,299.34
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,807,451,979.69	4,305,146,725.66

CONSOLIDATED INCOME STATEMENTS
For the year ended 31 December 2011

		Note	For the year ended **31 December 2011** *RMB*	 **31 December 2010** *RMB* *(restated)*
I	Operating income		5,145,170,830.30	6,124,218,789.39
	Less: Operating costs		4,630,186,848.00	5,568,140,137.20
	Business taxes and levies		68,310,569.81	45,758,502.71
	Selling expenses		102,620,432.83	98,706,320.26
	Administrative expenses		227,770,639.17	219,688,636.77
	Financial expenses	6(7)	19,483,004.90	26,286,145.55
	Impairment losses of assets		(9,907,488.81)	21,330,350.51
	Add: Investment income	6(8)	5,085,360.25	1,717,448.14
	Including: Income from investment associates and joint ventures		5,269,987.73	3,111,474.34
II	Operating profit		111,792,184.65	146,026,144.53
	Add: Non-operating income		10,509,895.96	11,652,324.60
	Less: Non-operating expenses		2,874,683.76	1,223,935.14
	Including: Losses from disposal of non-current assets		454,547.10	815,886.35
III	Total profit		119,427,396.85	156,454,533.99
	Less: Income tax expenses	6(9)	49,055,086.25	44,557,901.11

CONSOLIDATED INCOME STATEMENTS (Continued)
For the year ended 31 December 2011

		Note	For the year ended 31 December 2011 RMB	31 December 2010 RMB (restated)
IV	Net profit		70,372,310.60	111,896,632.88
	Net profit attributable to owners of the Company		82,862,482.80	105,414,046.28
	Profit or loss attributable to minority interests Including: Net profit or loss of the merging party before business combination involving enterprise under common control		(12,490,172.20)	6,482,586.60
V	Other comprehensive income		(10,687,891.20)	(7,643,348.55)
VI	Total comprehensive income		59,684,419.40	104,253,284.33
	Total comprehensive income attributable to owners of the Company		77,432,493.24	100,670,151.13
	Total comprehensive income attributable to minority interests		(17,748,073.84)	3,583,133.20
VII	Earnings per share	6(10)		
	Basic earnings per share		0.20	0.25
	Diluted earnings per share		0.20	0.25

CONSOLIDATED STATEMENT OF CASH FLOW
For the year ended 31 December 2011

	For the year ended 31 December 2011 *RMB*	31 December 2010 *RMB* *(restated)*
I. Cash Flows from Operating Activities:		
Cash receipts from the sale of goods and the rendering of services	5,240,130,681.83	7,324,271,865.65
Receipts of tax refunds	4,547,620.47	3,930,276.36
Other cash receipts relating to operating activities	199,388,790.56	47,165,680.52
Sub-total of cash inflows from operating activities	5,444,067,092.86	7,375,367,822.53
Cash payments for goods purchased and services received	3,889,365,681.46	6,196,756,977.02
Cash payments to and on behalf of employees	338,093,539.50	305,363,287.33
Payments of various types taxes	216,762,100.21	175,162,491.54
Other cash payments relating to operating activities	176,273,798.85	484,068,396.28
Sub-total of cash outflows from operating activities	4,620,495,120.02	7,161,351,152.17
Net Cash Flow from Operating Activities	823,571,972.84	214,016,670.36

CONSOLIDATED STATEMENT OF CASH FLOW (Continued)
For the year ended 31 December 2011

	For the year ended 31 December 2011 *RMB*	31 December 2010 *RMB* *(restated)*
II. Cash Flows from Investing Activities:		
Cash receipts from disposals and recovery of investments	15,372.52	2,030,000.00
Cash receipts from investments income	—	1,684,408.37
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets	1,538,611.80	1,653,747.48
Sub-total of cash inflows from investing activities	1,553,984.32	5,368,155.85
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets	105,128,327.45	121,199,418.94
Cash payments to acquire investments	26,860,500.00	—
Net cash payments for acquisitions of subsidiaries and other business units	69,564,856.62	—
Other cash payments relating to investing activities	—	110,000.00
Sub-total of cash outflows from investing activities	201,553,684.07	121,309,418.94

CONSOLIDATED STATEMENT OF CASH FLOW (Continued)
For the year ended 31 December 2011

	For the year ended 31 December 2011 *RMB*	31 December 2010 *RMB* *(restated)*
Net Cash Flow from Investing Activities	(199,999,699.75)	(115,941,263.09)
III. Cash Flows from Financing Activities:		
Cash receipts from borrowings	405,000,000.00	350,000,000.00
Sub-total of cash inflows from financing activities	405,000,000.00	350,000,000.00
Cash repayments of borrowings	385,800,000.00	350,000,000.00
Cash repayments for distribution of dividends or profits or settlement of interest expenses	47,053,471.48	84,680,354.54
Including: Payments for distribution of dividends or profits to minority owners of subsidiaries	—	9,608,884.97
Sub-total of cash outflows from financing activities	432,853,471.48	434,680,354.54
Net Cash Flow from Financing Activities	(27,853,471.48)	(84,680,354.54)

CONSOLIDATED STATEMENT OF CASH FLOW (Continued)
For the year ended 31 December 2011

	For the year ended 31 December 2011 *RMB*	31 December 2010 *RMB* *(restated)*
IV. Effect of foreign exchange rate changes on cash and cash equivalents	(4,852,625.96)	(2,614,951.73)
V. Net increase in cash and cash equivalents	590,866,175.65	10,780,101.00
Add: opening balance of cash and cash equivalents	1,499,809,372.26	1,489,029,271.26
VI. Closing balance of cash and cash equivalents	2,090,675,547.91	1,499,809,372.26

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITIES
For the year ended 31 December 2011

	Equity attributable to shareholders of the parent company								
	Share capital RMB	Capital reserve RMB	Special reserve RMB	Surplus reserve RMB	Retained profits RMB	Converted difference in foreign currency statement RMB	Total RMB	Minority interests RMB	Total shareholders' equity RMB
I. At 31 December 2010	417,641,867.00	299,205,030.21	1,379,199.25	107,696,112.34	372,152,345.45	(29,370,460.60)	1,168,704,093.65	194,754,431.33	1,363,458,524.98
The effect of business combinations under common control	—	45,185,262.81	—	2,478,088.86	(63,205,577.31)	—	(15,542,225.64)	—	(15,542,225.64)
II. At 1 January 2011	417,641,867.00	344,390,293.02	1,379,199.25	110,174,201.20	308,946,768.14	(29,370,460.60)	1,153,161,868.01	194,754,431.33	1,347,916,299.34
III. Changes for the period	—	(69,564,856.62)	1,575,372.43	10,323,652.46	44,974,468.34	(5,429,989.56)	(18,121,352.95)	(17,748,073.84)	(35,869,426.79)
1. Net profit	—	—	—	—	82,862,482.80	—	82,862,482.80	(12,490,172.20)	70,372,310.60
2. Other comprehensive income	—	—	—	—	—	(5,429,989.56)	(5,429,989.56)	(5,257,901.64)	(10,687,891.20)
Subtotal of 1 and 2	—	—	—	—	82,862,482.80	(5,429,989.56)	77,432,493.24	(17,748,073.84)	59,684,419.40
3. Owners' contributions and reduction in capital	—	—	—	—	—	—	—	—	—
4. Profit distributionn	—	—	—	10,323,652.46	(37,888,014.46)	—	(27,564,362.00)	—	(27,564,362.00)
(1) Transfer to surplus reserve	—	—	—	10,323,652.46	(10,323,652.46)	—			
(2) Distributions to shareholders	—	—	—	—	(27,564,362.00)	—	(27,564,362.00)	—	(27,564,362.00)
5. Special reserve	—	—	1,575,372.43	—	—	—	1,575,372.43	—	1,575,372.43
(1) Transfer to special reserve in the period	—	—	2,820,431.09	—	—	—	2,820,431.09	—	2,820,431.09
(2) Amount utilised in the period	—	—	(1,245,058.66)	—	—	—	(1,245,058.66)	—	(1,245,058.66)
6. Others	—	(69,564,856.62)	—	—	—	—	(69,564,856.62)	—	(69,564,856.62)
(1) The effect of business combinations under common control	—	(69,564,856.62)	—	—	—	—	(69,564,856.62)	—	(69,564,856.62)
IV. At 31 December 2011	417,641,867.00	274,825,436.40	2,954,571.68	120,497,853.66	353,921,236.48	(34,800,450.16)	1,135,040,515.06	177,066,357.49	1,312,046,872.55

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITIES
For the year ended 31 December 2010

	Equity attributable to shareholders of the parent company								
	Share capital *RMB*	Capital reserve *RMB*	Special reserve *RMB*	Surplus reserve *RMB*	Retained profits *RMB*	Converted difference in foreign currency statement *RMB*	Total *RMB*	Minority interests *RMB*	Total shareholders' equity *RMB*
I. At 31 December 2009	417,641,867.00	299,205,030.21	—	90,934,689.64	320,247,771.99	(24,626,565.45)	1,103,402,793.39	197,275,565.54	1,300,678,358.93
The effect of business combinations under common control	—	45,185,262.81	—	2,478,088.86	(59,024,724.43)	—	(11,361,372.76)	—	(11,361,372.76)
II. At 1 January 2010	417,641,867.00	344,390,293.02	—	93,412,778.50	261,223,047.56	(24,626,565.45)	1,092,041,420.63	197,275,565.54	1,289,316,986.17
III. Changes for the period	—	—	1,379,199.25	16,761,422.70	47,723,720.58	(4,743,895.15)	61,120,447.38	(2,521,134.21)	58,599,313.17
1. Net profit	—	—	—	—	105,414,046.28	—	105,414,046.28	6,482,586.60	111,896,632.88
2. Other comprehensive income	—	—	—	—	—	(4,743,895.15)	(4,743,895.15)	(2,899,453.40)	(7,643,348.55)
Subtotal of 1 and 2	—	—	—	—	105,414,046.28	(4,743,895.15)	100,670,151.13	3,583,133.20	104,253,284.33
3. Owners' contributions and reduction in capital	—	—	—	—	—	—	—	—	—
4. Profit distribution	—	—	—	16,761,422.70	(57,690,325.70)	—	(40,928,903.00)	(6,104,267.41)	(47,033,170.41)
(1) Transfer to surplus reserve	—	—	—	16,761,422.70	(16,761,422.70)	—	—	—	—
(2) Distributions to shareholders	—	—	—	—	(40,928,903.00)	—	(40,928,903.00)	(6,104,267.41)	(47,033,170.41)
5. Special reserve	—	—	1,379,199.25	—	—	—	1,379,199.25	—	1,379,199.25
(1) Transfer to special reserve in the period	—	—	2,527,662.19	—	—	—	2,527,662.19	—	2,527,662.19
(2) Amount utilised in the period	—	—	(1,148,462.94)	—	—	—	(1,148,462.94)	—	(1,148,462.94)
IV. At 31 December 2010 (restated)	417,641,867.00	344,390,293.02	1,379,199.25	110,174,201.20	308,946,768.14	(29,370,460.60)	1,153,161,868.01	194,754,431.33	1,347,916,299.34

1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group has adopted the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and disclosed relevant financial information according to the disclosure requirement of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The accounting policies used in the consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2010 that was prepared in accordance with CAS.

1. Statement of compliance with CAS

The consolidated financial statements have been prepared in accordance with CAS by the Company, and present truly and completely, the consolidated financial position as of 31 December 2011, and the consolidated results of operations and consolidated cash flows for the year ended 31 December 2011.

2. Basis of accounting and principle of measurement

The Group has adopted the accrual basis of accounting. The Group adopts the historical cost as the principle of measurement in the financial statements. Where assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

3. Accounting period

The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

4. Functional currency

Renminbi ("RMB") is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate. Therefore, the Company and its domestic subsidiaries choose RMB as their functional currency. The Company's foreign subsidiary chooses Hong Kong dollar as its functional currency on the basis of the primary economic environment in which it operates. The Group adopts RMB to prepare its financial statements.

5. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control

5.1 *Business combinations involving enterprises under common control*

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Assets and liabilities obtained shall be measured at their respective carrying amounts as recorded by the combining entities at the date of the combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is adjusted to the share premium in capital reserve. If the share premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

5.2 *Business combinations not involving enterprises under common control and goodwill*

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognised in profit or loss when they are incurred. Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The equity interest in the acquiree held before the acquisition date is remeasured at its fair value at the acquisition date, with any difference between its fair value and its carrying amount being recognised as investment income. The other comprehensive income of the acquiree before the acquisition date relating to the previously held interest in the acquiree is transferred to investment income.

The acquiree's identifiable assets, liabilities and contingent liabilities, acquired by the acquirer in a business combination, that meet the recognition criteria shall be measured at fair value at the acquisition date. Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognised as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognises the remaining difference immediately in profit or loss for the current period.

Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements. It is tested for impairment at least at the end of each year.

For the purpose of impairment testing, goodwill is considered together with the related assets group(s), i.e., goodwill is reasonably allocated to the related assets group(s) or each of assets group(s) expected to benefit from the synergies of the combination. An impairment loss is recognised if the recoverable amount of the assets group or sets of assets groups (including goodwill) is less than its carrying amount. The impairment loss is firstly allocated to reduce the carrying amount of any goodwill allocated to such assets group or sets of assets groups, and then to the other assets of the group pro-rata on the basis of the carrying amount of each asset (other than goodwill) in the group.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but an asset is traded in an active market, fair value is the current bid price. If there is no sale agreement or active market for an asset, fair value is assessed based on the best information available. Costs of disposal include legal costs related to the disposal of the asset, related taxes, costs of removing the asset and direct costs to bring the asset into condition for its sale. The present value of expected future cash flows of an asset shall be determined by estimating the future cash flows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows.

The impairment of goodwill is recognised in profit or loss for the period in which it is incurred and will not be reversed in any subsequent period.

6. **Preparation of consolidated financial statements**

The scope of consolidation in the consolidated financial statements is determined on the basis of control. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities.

For a subsidiary disposed of by the Group, the operating results and cash flows before the date of disposal (the date when control is lost) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

For a subsidiary acquired through a business combination not involving enterprises under common control, the operating results and cash flows from the acquisition date (the date when control is obtained) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate, and no adjustment is made to the opening balances and comparative figures in the consolidated financial statements.

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under common control are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Company.

All significant intra-group balances and transactions are eliminated on consolidation.

The portion of subsidiaries' equity that is not attributable to the Company is treated as minority interests and presented as "minority interests" in the consolidated balance sheet within shareholders' equity. The portion of net profits or losses of subsidiaries for the period attributable to minority interests is presented as "minority interests" in the consolidated income statement below the "net profit" line item.

When the amount of loss for the period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount are still allocated against minority interests.

Acquisition of minority interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the Company's interests and minority interests are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve under owners' equity. If the capital reserve is not sufficient to absorb the difference, the excess are adjusted against retained earnings.

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received on disposal and the fair value of any retained interest and (ii) the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognised as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

7. Recognition criteria of cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8. Translation of transactions and financial statements denominated in foreign currencies

8.1 *Transactions denominated in foreign currencies*

A foreign currency transaction is recorded, on initial recognition, by applying the spot exchange rate on the date of the transaction.

At the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognised in profit or loss for the period, except that (1) exchange differences related to a specific-purpose borrowing denominated in foreign currency that qualify for capitalisation are capitalised as part of the cost of the qualifying asset during the capitalisation period; (2) exchange differences related to hedging instruments for the purpose of hedging against foreign currency risks are accounted for using hedge accounting; (3) exchange differences arising from available-for-sale non-monetary items (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of available-for-sale monetary items are recognised as other comprehensive income and included in capital reserve.

When the consolidated financial statements include foreign operation(s), if there is foreign currency monetary item constituting a net investment in a foreign operation, exchange difference arising from changes in exchange rates are recognised as “exchange differences arising on translation of financial statements denominated in foreign currencies “ in shareholder’s equity, and in profit and loss for the period upon disposal of the foreign operation.

Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currency at the spot exchange rates on the dates of the transactions and the amounts in functional currency remain unchanged. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognised in profit and loss or as other comprehensive income included in capital reserve.

8.2 *Translation of financial statements denominated in foreign currencies*

For the purpose of preparing the consolidated financial statements, financial statements of a foreign operation are translated from the foreign currency into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; shareholders’ equity items except for retained profits are translated at the spot exchange rates at the dates on which such items arose; all items in the income statement as well as items reflecting the distribution of profits are translated at the average exchange rate of the accounting year; the opening balance of retained earnings is the translated closing balance of the previous year’s retained earnings; the closing balance of retained earnings is calculated and presented on the basis of each translated income statement and profit distribution item. The difference between the translated assets and the aggregate of liabilities and shareholders’ equity items is separately presented as the exchange differences arising on translation of financial statements denominated in foreign currencies under the shareholders’ equity in the balance sheet.

Cash flows arising from a transaction in foreign currency and the cash flows of a foreign subsidiary are translated at the average exchange rate of the accounting year. The effect of exchange rate changes on cash and cash equivalents is regarded as a reconciling item and presented separately in the cash flow statement as “effect of exchange rate changes on cash and cash equivalents”.

The opening balances and the comparative figures of previous year are presented at the translated amounts in the previous year's financial statements.

9. **Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognised in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognised amounts.

9.1 *Determination of fair value*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For a financial instrument which has an active market, the Group uses the quoted price in the active market to establish its fair value. For a financial instrument which has no active market, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

9.2 *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

9.3 *Classification, recognition and measurement of financial assets*

On initial recognition, the Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

9.3.1. Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Financial assets at FVTPL include financial assets held for trading and those designated as at fair value through profit or loss.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative that is not designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at FVTPL upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.

Financial assets at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognised in profit or loss.

9.3.2. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortisation is recognised in profit or loss.

9.3.3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include notes receivable, accounts receivable, dividends receivable and other receivables.

Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortisation is recognised in profit or loss.

9.3.4. Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated on initial recognition as available for sale, and financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognised as other comprehensive income and included in the capital reserve, except that impairment losses and exchange differences related to amortised cost of monetary financial assets denominated in foreign currencies are recognised in profit or loss, until the financial assets are derecognised, at which time the gains or losses are released and recognised in profit or loss.

Interests obtained and the dividends declared by the investee during the period in which the available-for-sale financial assets are held, are recognised in investment gains.

For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost.

9.4 *Impairment of financial assets*

The Group assesses at each balance sheet date the carrying amounts of financial assets other than those at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment loss. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset, which can be reliably measured, have been affected.

Objective evidence that a financial asset is impaired includes the following observable events:

(1) Significant financial difficulty of the issuer or obligor;

(2) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

(3) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisations;

(5) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;

(6) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:

— Adverse changes in the payment status of borrower in the group of assets;

— Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;

(7) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;

(8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;

(9) Other objective evidence indicating there is an impairment of a financial asset.

— Impairment of financial assets measured at amortised cost

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

— Impairment of available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognised directly in capital reserve is reclassified from the capital reserve to profit or loss. The amount of the cumulative loss that is reclassified from capital reserve to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income and included in the capital reserve, while the amount of reversal of impairment loss on available-for-sale debt instruments is recognised in profit or loss.

— Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

9.5 *Transfer of financial assets*

The Group derecognises a financial asset if one of the following conditions is satisfied: (1) the contractual rights to the cash flows from the financial asset expire; or (2) the financial asset has been transferred and substantially all the risks and rewards of ownership of the financial asset is transferred to the transferee; or (3) although the financial asset has been transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability. The extent of the Group’s continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income, is recognised in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognised; and (2) the sum of the consideration received for the part derecognised and any cumulative gain or loss allocated to the part derecognised which has been previously recognised in other comprehensive income, is recognised in profit or loss.

9.6 *Classification, recognition and measurement of financial liabilities*

Debt and equity instruments issued by the Group are classified into financial liabilities or equity on the basis of the substance of the contractual arrangements and definitions of financial liability and equity instrument.

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

9.6.1. Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL consist of financial liabilities held for trading and those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability may be designated as at FVTPL upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognising the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.

Financial liabilities at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any dividend or interest expenses related to the financial liabilities are recognised in profit or loss.

9.6.2. Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or loss arising from derecognition or amortisation recognised in profit or loss.

9.7 *Derecognition of Financial Liabilities*

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability (or part of the financial liability) derecognised and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

9.8 *Offsetting financial assets and financial liabilities*

Where the Group has a legal right that is currently enforceable to set off the recognised financial assets and financial liabilities, and intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

9.9 *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The consideration received from issuing equity instruments, net of transaction costs, are added to shareholders' equity.

All types of distributions (excluding stock dividends) made by the Group to holders of equity instruments are deducted from shareholders' equity. The Group does not recognise any changes in the fair value of equity instruments.

10. Receivables

The Group's receivables include notes receivable, accounts receivable and other receivables, etc. Accounts receivables from sales of goods or rendering of services are initially recognised at the fair value of the contract.

The recoverability of receivables (include individually significant and individually not significant) is assessed individually. When there is objective evidence that the group will not be able to recover the receivables, bad debt provision is determined by deducting the present value of expected future cash flows to the carrying amount.

11. Inventories

11.1 *Categories of inventories*

The Group's inventories mainly include materials in transit, raw materials, low cost and short-lived materials, packaging materials and materials on consignment for further processing, work in progress, finished goods, goods on hand and construction cost, etc. Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditures incurred in bringing the inventories to their present location and condition.

Construction contracts are accounted for at actual cost, which comprises the direct and indirect costs attributable to executing the contract incurred during the period from the date of entering into the contract to the final completion of the contract. The cumulative costs incurred and cumulative gross profits (or losses) recognised for contracts in progress are offset against the progress billings and the net amount is presented in the balance sheet. Where the aggregate of cumulative costs incurred and cumulative gross profits (or losses) recognised exceed the progress billings for contracts in progress, the surplus is shown as inventories. Where the progress billings for contracts in progress exceed the aggregate of cumulative costs incurred and cumulative gross profits (or losses) recognised, the surplus is shown as receipts in advance.

Travelling and bidding expenses, etc incurred for entering into a contract is recognised as costs of the contract when the contract is entered into if such expenditure can be separately identified and reliably measured and it is probable that the contract will be obtained. Otherwise, such expenditure is charged to profit or loss for the current period.

11.2 *Valuation method of inventories upon delivery*

The actual cost of inventories upon delivery is calculated using the weighted average method.

11.3 *Basis for determining net realisable value of inventories and provision methods for decline in value of inventories*

At the balance sheet date, inventories are measured at the lower of cost and net realisable value. If the net realisable value is below the cost of inventories, a provision for decline in value of inventories is made. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and relevant taxes. Net realisable value is determined on the basis of clear evidence obtained, and takes into consideration the purposes of holding inventories and effect of post balance sheet events.

Provision for decline in value of other inventories is made based on the excess of cost of inventory over its net realisable value on an item-by-item basis.

After the provision for decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realisable value of inventories is higher than their cost, the original provision for decline in value is reversed and the reversal is included in profit or loss for the period.

11.4 *Inventory count system*

The perpetual inventory system is maintained for stock system.

12. **Long-term equity investments**

12.1 *Determination of investment cost*

For a long-term equity investment acquired through a business combination involving enterprises under common control, the investment cost of the long-term equity investment is the attributable share of the carrying amount of the shareholders' equity of the acquiree at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the investment cost of the long-term equity investment is the cost of acquisition. For a long-term equity investment acquired through business combination not involving enterprises under common control and achieved in stages, the investment cost of the long-term equity investment is the aggregate of the carrying amount of the equity interest held in the acquiree prior to the acquisition date and the cost of the additional investment at the acquisition date. The long-term equity investment acquired otherwise than through a business combination is initially measured at its cost.

12.2 *Subsequent measurement and recognition of profit or loss*

12.2.1. Long-term equity investment accounted for using the cost method

For long-term equity investments over which the Group does not have joint control or significant influence and without quoted prices in an active market and that fair values cannot be reliably measured, the Group accounts for such long-term equity investments using the cost method. Besides, long-term equity investments in subsidiaries are accounted for using the cost method in the Company's separate financial statements. A subsidiary is an investee that is controlled by the Group.

Under the cost method, a long-term equity investment is measured at initial investment cost. Except for cash dividends or profits already declared but not yet paid that are included in the price or consideration actually paid upon acquisition of the long-term equity investment, investment income is recognised in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee

12.2.2. Long-term equity investment accounted for using the equity method

The Group accounts for investment in associates and joint ventures using the equity method. An associate is an entity over which the Group has significant influence and a joint venture is an entity over which the Group exercises joint control along with other investors.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is recognised in profit or loss for the period, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, the Group recognises its share of the net profit or loss of the investee for the period as investment income or loss for the period. The Group recognises its share of the investee's net profit or loss based on the fair value of the investee's individual separately identifiable assets, etc at the acquisition date after making appropriate adjustments to conform with the Group's accounting policies and accounting period. Unrealised profits or losses resulting from the Group's transactions with its associates and joint ventures are recognised as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated. However, unrealised losses resulting from the Group's transactions with its associates and joint ventures which represent impairment losses on the transferred assets are not eliminated. Changes in owners' equity of the investee other than net profit or loss are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognised as other comprehensive income which is included in the capital reserve.

The Group discontinues recognising its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognized according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognising its share of those profits only after its share of the profits exceeds the share of losses previously not recognised.

For long-term equity investments in associates and joint ventures which had been held by the Group before its first-time adoption, where the initial investment cost of a long-term equity investment exceeds the Group's interest in the investee's net assets at the time of acquisition, the excess is amortised and is recognised in profit or loss on a straight line basis over the original remaining life.

12.2.3 Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and receivable and the carrying amount is recognised in profit or loss for the period. For a long-term equity investment accounted for using the equity method, the amount included in the shareholders' equity attributable to the percentage interest disposed is transferred to profit or loss for the period.

12.3 *Basis for determining joint control and significant influence over investee*

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

12.4 *Methods of impairment assessment and determining the provision for impairment loss*

The Group reviews the long-term equity investments at each balance sheet date to determine whether there is any indication that they have suffered an impairment loss. If an impairment indication exists, the recoverable amount is estimated. If such recoverable amount is less than its carrying amount, a provision for impairment losses in respect of the deficit is recognised in profit or loss for the period.

Once an impairment loss is recognised for a long-term equity investment, it will not be reversed in any subsequent period.

13. **Investment properties**

Investment property is property held to earn rentals or for capital appreciation or both. It includes a land use right that is leased out; a land use right held for transfer upon capital appreciation; and a building that is leased out.

An investment property is measured initially at cost. Subsequent expenditures incurred for such investment property are included in the cost of the investment property if it is probable that economic benefits associated with an investment property will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

The Group uses the cost model for subsequent measurement of investment property, and adopts a depreciation or amortisation policy for the investment property which is consistent with that for buildings or land use rights.

The Group reviews the investment properties at each balance sheet date to determine whether there is any indication that they have suffered an impairment loss. If there is any indication that such assets may be impaired, the recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognised in profit or loss for the period.

Once an impairment loss is recognised for an investment property, it will not be reversed in any subsequent period.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

14. **Fixed assets**

14.1 *Recognition criteria for fixed assets*

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset and if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

14.2 *Depreciation of each category of fixed assets*

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	**Depreciation period (years)**	**Residual value rate** *(%)*	**Annual depreciation rate** *(%)*
Buildings	10-50	0-5	2-9.5
Building improvement	3-5	0	20-33.33
Transportation vehicles	5-8	3-5	11.88-19.4
Machinery and equipment	5	3	19.40
Office equipment and others	5	3-5	19-19.4
Pier	44	0	2.27

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

14.3 *Methods of impairment assessment and determining the provision for impairment losses of fixed assets*

The Group assesses at each balance sheet date whether there is any indication that the fixed assets may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognised in profit or loss for the period.

Once the impairment loss of such assets is recognised, it is not be reversed in any subsequent period.

14.4 *Other explanations*

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year-end, and account for any change as a change in an accounting estimate.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognised in profit or loss for the period.

15. **Construction in progress**

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period, borrowing costs capitalised before it is ready for intended use and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset when it is ready for intended use.

The Group assesses at each balance sheet date whether there is any indication that construction in progress may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognised in profit or loss for the period.

Once the impairment loss of construction in progress is recognised, it is not be reversed in any subsequent period.

16. **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalised when expenditures for such asset and borrowing costs are incurred and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalisation of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the Group determines the amount of interest to be capitalised on such borrowings by applying a capitalisation rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

17. Intangible assets

17.1 *Intangible assets*

Intangible assets include land use rights, franchise operating rights ("toll bridge franchise"), royalties, the right to use the coastline, computer software, passenger service license, etc.

Intangible assets, other than toll bridge franchise which is recorded based on the amount of shareholder's capital contribution recognised according to approved assessment, are measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost less net residual value and any accumulated impairment losses is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of the period, and makes adjustments when necessary.

The Group assesses at each balance sheet date whether there is any indication that the land use rights, franchise operating rights ("toll bridge franchise"), royalties, coastline use right and computer software, with a finite useful life may be impaired, and makes adjustments when necessary; passenger service license with indifinite useful life is tested for impairment annually, and impairment is recognized if there is any indication that such asset may be impaired.

17.2 *Research and development expenditure*

Expenditure during the research phase is recognised as an expense in the period in which it is incurred.

Expenditure during the development phase that meets all of the following conditions at the same time is recognised as intangible asset. Expenditure during development phase that does not meet the following conditions is recognised in profit or loss for the period.

(1) It is technically feasible to complete the intangible asset so that it will be available for use or sale;

(2) the Group has the intention to complete the intangible asset and use or sell it;

(3) the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and

(5) the expenditure attributable to the intangible asset during its development phase can be reliably measured.

If the expenditures cannot be distinguished between the research phase and development phase, the Group recognises all of them in profit or loss for the period.

17.3 *Methods of impairment assessment and determining the provision for impairment losses of intangible assets*

The Group assesses at each balance sheet date whether there is any indication that the intangible assets with a finite useful life may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognised in profit or loss for the period.

Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Once the impairment loss of such assets is recognised, it is not be reversed in any subsequent period.

18. **Long-term prepaid expenses**

Long-term prepaid expenses represent expenses incurred that should be borne and amortised over the current and subsequent periods (together of more than one year). Long-term prepaid expenses are amortised using the straight-line method over the expected periods in which benefits are derived.

19. **Provisions**

Provisions are recognised when the Group has a present obligation related to a contingency such as onerous contract, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

20. **Revenue**

20.1 *Revenue from sale of goods*

Revenue from sale of goods is recognised when (1) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the associated economic benefits will flow to the Group; and (5) the associated costs incurred or to be incurred can be measured reliably.

20.2 *Revenue from rendering of services*

Revenue from rendering of services is recognised when (1) the amount of revenue can be measured reliably; (2) it is probable that the associated economic benefits will flow to the enterprise; (3) the stage of completion of the transaction can be determined reliably; and (4) the associated costs incurred or to be incurred can be measured reliably. Revenue from rendering of services is recognised using the percentage of completion method at the balance sheet date. The stage of completion of a transaction for rendering for services is determined based on services performed to date as a percentage of total services to be performed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the costs incurred that will be recoverable, and the costs incurred are recognised as expenses for the period. When it is not probable that the costs incurred will be recovered, revenue is not recognised.

20.3. *Revenue from construction contracts*

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised using the percentage of completion method at the balance sheet date. The stage of completion of a contract is determined using the proportion that completed contract work bears to the estimated total contract work.

Where the outcome of a construction contract cannot be estimated reliably, (1) if contract costs are expected to be recoverable, contract revenue is recognised to the extent of contract costs that are expected to be recoverable; and contract costs are recognised as expenses in the period in which they are incurred; (2) if contract costs are not expected to be recoverable, they are recognised as expenses immediately when incurred and contract revenue is not recognised. When the uncertainties that prevented the outcome of the construction contract from being estimated reliably no longer exist, revenue and expenses associated with the construction contract are recognised using the percentage of completion method.

If the estimated total contract costs exceed total contract revenue, the expected loss is recognised immediately as an expense for the period.

The cumulative costs incurred and cumulative gross profits (or losses) recognised for contracts in progress and the progress billings are offset and the net amount is presented in the balance sheet. Where the aggregate of cumulative costs incurred and cumulative gross profits (or losses) recognised exceed the progress billings for contracts in progress, the surplus is shown as inventory. Where the progress billings for contracts in progress exceed the aggregate of cumulative costs incurred and cumulative gross profits (or losses) recognised, the surplus is shown as receipts in advance.

21. **Government grants**

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognised only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognised immediately in profit or loss for the period.

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset.

For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the period.

For repayment of a government grant already recognised, if there is related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognised in profit or loss for the period. If there is no related deferred income, the repayment is recognised immediately in profit or loss for the period.

22. **Deferred tax assets/ deferred tax liabilities**

The income tax expenses include current income tax and deferred income tax.

22.1 *Current income tax*

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

22.2 *Deferred tax assets and deferred tax liabilities*

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognised as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognised using the balance sheet liability method.

Deferred tax is generally recognised for all temporary differences. Deferred tax assets for deductible temporary differences are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognised.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realised or the liability is settled.

Current and deferred tax expenses or income are recognised in profit or loss for the period, except when they arise from transactions or events that are directly recognised in other comprehensive income or in shareholders' equity, in which case they are recognised in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilised. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realise the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

23. Operating leases and finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

23.1 *The Group as lessee under operating leases*

Operating lease payments are recognised on a straight-line basis over the term of the relevant lease, and are either included in the cost of related asset or charged to profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

23.2 *The Group as lessor under operating leases*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalised when incurred, and are recognised in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

24. Employee benefits

In an accounting period in which an employee has rendered service to the Group, the Group recognises the employee benefits for that service as a liability, except for compensation for termination of employment relationship with the employees.

The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are either included in cost of related assets or charged to profit or loss in the period when they are incurred.

When the Group terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer, a provision for the compensation payable arising from the termination of employment relationship with employees is recognised with a corresponding charge to the profit or loss for the period.

3. TAXES

1. Major categories of taxes and tax rates

Category of tax	Basis of tax computation	Tax rate
Value-added tax	Income from sale of products	3%, 13%, 17%
Business tax	Income from highway facilities and other auxiliary facilities, and income from rendering of service	5%
Business tax	Income from construction contracts transportation income and toll income	3%
City maintenance and construction tax	VAT and business tax payables	5%, 7%
Educational surtax and surcharge	VAT and business tax payables	3%
Embankment protection cost	Taxable operating income	0.05%, 0.1%, 0.13%
Enterprise income tax	Taxable profit	15%, 24%, 25%
Hong Kong profit tax	Assessable profit	16.5%

2. Tax incentive and approval

Pursuant to the Enterprise Income Tax Law of the People's Republic of China published on 16 March 2007, the Company has been subject to the enterprise income tax rate of 25% from 1 January 2009. Except for Guangdong Xinyue Communications Investment Company Limited, Guangdong Oriental Thought Technology Company Limited and Shenzhen Yuegang Transport Company Limited, all the other group companies established in Mainland China are subject to enterprise income tax rate of 25%.

The Company's subsidiaries Guangdong Xinyue Communications Investment Company Limited and Guangdong Oriental Thought Technology Company Limited are qualified for high and new technology enterprise in 2008. According to relevant regulations in the State Administration of Taxation Guo Shui [2009] NO.203 Notification on Relevant Problems of Implementing Preferable Income Tax for High-tech Enterprises, having been filed with the tax bureau directly subordinated to Guangdong local taxation bureau, from 2008 to 2011, Guangdong Oriental Thought Technology Company Limited and Guangdong Xinyue Communications Investment Company Limited are entitled to preferable income tax treatment for high-tech enterprises, with applicable income tax rate of 15%.

Shenzhen Yuegang Transport Company Limited is incorporated in Shenzhen Special Economic Zone and is subject to a preferential enterprise income tax rate of 24% in2011 (2010: 22%).

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax, which has been provided on the estimated assessable profit for the year at a rate of 16.5% (2010: 16.5%).

4 PRIOR PERIOD ADJUSTMENTS

ITEM	Financial statement items	Increase/(Decrease) Consolidated financial statements 31 December 2010 *RMB*
Reclassify the Taiping Interchange right from fixed assets to intangible assets.	Intangible assets	203,557,063.13
	Fixed assets	(203,557,063.13)
Reclassify accounts receivable, receipts in advance, accounts payable and prepayments.	Accounts receivable	45,966,071.64
	Receipts in advance	3,039,791.31
	Accounts payable	29,311,694.09
	Prepayments	(13,614,586.24)

All of the above adjustments are reclassification and have no impact on the net assets stated in the consolidated financial statement at the beginning of the year.

5 SCOPE OF CONSOLIDATION

Business combinations involving enterprise under common control occurred in current period:

Name	Type of the entity	Place of incorporation	Nature of business	Registered capital *RMB*	Actual investment of the Company *RMB*	Proportion of ownership interest *(%)*	Proportion of voting power *(%)*
Guangdong Province Transportation Engineering Company Limited	Limited liability	Guangzhou	Property lease	17,040,000.00	69,564,856.62	100%	100%

Note: Please see Note 6. (5) for the financial position on acquisition date of the subsidiary, newly acquired during current period through a business combination involving enterprises under common control, as well as its operating results and cash flows from the beginning of current year to the acquisition date. The comparative figure of the financial statements were restated.

6 NOTES TO THE FINANCIAL STATEMENTS

(1) Accounts receivable

The various companies of the Group have different credit policies, dependent on the requirements of the market and the business in which they operate.

The ageing analysis of the accounts receivable according to the date of transaction is as follows:

Ageing	**31 December 2011** *RMB*	**31 December 2010** *RMB* *(restated)*
Within 3 months	527,248,877.95	372,844,639.77
Over 3 months and within 6 months	115,591,970.44	96,873,279.41
Over 6 months and within 1 year	46,330,626.91	69,575,392.96
Over 1 years and within 2 years	164,353,657.83	36,470,620.78
Over 2 years and within 3 years	26,253,130.53	37,462,116.47
Over 3 years	18,990,829.10	11,580,250.35
Total	898,769,092.76	624,806,299.74

(2) Short-term borrowings

As at the end of the year, the Group had bank short-term borrowings amounting to RMB 60,000,000.00 which bear fixed interest rate. The Group had no overdue outstanding short-term bank borrowings.

(3) Accounts payable

The ageing analysis of the accounts payable according to the date of the transaction is as follows:

Ageing	**31 December 2011** *RMB*	**31 December 2010** *RMB* *(restated)*
Within 3 months	1,015,522,834.21	929,226,990.48
Over than 3 months and within 6 months	209,792,788.19	46,026,442.61
Over than 6 months and within 1 year	86,851,126.25	33,803,713.98
Over than 1 years and within 2 years	61,388,519.86	59,504,861.61
Over than 2 years and within 3 years	26,642,071.21	12,733,129.42
Over than 3 years	37,913,013.36	29,116,145.31
Total	1,438,110,353.08	1,110,411,283.41

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) Retained profits

The impact of changes in the scope of consolidation resulting from business combination involving enterprises under common control on unappropriated profits at the beginning of the period is RMB 63,205,577.31(prior period: RMB 59,024,724.43).

2010 final dividend of RMB0.066 (pre-tax) per share, totally RMB 27,564,362.00 was approved by shareholders in annual general meeting held on 8 June 2011. The liability was recorded in current period's financial statements (prior period: RMB 0.109 per share (pre-tax) amounting to RMB 40,928,903.00).

The Board recommended the payment of a final dividend RMB0.06 per share (pre-tax), totaling RMB25,058,513.00. Such dividend is to be approved by the shareholders at the Annual General Meeting on 6 June 2012. These financial statements do not reflect this dividends payable.

(5) Business combinations

During current period, basic information about the Group's business combination involving enterprises under common control is as follows:

On 31 March 2011, the Company acquired 100% equity of Guangdong Province Transportation Engineering Company Limited ("Guangdong Transportation Engineering") from Guangdong Communication Enterprise Investment Company Limited. Guangdong Transportation Engineering was established at the Airport road, Guangzhou, Guangdong province, PRC. Prior to September 2009, Guangdong Transportation Engineering was mainly engaged in engineering construction and installation such as construction of road signs, markings, guard rows, fences and anti-glare panels (with valid qualification certificate or operation license), manufacturing of road transport auxiliary facilities, manufacturing and maintaining of road construction machineries and equipments, and domestic trade and property lease, while limited its business to property lease and terminated other businesses after September 2009.

The acquisition consideration was settled by the Company by cash amounted to RMB69,564,856.62, and repayment of the debt with amount of RMB40,800,000.00 on behalf of Guangdong Transportation Engineering to Guangdong Communication Enterprise Investment Company Limited. The consideration was due within 10 days from the effective date of the equity transfer agreement and was settled by the Company during current period.

(a) ***Basic information of the acquiree:***

Basis of judgement for business combination involving enterprises under common control: The ultimate holding company of the Company and Guangdong Communication Enterprise Investment Company Limited before and after the business combination is company Guangdong Provincial Communication Group Company Limited ("GCGC").

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree, i.e. the date on which control over net assets and production and operating decisions of the acquiree is transferred to the acquirer.

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(b) ***The financial position of acquiree at the acquisition date:***

	Carrying amount at the acquisition date *RMB*
Total net identifiable assets stated at carrying value	(17,122,891.81)
Equity attributable to the Company (Note 1)	—
Less: Acquisition consideration in cash	69,564,856.62
The carrying amount of the proportional equity share of net assets in excess of the initial investment cost	(69,564,856.62)

Note 1: The Equity attributable to the Company is limited to zero, as the acquiree was a limited company.

(c) ***Operating results and net cash flows of the acquiree from the beginning of the period in which the acquisition took place to the acquisition date:***

	From the beginning of the period in which the acquisition took place to the acquisition date *RMB*
Operating income	291,060.18
Operating costs and expenses	1,871,726.35
Net profit	(1,580,666.17)
Net cash flow from operating activities	(965,503.05)
Net increase in cash and cash equivalents	(965,503.05)

(d) ***The accounting policies of the acquiree are consistent with that of the Group.***

(6) **Depreciation, amortisation and cost of goods sold**

During the period, the Group incurred depreciation and amortisation were RMB79,393,730.12 (prior period: RMB94,649,266.47), and cost of goods sold was RMB 3,440,312,716.13 (prior period: RMB4,380,972,196.13).

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) Financial expenses

	For the year ended 31 December 2011 RMB	31 December 2010 RMB
Interest expenses	30,023,205.43	36,826,934.06
Less: Interest income	14,570,491.16	15,905,947.59
Exchange differences	(3,140,619.74)	(3,360,646.99)
Others	7,170,910.37	8,725,806.07
Total	19,483,004.90	26,286,145.55

The Group did not have any capitalised finance expenses for the year (2010: Nil).

(8) Investment income

	For the year ended 31 December 2011 RMB	31 December 2010 RMB
Income/(loss) from long-term equity investments	—	620,760.45
Income/(loss) from long-term equity investments under cost method	5,269,987.73	3,111,474.34
Income/(loss) from long-term equity investments under equity method	(184,627.48)	(2,014,786.65)
Total	5,085,360.25	1,717,448.14

There are no significant restrictions on remittance of investment income.

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) Income tax expense

	For the year ended 31 December 2011 *RMB*	For the year ended 31 December 2010 *RMB*
Current tax expense calculated according to tax law and relavant requirements		
- Mainland China current income tax	45,935,345.37	51,167,364.43
- Hong Kong profits tax	266,837.99	195,090.34
Adjustments to income tax of last year	803,130.15	988,743.13
Deferred income tax	2,049,772.74	(7,793,296.79)
Total	49,055,086.25	44,557,901.11

Income tax rate refers to note 3.2

(10) Earnings per share

	For the year ended 31 December 2011 *RMB*	For the year ended 31 December 2010 *RMB*
Consolidated net profit attributable to ordinary shareholders:	82,862,482.80	105,414,046.28
Weighted average number of ordinary shares used in the calculation of basic earnings per share	417,641,867	417,641,867
Basic earnings per share	0.20	0.25

As there were no potential ordinary shares for the current and prior period, diluted earnings per share are equal to basic earnings per share.

(11) Segment reporting

Based on the Group's internal organisation structure, management requirement and internal reporting policy, the operations of the Group are classified into five segments: material logistics service, expressway service zones, transportation intelligence services, Cross-border transportation services and Tai Ping Interchange.

For the year ended 31 December 2011

		Material logistics services	Expressway service zones	Transportation intelligence services	Cross-border transportation services	Tai Ping Interchange	Unallocated	Inter-segment elimination	Total
		RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
I	Operating income	3,819,252,187.52	534,332,036.01	580,984,501.22	284,941,361.75	134,750,253.87	8,171,443.53	(217,260,953.60)	5,145,170,830.30
	Including: External revenue	3,620,936,421.15	534,016,240.61	569,098,723.59	284,941,361.75	134,750,253.87	1,427,829.33	—	5,145,170,830.30
	Inter-segment revenue	198,315,766.37	315,795.40	11,885,777.63	—	—	6,743,614.20	(217,260,953.60)	—
II	Income from investments in associates and joint ventures	—	—	—	—	—	5,286,687.13	(16,699.41)	5,269,987.72
III	Impairment losses of assets	(10,054,511.94)	(720,000.00)	867,023.13	—	—	—	—	(9,907,488.81)
IV	Depreciation expense and amortisation expense	12,613,722.42	18,362,690.74	2,677,668.97	28,875,833.69	16,936,059.01	1,946,097.72	(2,018,342.43)	79,393,730.12
V	Total profit	80,204,794.12	28,597,480.25	(47,060,297.45)	7,706,520.08	44,831,657.54	7,301,284.63	(2,154,042.32)	119,427,396.85
VI	Income tax expenses	27,441,722.51	8,418,887.62	464,374.86	950,494.13	12,148,002.66	—	(368,395.53)	49,055,086.25
VII	Net profit	52,763,071.61	20,178,592.63	(47,524,672.31)	6,756,025.95	32,683,654.88	7,301,284.63	(1,785,646.79)	70,372,310.60
VIII	Total assets	2,843,774,922.95	634,954,953.09	832,807,528.87	333,075,797.99	791,777,182.52	615,429,777.30	(1,244,368,183.03)	4,807,451,979.69
IX	Total liabilities	2,906,945,046.44	395,673,484.51	665,253,074.74	91,283,378.86	132,198,621.81	51,158,980.27	(747,107,479.49)	3,495,405,107.14

For the year ended 31 December 2010

		Material logistics services	Expressway service zones	Transportation intelligence services	Cross-border transportation services	Tai Ping Interchange	Unallocated	Inter-segment elimination	Total
		RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
I	Operating income	4,874,059,571.88	455,902,722.31	764,712,682.79	264,364,173.25	129,264,641.06	1,164,240.72	(365,249,242.62)	6,124,218,789.39
	Including: External revenue	4,519,904,129.83	455,154,456.21	754,546,289.00	264,185,032.57	129,264,641.06	1,164,240.72	—	6,124,218,789.39
	Inter-segment revenue	354,155,442.05	748,266.10	10,166,393.79	179,140.68	—	—	(365,249,242.62)	—
II	Income from investments in associates and joint ventures	—	—	—	—	—	4,028,725.89	(917,251.55)	3,111,474.34
III	Impairment losses of assets	19,539,237.88	(2,682,000.00)	4,373,075.35	100,037.28	—	—	—	21,330,350.51
IV	Depreciation expense and amortisation expense	11,650,570.63	26,781,085.36	4,022,263.03	35,634,232.82	15,656,894.34	1,749,278.94	(845,058.65)	94,649,266.47
V	Total profit	73,390,348.21	36,854,424.60	2,435,133.48	13,541,306.15	32,143,435.06	3,185,016.69	(5,095,130.20)	156,454,533.99
VI	Income tax expenses	17,908,090.28	11,446,534.57	1,860,496.18	1,085,797.96	13,192,908.53	—	(935,926.41)	44,557,901.11
VII	Net profit	55,482,257.93	25,407,890.03	574,637.30	12,455,508.19	18,950,526.53	3,185,016.69	(4,159,203.79)	111,896,632.88
VIII	Total assets	2,428,475,923.03	583,581,828.36	809,611,697.76	322,066,656.12	728,160,157.97	592,829,144.76	(1,159,578,682.34)	4,305,146,725.66
IX	Total liabilities	2,544,778,227.78	364,442,201.65	594,346,624.20	57,580,342.85	7,605,071.68	49,398,522.31	(660,920,564.15)	2,957,230,426.32

6 NOTES OF ITEMS IN THE FINANCIAL STATEMENTS (Continued)

(12) Net current assets

	31 December 2011 *RMB*	31 December 2010 *RMB* *(restated)*
Current assets	3,719,099,606.10	3,259,596,537.58
Less: Current liabilities	3,489,960,379.70	2,944,830,582.87
Net current assets	229,139,226.40	314,765,954.71

(13) Total assets less current liabilities

	31 December 2011 *RMB*	31 December 2010 *RMB* *(restated)*
Total assets	4,807,451,979.69	4,305,146,725.66
Less: Current liabilities	3,489,960,379.70	2,944,830,582.87
Total assets less current liabilities	1,317,491,599.99	1,360,316,142.79

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As at 31 December 2011, the four main businesses of the Group are categorized as below:

(i) Material logistics services;

(ii) Expressway service zones;

(iii) Transportation intelligence services; and

(iv) Cross-border transportation services.

Save for the above major businesses, the Group also has toll collection business at

Tai Ping Interchange.

Material logistics services

In 2011, the Group actively developed the material logistics services by entering into supply contracts for the provision of steel bar, steel strands, cement and asphalt for nine projects of GCGC. The Group was also responsible for the supply of steel bar and cement for various major national and regional construction projects.

The Group further strengthened the management of the procurement, storage and transportation of its material supply chain in order to enhance operation efficiency by: (1) strengthening the budget control and audit of procurement; (2) improving the credit risk management of suppliers through regular evaluation of creditability and establishment of suppliers' credit archives; (3) implementing risk control over the entire supply chain from funding, decision making, sourcing to delivery; (4) establishing an inventory management system to monitor its inventory levels and to ensure that the materials are kept in a good and safe condition; and (5) establishing an assessment system to evaluate the overall performance of its delivery service providers for selection upon annual renewal of service contracts.

The Group further improved its asphalt supply business by extending its coverage to the research and development and processing of asphalt. Construction of the Group's Dongguan Asphalt Research Center (東莞瀝青研發中心) was completed. All necessary facilities for the research and testing of modified asphalt and modified emulsified asphalt are in place. The Group has completed the research of the formulation of modified asphalt and modified emulsified asphalt which are up to the national standards. The Group is studying the market demand for modified asphalt and modified emulsified asphalt for maintenance projects. The construction of a production line of modified asphalt was completed. The test run of the production line was successful and the products had passed all internal and external examinations. All technical specifications of the products are up to the national standards.

The Group continued the construction of the Guangdong Nanyue Logistics Storage Centre Wharf and phase two of the Guangdong Nanyue Logistics Storage Centre Wharf. The Group has reached agreements with various authorities of the local government of Dongguan, including the border control, maritime, customs, inspection and quarantine departments, on the public facilities, operation and ancillary facilities of the Guangdong Nanyue Logistics Storage Centre Wharf. Construction works are being inspected by the authorities. Preparation for the construction of phase two of the Guangdong Nanyue Logistics Storage Centre Wharf has commenced.

Expressway service zones

In 2011, the Group continued to develop its major business of service zones by implementing the standardised operation model in service zones and achieved significant improvement in efficiency. The Group actively invited various service providers to operate in its service zones to meet the demands of customers with greater variety. Highly-recognised quality brand names have been our major targets. In 2011, McDonald's was introduced to Wayaogang and Yangjiang Service Zone in 2011 and Zhengongfu (真功夫) was introduced to Wayaogang Service Zone. Other new services were also introduced to satisfy the needs of different customers.

The Group launched a brand building project for the creation of a unique visual identity of its convenience stores through renovation. The Group also enhanced its management and service to satisfy its customers, in particular, the management of the CSE (Cleanliness, Safety and Environment) of its service zones. Based on the market feasibility study conducted in dozens of passenger terminals in Zhaoqing and Yangjiang and shopping malls in some first and second-tier cities, the Group studied the feasibility of establishment of convenience stores in areas besides expressways and opened a convenience store "Le Relay" in Wanda Plaza in Guangzhou. The logistics centre was relocated to Huadu to facilitate the long term and sustainable development of its retail business.

The Group has successfully centralised the advertising resources of expressways under the management of GCGC. The Group has acquired 743 advertisement points in 31 expressways wholly or partly owned by GCGC. In addition, the Group also expanded its advertising network which included 255 outdoor advertisement boards of operating expressways, of which 126 were in the Pearl River Delta. The advertisement resources of the Group have already achieved the economy of scale and the Group continued to expand its customer base.

In 2011, the Group adjusted its strategy for car maintenance business. The Group continued the self-owned plus franchised operation model. While building the brand recognition of its self-owned operation of car maintenance, the Group also strengthened the management of its franchised operation.

Transportation intelligence services

In respect of transportation intelligence business, there were over 30 electrical and mechanical and transportation safety projects in progress in 2011. These projects included Xiarong section of Guiguang Expressway (electrical and mechanical system and transportation safety system), improvement of safety facilities of Shaogan Expressway, Qinglian Expressway (Phase 2), Guiqing Expressway, Wenma Expressway in Sichuan, Guangnan Expressway in Sichuan, Xingtu Expressway in Xinjiang, Eastern Guangzhu Expressway. The projects outside Guangdong were located in Guizhou, Sichuan, Anhui, Hubei, Fujian and Xinjiang. All projects were in schedule and were accepted for delivery upon completion inspection. There were approximately 13 electrical and mechanical system maintenance projects, including Northern Jingzhu Expressway, Fokai Expressway, Kaiyang Expressway, Xintai Expressway, Yangmao Expressway, Zhanxu Expressway, Huihe Expressway and Yuegan Expressway. The Group was also engaged in the development of information systems, including the development of integrated management information system for the main construction project of Hong Kong-Zhuhai-Macau Bridge and the monitor system for the construction of Guangle Expressway.

In 2011, the Group successfully completed the improvement of the centralised toll-by-weight collection system for expressways. As proposed by the government of Guangdong Province, the expressway toll within the province is based on vehicle weight instead of vehicle types with effect from August 2011. With its excellent software development capacity and implementation experience, the Group has successfully installed the toll-by-weight collection system for expressways in eastern and western areas of Guangdong.

The Group has made significant investment in technology development to maintain its leading position in expressway transportation intelligence system. The technical support of the Group helped improve the management and traffic flow of expressways. In 2011, the Group won several government-funded research and development projects, including the "Transportation information and control system for expressways in the Pearl River Delta", the "Development of core control technology for centralised expressway monitoring system" under the 2011 Science and Technology Project of the Guangdong Transportation Bureau and the "Development of basic technology for collection and analysis of transportation information of Guangzhou" of the Bureau of Science and Information Technology of Baiyun District. The Group has also developed vehicle type recognition system and license plate recognition system with the use of high-resolution camera. The development of these systems is in the final stage of determination of specifications and testing. In response to the requirement for toll fee collection system upgrade by the Department of Communications of Guangdong Province and to facilitate the development of centralised monitoring system by GCGC, the Group has proposed the technology upgrade for toll collection system and technical standards for video networking and data collection and sharing of traffic monitoring system. The Group has applied for two utility model patents.

Cross-border transportation services

The Group further expanded the cross-border passenger transportation services in 2011. The provincial government granted 10 additional operation rights of cross-border coaches to the Group at the end of 2011. The Group conducted comprehensive market research before the application and launch of new routes for sustainable operation. The Group has made the first move to apply for cross-border coach route for cities with development potential. Application of the Maoming route has been approved. Market research has been carried out before the launch of new routes with favourable conditions. The coach route for cities in the suburban area of Guangzhou with growing number of passengers, has commenced operation after market research. The Group has expedited operation of routes when deemed appropriate, such as the direct route to Jieyang which was put into service in 2011. Besides, the Group reorganised the routes to cities in eastern Guangdong, including Chaozhou, Shantou and Liusha.

The Group successfully increased the revenue from transportation service by optimising resources allocation and utility of transportation capacity. Regarding cross-border passenger services, in addition to improvement in long distance passenger routes such as the Guangxi route, the Group also restructured short distance routes to Shunde, Heshan, Zhuhai, Lecong and Country Garden in Panyu to improve their efficiency by reorganizing pickup points, launching non-stop routes and increasing frequency. For routes with low utility rate, the Group identified the reasons and implemented appropriate measures such as launching traffic pass, reducing frequency, adjusting schedule, introducing package service and linking driver commissions with utility rate. The operation was significantly improved as the average utility rate of Shanwei and Gaoming routes increased by 9% and 18% respectively. Regarding cross-border freight business, the Group has increased the utility rate of imports from Hong Kong by optimising the packing of goods.

The Group placed emphasis on communication with its customers. Through regular visits and communication, the Group has established satisfactory relationship with most of its major customers. It also actively expanded its customer base by exploring new customers. Business travel service of the Group recorded steady growth by participating in "Fly via Shenzhen" program and undertaking the ticket agency business of Cotai Jet from Chu Kong Shipping. "Fly via Shenzhen" is a major service project launched by the Shenzhen government. Through designating the terminus as an off-site departure lounge of Shenzhen Airport, "Fly via Shenzhen" facilitated the development of the service industry in Shenzhen. Following the commission of handheld ticketing machines in all stations in Hong Kong, the Group further expanded the use of the machines in mainland China and improved the system.

The Motor Transport Company of Guangdong and Hong Kong Limited ("MTC") is a company under the Group which has been principally engaged in cross-border transportation and the director unit of the Hong Kong Guangdong Boundary Crossing Bus Association for seven consecutive years. It has strived to promote healthy competition in the industry and strengthened cooperation with other industry players to achieve better results.

Tai Ping Interchange

The Group has the right of toll collection at Tai Ping Interchange, the revenue from toll collection increased by 4% in 2011 as compared with the same period of 2010.

Development of land held by Guangdong Province Transportation Engineering Company Limited

As approved by the extraordinary general meeting, the Company acquired 100% equity interests of Guangdong Province Transportation Engineering Company Limited on 30 November 2010. According to the approval of the Special Plan on Old Plant Renovation in Guangzhou (2010-2020) (廣州市舊廠房改造專項規劃(2010-2020)) in January 2011, the land parcel of Guangdong Province Transportation Engineering Company Limited was included in the "old towns, plants and villages" redevelopment project. The land parcel of Guangdong Province Transportation Engineering Company was planned for commercial and residential purposes before the approval of the Detailed Regulatory Plan for the Extension of Western Baiyun New Town in Guangzhou (廣州市白雲新城西部延伸區控制性詳細規劃) issued in May 2011. After the release of the Detailed Regulatory Plan for the Extension of Western Baiyun New Town in Guangzhou, the Company will conduct comparative and selective study on the development plan of the land parcel of Guangdong Province Transportation Engineering Company according to the regulatory plan. The development plan for the land parcel will be determined as soon as possible and any relevant documents will be submitted in accordance with the procedures of the "old towns, plants and villages" redevelopment project to ensure that the Company can benefit from the redevelopment project.

The Company disclosed the development plan of the land parcel of Guangdong Transportation Engineering Company Limited in the circular to shareholders dated 15 October 2010. As the planning of the region in which this land parcel locates has changed, the development of the land will be delayed and the detail of development plan will be adjusted correspondingly. The Company will disclose the development progress of this land parcel when appropriate.

FINANCIAL REVIEW (UNLESS OTHERWISE STATED, ALL AMOUNTS ARE SHOWN IN RMB)

Turnover

The Group's turnover mainly derived from four business segments, including the provision of material logistic services, transportation intelligence services, operation of expressway service zones and revenue from cross-border transportation services between Hong Kong and Guangdong Province. Revenue from Tai Ping Interchange business was also included in the Group's turnover. Turnover for the year amounted to RMB5,145 million (2010: RMB6,124 million), representing a decrease of 16% over the same period last year, which was mainly due to the decrease in the projects for the supply of material logistics services and the projects under construction of the transportation intelligence business.

Turnover by business segment:

	As at the end of 31 December			
	2010		2009	
	RMB'000	*Percentage*	*RMB'000*	*Percentage*
Material logistics	3,620,937	70.37%	4,519,905	73.81%
Expressway service zones	534,016	10.38%	455,155	7.43%
Transportation intelligence	569,099	11.06%	754,546	12.32%
Cross-border transportation	284,941	5.54%	264,185	4.31%
Tai Ping Interchange	134,750	2.62%	129,264	2.11%
Others	1,428	0.03%	1,164	0.02%
Total	5,145,171	100.00%	6,124,219	100.00%

Material logistics services

Material logistics service is the Group's largest source of income. Turnover attained for the year was RMB3,621 million (2010: RMB4,520 million), representing a decrease of 20% and accounting for approximately 70.37 % (2010: 73.81 %) of the total turnover of the Group. The decrease in turnover was mainly attributable to (i) the decrease in projects resulting in the drop in supply, particularly the decrease in asphalt supply; and (ii) the progress of certain projects has lagged behind owing to the government austerity measures..

Expressway service zones

As at 31 December 2011, the number of the Group's expressway service zones was 60 pairs (2010: 58 pairs). The turnover of expressway service zones amounted to RMB534 million (2010: RMB455 million), representing an increase of RMB79 million or approximately 17% as compared to last year and accounting for approximately 10.38% (2010: 7.43%) of the Group's total turnover. The increase in turnover was principally due to (i) the increase in the number of petrol stations; and (ii) the increase in the number of convenience stores in the service zones and the rise in revenue during the year from the convenience stores newly established at the end of the previous year, which offset the decrease in revenue from the one-off admission fees revenue of petrol stations.

Transportation intelligence services

Turnover of transportation intelligence services for the year amounted to RMB569 million (2010: RMB755 million), representing a decrease of RMB186 million or approximately 25% from last year and accounting for approximately 11.06% (2010: 12.23%) of the Group's total turnover. The decrease in revenue was mainly attributable to (i) the decrease in projects awarded during the year due to the government austerity measures , (ii) the decrease of construction since the projects under construction were nearly completed, and (iii) the downward adjustment in the accounting of the completed projects due to the audit investigation by the government.

Cross-border transportation services

The revenue of the cross-border transportation for the year was RMB285 million (2010: RMB264 million), representing an increase of 8% as compared to last year and accounting for approximately 5.54% (2010: 4.31%) of the Group's total turnover. Such increase was mainly attributable to the economic recovery after the financial crisis and the effects for the increase in passenger transport routes and the adjustment measures of the Company.

Tai Ping Interchange

The revenue of the Tai Ping Interchange for the year was RMB135 million (2010: RMB129 million), representing an increase of 4% as compared to last year and accounting for approximately 2.62% (2010: 2.11%) of the Group's total turnover. Such increase was mainly attributable to the economic growth of Guangdong Province and the increase in traffic volume.

Gross profit

The gross profit of the Group for the year was RMB515 million (2010: RMB556 million), representing a decrease of RMB41 million or 7% as compared to last year. The gross profit margin was 10.01%, which was higher than the gross profit margin of 9.08% for the previous year. The decrease in gross profit was mainly attributable to (i) the increase in administrative costs for transportation intelligence projects as a result of intensifying market competition, rising labour costs and material costs and certain delayed projects; and (ii) the downward adjustment in the accounting of the completed projects under transportation intelligence business due to the audit investigation by the government. However, the increase in the gross profit from material logistics and expressway service zones partly offset the abovementioned adverse impacts which reduced the gross profit generated from transportation intelligence projects.

Gross profit by business segment:

	As at the end of 31 December			
	2011		2010	
	RMB'000	*Percentage*	*RMB'000*	*Percentage*
Material logistics	193,675	37.61%	186,365	33.52%
Expressway service zones	116,601	22.64%	107,681	19.36%
Transportation intelligence	52,775	10.25%	109,956	19.77%
Cross-border transportation	38,245	7.43%	46,012	8.27%
Tai Ping Interchange	112,282	21.80%	106,295	19.12%
Others	1,406	0.27%	-230	-0.04%
Total	514,984	100.00%	556,079	100.00%

Material logistics services

Gross profit of transportation intelligence services accounted for 37.61% (2010: 33.52%) of the Group's total gross profit for the year, and increased to RMB194 million (2010: RMB186 million), representing an increase of 4%. The gross profit margin was 5.35% (2010: 4.12%), representing an increase of 1.23 percentage points as compared with the corresponding period last year. The increase was primarily due to the change of the structure of the projects for the year by focusing on expressway projects in Guangdong Province with more stable gross profit margin and reducing supply for the projects outside Guangdong Province.

Expressway service zones

Gross profit of expressway service zones accounted for 22.64% (2010: 19.36%) of the Group's total gross profit for the year and amounted to RMB117 million (2010: RMB108 million). Gross profit margin was 21.83% (2010: 23.66%). Gross profit has increased slightly as compared to last year. The decrease in gross profit margin of service zones was principally due to the decrease in revenue from one-off admission fees of petrol stations.

Transportation intelligence services

Gross profit of transportation intelligence services accounted for 10.25% (2010: 19.77%) of the Group's total gross profit for the year, and amounted to RMB53 million (2010: RMB110 million), representing a decrease of RMB57 million or 52%. The gross profit margin was 9.27% (2010: 14.57%). The decrease in gross profit was primarily due to the decrease in revenue. The decrease in gross profit margin was primarily because (i) gross profit reduced due to the intensifying market competition; (ii) construction costs increased as a result of rising labour costs and material costs; (iii) project administrative costs increased as certain projects were delayed; and (iv) the audit investigation by the government resulted in downward adjustment in the accounting of the completed projects.

Cross-border transportation services

Gross profit of cross-border transportation services accounted for 7.43% (2010: 8.27%) of the Group's total gross profit for the year, and amounted to RMB38 million (2010: RMB46 million), representing a decreased of RMB8 million or 17% as compared to last year. The gross profit margin was 13.42% (2010: 17.42%). The decrease in gross profit and gross profit margin was mainly attributable to the increase in costs such as vehicle fuel costs, maintenance fee and wages.

Tai Ping Interchange

Gross profit of Tai Ping Interchange business increased by 6% from RMB106 million in the previous year to RMB112 million during the year and accounted for 21.80% (2010: 19.12%) of the Group's total gross profit. The gross profit margin was 83.33% (2010: 82.23%), which was mainly because the increase in costs was less than the increase in revenue.

Business tax and other surcharges

Business tax and other surcharges increased from RMB46 million in the previous year to RMB68 million during the year, representing an increase of RMB22 million or 49%. The increase was mainly because (i) foreign investment enterprise has been subjected to urban construction tax and education surcharge based on the business tax and value added tax since December 2010 according to the regulations of the State Administration of Taxation; and (ii) the increase in revenue from expressway service zones led to the increase in relevant tax expenses.

Selling and administrative expenses

The Group's selling expenses amounted to RMB103 million and administrative expenses amounted to RMB228 million, totalling RMB331 million (2010: RMB318 million), representing an increase of 4% compared to last year. The increase was mainly attributable to the increase in the number of service zones and the increase in labour cost of each companies arising from the adjustment of the payment basis for social insurance according to relevant regulations.

Finance costs

Finance costs decreased by 26% from RMB26 million last year to RMB19 million this year, mainly due to the decrease in business this year.

Liquidity and capital structure

As at 31 December 2011, cash and cash equivalents amounted to RMB2,091 million (31 December 2010: RMB1,500 million). As at 31 December 2011, the balance of bills payable was RMB622 million (31 December 2010: RMB706 million). Net current assets was RMB229 million (31 December 2010: RMB315 million) and the current ratio was 1.07 times (31 December 2010: 1.11 times).

Cash flows

During the year, the Group satisfied its cash requirement for payment of its obligations under contracts, expansion and development of core business and general working capital mainly through cash generated from operating activities and bank borrowings.

Cash and cash equivalents during 2011 were as follows:

	For the year ended 31 December		
	2011	**2010**	**Change**
	RMB'000	*RMB'000*	
Cash generated from/ (used in)			
Operating activities	823,572	214,016	285%
Investing activities	(200,000)	(115,941)	-73%
Financing activities	(27,853)	(84,680)	67%
Effect of foreign exchange rate	(4,853)	(2,615)	-86%
Increase in cash and cash equivalents	590,866	10,780	5.381%

Operating activities

The net cash flows from operating activities in 2011 amounted to RMB824 million (2010: RMB214 million), representing an increase of RMB610 million. The increase was mainly because (i) the Company strengthened the control on the settlement ; and (ii) it settled payment through the letters of bank credit arrangement of PRC with longer maturity.

Investing activities

Cash used in investing activities in 2011 was RMB200 million, which mainly comprised (i) RMB70 million for the acquisition of Guangdong Province Transportation Engineering Company Limited; (ii) RMB14 million for the special maintenance of the Tai Ping Interchange; (iii) RMB37 million for the construction of service zones; (iv) RMB19 million for the acquisition of cross-border transportation assets.

Financing activities

The net cash used in financing activities in 2011 was RMB28 million (2010: RMB85 million), which was mainly used in settling interest for short-term borrowings and payment of dividend.

Borrowings

As at 31 December 2011, all outstanding borrowings of the Group were unsecured short-term loans, totalling RMB60 million (31 December 2010: nil).

Acquisitions

As at 31 December 2011, the Group did not have any incomplete acquisition.

Subsequent events

The Board recommended the payment of a final dividend RMB0.06 per share (pre-tax), totaling RMB25,058,513.00. Such dividend is to be approved by the shareholders at the Annual General Meeting on 6 June 2012. These financial statements do not reflect this dividends payable.

Charges on assets

As at 31 December 2011, the Group did not have any charges on assets (31 December 2010: land use rights of RMB89,285,000 and a fixed deposit of RMB183 million).

Foreign exchange risk and hedging

Most of the revenue and expenditure of the Group are settled by or denominated in RMB, except for the revenue from and expenditure of cross-border transportation services. In 2011, the fluctuation of foreign exchanges did not have material effect on the working capital and liquidity of the Group. The Directors believe that the

Group has sufficient foreign currency to meet its requirement. Meanwhile, the Group will continue to pay close attention to the currency fluctuations of RMB, and will adopt proper measures to reduce the Group's currency risk exposures based on operating needs.

Contingent liabilities

As at 31 December 2011, the Group did not have any material contingent liabilities.

OUTLOOK AND STRATEGIES

In 2012, it is expected that with uncertainties of the external economic environment, the global economic environment will be complicated by the US and European debt crisis. Although China's economy has substantial growth potential, China's economic growth may be affected by the continuous control measures on the property market control and decreasing investment from the local government. As such, the growth of the construction scale of expressway is expected to reduce. The Group will adjust its business structure in a timely manner in response to the economic situation and the development of the transportation industry so as to enhance overall efficiency for the future development of the Company.

1. **Material logistics services**

   — In 2012, the Group will strive to improve the material logistics services platform by making full use of its existing customer base and logistics infrastructure. The Group will further expend the logistics business of steel, cement and asphalt by focusing on national and local major construction projects in addition to providing material logistics services for GCGC projects.

   — The Group will accelerate the construction of Phase II of Nanyue Logistics Storage Centre Wharf, optimise the management of asphalt storage and develop the research and development and processing businesses of asphalt. The Group will strive to commence the operation of the wharf for the launch of its warehouse, transit and sales businesses. The Group will also strengthen its logistics chain by leveraging on its existing logistics facilities to provide logistics services such as stevedoring and storage services for upstream resource operators.

2. **Expressway service zones**

   — The Group will speed up the construction of new projects and improve hardware facilities in service zones and exert more effort in improving and upgrading the service zones.

— The commercial value of service zones will be enhanced pursuant to the operation principle of commercial properties. Renovation of VI (Visual Identity) system for convenience stores will be sped up. Trial operation of convenience stores will be carried out in passenger transit stations of second-tier cities. Preparation for the opening of convenience stores in new service zones will be organised effectively so as to ensure the new service zones can commence operation at the same time with the full operation of the main roads.

— A comprehensive merchant evaluation system and a database system of commercial property information which can provide updated information of existing merchants in the service zones in real time will be set up to strengthen the brand portfolio in the service zones and provide support to the planning of commercial properties. Operation capability and overall image of the service zones will be enhanced by bringing more well-known brands with high quality into the service zones and enriching the service offerings and maintaining reasonable business mix in order to raise the price segments and service standard.

— Outlines for brand building and promotion plans catering for the development needs will be formulated. The Group will focus on promoting the brands in the service zones and exert efforts in building the brand awareness of "Top-E" by standardising the layout of all "Top-E" service zones to highlight the logo of "Top E" and its unified management and business image and reveal the visual characteristics of "Top E" brand. Brand awareness of "Top E" will be further enhanced through advertisements, integration, regulation and standardisation as well as continuous improvement of the CSE management system.

— The Group will continue to secure more advertising resources from GCGC and extend the advertising network in order to establish a large-scale advertising network under the brand of the Group and further integrate the advertising resources from GCGC. It will focus on developing advertising boards in service zones with significant advertising effect and economic effectiveness. The construction of advertising boards will be planned to conduct in phases based on the specific and actual situations to realize higher economic effectiveness.

3. **Transportation intelligence services**

— The Group will continue to formulate overall planning by taking account into the future development direction of transportation intelligence. Overall technology level of the Company will be enhanced through product research and development to maintain the leading position of information transmission of expressways of the Group in Guangdong and southern China. Moreover, the Group will develop products catering for the specific demands of expressway operators and expand the production volume to realise the economy of scale and bring new area of profit growth to the Company.

— The Group will expand into new markets selectively. The Group will strive to allocate more manpower and capital to conduct thorough data collection and analysis in order to increase the bid-win rate of major projects. It will also focus on exploring new markets outside the local province. For projects outside the local province, the Group will study the financial position of the project owners when conducting market research and participate in bidding projects with sound capital conditions.

— Sales and marketing of custom-made products will be stepped up to consolidate the leading position in software market and lane equipment industry and increase the market share of card machines, automatic card machines and portable toll collection machines. As automatic card machine will become the development trend in the market with promising outlook, the Group will strengthen the promotion of automatic card machine as its key product.

— The use of risk management information system, safety management information system and construction monitoring information system within GCGC will be promoted.

4. **Cross-border transportation services**

— In the face of the favorable factors such as the rising number of visitors to Hong kong, the Group will capture new opportunities in cross-border transportation business and expand the business scope of passenger transportation in the PRC in a timely manner. It will further develop passenger transportation, freight transportation and business travel businesses. As the provincial government of Guangdong has approved the application of the Group for 10 additional operation rights of cross-border coaches at the end of 2011, the Group will utilize the additional resources effectively and formulate routes and resource allocation plans in a timely manner so that the new routes will start operation and generate profits to the Group as soon as possible.

— The Group will conduct detailed investigation and analysis and implement effective measures to optimize all of its routes in China to improve carriage rates. The Group will also strive to explore new business opportunities in the expressway transportation in Hong Kong. According to the preliminary plans of the Hong Kong government, customs clearance through e-Channels is proposed to be firstly implemented in borders connected by railways such as Fu Tian and Lo Wu, which will definitely have significant impact to the Yau Ma Tei-Tsim Sha Tsui-Kwun Tong expressway (油尖觀塘快線) operated by the Group. In addition to expressing our appeals and urging the government to launch e-Channels in Huanggang border simultaneously, the Group will also take precautionary measures to adjust its business strategies in a timely manner and explore new source for the growth of expressway transportation business.

— The Group will further develop its travel and business charter operation by adopting innovative business model. The Group will strengthen the cooperation with Mangocity in order to attract massive internet customers at a lower cost and develop GD-HK Company into an integrated business trip service provider. The Group will also put efforts in building the brand awareness of the Wan Chai (Hong Kong) to Shenzhen Airport route and improve the performance of primary ticket agency business of CotaiJet to increase its ticket revenue.

— The Group will enhance the promotion and marketing of its brand, "Best in Guangdong and Hong Kong (粵港第一家)" and redevelop the image as the best cross-border road passenger transportation company in Guangdong and Hong Kong through internal publications and external advertisements.

OTHER INFORMATION

Interests of Directors and Supervisors in Contracts

None of the Directors or Supervisors had any material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2011.

Closure of Register of Members

The register of members of the Company will be closed for the following periods:

a. for the purpose of ascertaining the shareholders' entitlement to attend and vote at the annual general meeting to be held on 6 June 2012, the register of members of the Company will be closed from Monday, 7 May 2012 to Wednesday, 6 June 2012, both days inclusive, during which period no transfers of shares of the Company will be registered. In order to qualify for attending and voting at the annual general meeting, all transfer documents accompanied by the relevant share cerificates must be lodged with the Company's Hong Kong H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Friday, 4 May 2012; and

b. for the purpose of ascertaining the shareholders' entitlement to the proposed final dividends, the register of members of the Company will be closed from Tuesday, 12 June 2012 to Monday, 18 June 2012, both days inclusive, during which period no transfers of shares of the Company will be registered. In order to qualify for the proposed final dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Monday, 11 June 2012.

Dividends

On 15 March 2012, the Board recommended the payment of the final dividend of 2011 of RMB0.06 per share (pre-tax), aggregating to RMB 25,058,513.00. Such dividend is subject to approval by the shareholders at the annual general meeting to be held on 6 June 2012.

Upon approval, the final dividend will be paid to the holders of H shares whose names appear in the H share register of members of the Company at 4:30 p.m. on Monday, 18 June 2012.

According to the Law on Enterprise Income Tax of the People's Republic of China and the Implementation Rules of Enterprise Income Tax of the People's Republic of China which came into effect in 2008, the Company shall be obliged to withhold 10% enterprise income tax when it distributes the proposed 2011 final dividend to non-resident enterprise shareholders of overseas H shares, (including Hong Kong Securities Clearing Company Nominees Limited, other corporate nominees or trustees, and other entities or organisations) whose names appear on the Company's H share register of members at 4:30 p.m. on Monday, 18 June 2012.

According to Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax (Caishui [1994] No. 020)(《財政部、國家稅務總局關于個人所得稅若干政策問題的通知》(財稅字[1994]020號)), individual shareholders of overseas H shares whose names appear on the Company's H share register of members at 4:30 p.m. on Monday, 18 June 2012 and whose registered addresses are located in the Hong Kong Special Administrative Region or outside China are exempted from individual income tax of China.

According to the Notice on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), the Company shall be obliged to withhold 20% individual income tax when it distributes the proposed 2011 final dividend to individual shareholders of H shares whose names appear on the Company's H share register of members at 4:30 p.m. on Monday, 18 June 2012 and whose registered addresses are located in China. Individual shareholders of H Shares may apply for tax rebate, if any, in accordance with relevant applicable regulations on the taxation agreement or arrangement conditional upon further confirmation from the taxation authority of the PRC in respect of the information provided by such shareholders, if necessary.

Shareholders are suggested to seek advice from their taxation consultants in relation to taxation impacts in the PRC and Hong Kong and of other matters arising from the ownership and disposal of the H Shares of the Company.

Corporate Governance

The Company believes that stringent corporate governance practices could enhance its credibility and transparency and are in the interests of the Shareholders. Accordingly, the Company has been making continuous efforts in enhancing its standard of corporate governance with reference to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the articles of association of the Company and applicable laws and regulations.

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31 December 2011, in compliance with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding the Directors' and Supervisors' securities transactions for the year ended 31 December 2011. Having made specific enquiries of all Directors and Supervisors, they have confirmed that they complied with the required standard set out in the Model Code for the year ended 31 December 2011.

Board Committees

The Company has established an audit committee and a remuneration committee.

AUDIT COMMITTEE

The primary duties of the audit committee of the Company (the "Audit Committee") are to appoint external auditors, supervise and review the Group's financial reports and provide advice and comments to the Board. As at 31 December 2011, the Audit Committee, chaired by Mr. Peng Xiaolei, had a total of three members, namely Mr. Peng Xiaolei, Mr. Liu Shaobuo and Mr. Cao Xiaofeng. The members of Audit Committee met regularly with the management and external auditors and reviewed the external audit reports and the financial statements of the Group, and made recommendations thereon. The Company has reported the financial position and internal audit of the Company to the Audit Committee. The Company's auditor, Deloitte Touche Tohmatsu Certified Public Accountants Ltd., also proposed the management suggestions to the Audit Committee according to the audit result. It has reviewed the audited financial statements for the year ended 31 December 2011, and recommended the Board to adopt. For the year ended 31 December 2011, the Company has been in compliance with the requirements relating to audit committee under Rule 3.21 of the Listing Rules.

The Audit Committee held two meetings in the year ended 31 December 2011 with an average attendance rate of 83% by each of its members.

The audit committee members' attendance records of audit committee meetings for the year ended 31December 2011 are set out below:

	Meetings attended/held	**Attendance rate**
Peng Xiaolei (Chairman)	2/2	100%
Liu Shaobo	1/2	50%
Cao Xiaofeng	2/2	100%

REMUNERATION COMMITTEE

The Company has also established a remuneration committee of the Company ("Remuneration Committee") to advise the Board in respect of the overall remuneration policy and structure of Directors and senior management and of the establishment of formal and transparent procedures in formulating remuneration policy; to review and approve the remuneration recommendations by the management according to the corporate policies and objectives set by the Board; to recommend the Board the remuneration packages of Directors and senior management; to assess the performance of the executive Directors; to recommend and establish annual and long-term performance criteria and targets as well as to review and supervise the implementation of all executive compensation packages and employee benefit plans. The Remuneration Committee consists of one executive Director, Mr. Wang Weibing, and two independent non-executive Directors, Mr. Gui Shouping and Mr. Liu Shaobuo. Mr. Wang Weibing is the chairman of the Remuneration Committee.

During the year ended 31 December 2011, the Remuneration Committee held one meeting. The remuneration committee members' attendance records of remuneration committee meetings in the year ended 31 December 2011 are set out below:

	Meetings attended/held	**Attendance rate**
Wang Weibing (Chairman)	1/1	100%
Gui Shouping	1/1	100%
Liu Shaobo	1/1	100%

SUPERVISORY COMMITTEE

The supervisory committee of the Company (the "Supervisory Committee") comprises seven members, two of whom are independent Supervisors (namely, Ms. Zhou Jiede and Ms. Cheng Zhuo), two are Supervisors appointed by Shareholders (namely, Mr. Chen Chuxuan and Ms. Xiao Li) while three are Supervisors representing the staff of the Group (namely, Mr. Rao Fengsheng, Ms. Li Hui and Ms. Zhang Li). The Supervisory Committee is responsible for supervising the Board, Directors as well as the senior management of the Company, so as to prevent them from abusing their power to damage the lawful rights and interests of the Shareholders, the Company and its staff. For the year ended 31 December 2011, the Supervisory Committee examined the financial position and the legal compliance of the operations of the Company and conducted the due diligence review of the senior management of the Company through convening Supervisory Committee's meetings and attending the Board meetings, and general meetings of the Company, as well as undertaking its duties in a proactive and diligent manner under the principles of due care.

During the year ended 31 December 2011, the Supervisory Committee held two meetings.

Repurchase, Sale or Redemption of the Company's Shares

During this reporting period, the Company did not redeem any of its shares. Neither the Company nor its subsidiaries repurchased or sold any shares of the Company during the year ended 31 December 2011.

Pre-emptive Rights

The articles of association of the Company and the laws of the PRC contain no provision for any pre-emptive rights, requiring the Company to offer new shares to Shareholders on a pro-rata basis to their shareholdings.

Auditor

The Company has appointed Deloitte Touche Tohmatsu Certified Public Accountants Ltd. as the auditor of the Company for the year ended 31 December 2011. Deloitte Touche Tohmatsu Certified Public Accountants Ltd. has conducted the audit of the Group's annual financial statements and has issued Unmodified auditor's report, as well as reviewed this announcement.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The electronic version of this announcement has been published on the website of the Stock Exchange (http://www.hkex.com.hk). An annual report for the year ended 31 December 2011 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to Shareholders and published on the website of the Stock Exchange in due course.

By order of the Board of
Guangdong Nan Yue Logistics Company Limited
Liu Hong
Chairman of the Board

Guangzhou, the PRC
15 March 2012

As at the date of this announcement, the Board comprises of Mr.Liu Hong, Mr.Wang Weibing, Mr. Deng Chongzheng, Mr. Lu Maohao and Mr. Zeng Gangqiang as executive Directors, Mr. Cao Xiaofeng, Mr. Lu Yaxing, Mr. Zhen Renfa, Mr. Cai Xiaoju and Mr. Cai Conghua as non-executive Directors, and Mr. Gui Shouping, Mr. Liu Shaobo and Mr. Peng Xiaolei as independent non-executive Directors.

* *The Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the laws of Hong Kong) under its Chinese name "*廣東南粵物流股份有限公司*" and English name "Guangdong Nan Yue Logistics Company Limited".*