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廣東粵運交通股份有限公司

Guangdong Yueyun Transportation Company Limited*

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

(Stock Code: 03399)

ANNOUNCEMENT OF 2013 INTERIM RESULTS

RESULTS AND BUSINESS HIGHLIGHTS:

	For the six months ended		Change
	30 June 2013	30 June 2012	
	RMB'000	RMB'000	
	(unaudited)	(restated and unaudited)	
Revenue	2,632,220	2,917,021	-9.76%
Net profit attributable to equity holders of the Company	68,641	55,984	22.61%
Basic earnings per share	RMB0.16	RMB0.13	22.61%

- The revenue of the Group for the six months ended 30 June 2013 was approximately RMB2,632,220,000 representing a decrease of approximately RMB284,801,000 or 9.76% as compared to the same period in 2012. If the effects of the transfer of three companies out of Group in June 2012, including Meizhou Yueyun Vehicles Transportation Company Limited (梅州市粵運汽車運輸有限公司) ("Meizhou Yueyun"), and the transfer of three subsidiaries out of the Group, including Guangdong Xinyue Communications Investment Company Limited (廣東新粵交通投資有限公司), as a result of an asset swap in December 2012 and the policy on the change from business tax to value-added tax are excluded, the revenue would increase by RMB28 million, or approximately 1.07%, over the same period last year.
- Net profit attributable to equity holders of the Company for the six months ended 30 June 2013 was approximately RMB68,641,000 representing an increase of approximately RMB12,657,000 or 22.61% as compared to the same period in 2012.
- For the six months ended 30 June 2013, basic earnings per share was RMB 0.16.

- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013.
- On 30 May 2013, the shareholders of the Company at the annual general meeting approved the payment of the final dividend of 2012 of RMB0.052 per ordinary share (pre-tax).

The board of directors (the “**Board**”) of Guangdong Yueyun Transportation Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2013. The unaudited consolidated interim results of the Group have been reviewed by the audit & corporate governance committee of the Company (the “**Audit & Corporate Governance Committee**”). The auditor of the Company, Deloitte Touche Tohmatsu CPA LLP. (special general partnership), has also reviewed the unaudited interim financial statements for the period in accordance with Chinese Standards on Review Engagements 2101 “Review of Financial statements” issued by the Chinese Institute of Certified Public Accountants. The majority of members of the Audit & Corporate Governance Committee are independent non-executive directors of the Company.

CONSOLIDATED BALANCE SHEETS AT 30 JUNE 2013

Assets	<i>Note V</i>	As at 30-Jun-13 RMB (unaudited)	31-Dec-12 RMB (audited)
Current Assets:			
Cash and bank balances		870,960,393.99	1,262,848,441.36
Notes receivable		3,291,548.04	22,090,366.56
Accounts receivable	2	866,208,585.35	731,119,119.17
Prepayments		190,326,502.77	143,217,738.68
Other receivables		312,918,428.27	296,890,221.41
Inventories		143,454,152.22	139,912,918.40
Other current assets		<u>2,449,129.99</u>	<u>23,370,076.66</u>
Total Current Assets		<u>2,389,608,740.63</u>	<u>2,619,448,882.24</u>
Non-current Assets:			
Long-term equity investments		197,395,345.19	190,179,330.04
Investment properties		42,825,617.16	42,540,117.76
Fixed assets	3	1,358,847,495.56	1,201,230,256.06
Construction in progress		76,295,662.76	126,354,825.87
Intangible assets	4	647,658,551.57	567,928,835.67
Goodwill		62,534,926.77	27,229,945.36
Long-term prepaid expenses		28,579,992.91	30,777,739.82
Deferred tax assets		155,142,257.40	158,132,240.10
Other non-current assets		<u>49,960,160.49</u>	<u>53,600,406.11</u>
Total Non-current Assets		<u>2,619,240,009.81</u>	<u>2,397,973,696.79</u>
TOTAL ASSETS		<u>5,008,848,750.44</u>	<u>5,017,422,579.03</u>

CONSOLIDATED BALANCE SHEETS AT 30 JUNE 2013 (CONTINUED)

LIABILITIES AND SHAREHOLDERS' EQUITY	<i>Note V</i>	As at 30-Jun-13 RMB (unaudited)	31-Dec-12 RMB (audited)
Current Liabilities:			
Short-term borrowings	5	348,770,972.69	10,400,000.00
Notes payable		435,599,989.28	848,060,316.34
Accounts payable	6	770,552,000.14	824,154,984.10
Receipts in advance		276,173,793.07	282,928,880.49
Employee benefits payable		103,981,466.78	92,731,469.80
Taxes payable		92,639,263.30	101,778,908.59
Interests payable		11,143,278.32	1,450,000.00
Dividends payable		58,196,671.01	36,495,530.40
Other payables		299,468,614.31	364,942,281.13
Non-current liabilities due within one year		<u>80,747,826.90</u>	<u>50,368,362.89</u>
Total Current Liabilities		<u>2,477,273,875.80</u>	<u>2,613,310,733.74</u>
Non-current Liabilities:			
Long-term borrowings		36,993,988.36	69,732,489.66
Bonds payable	7	297,523,345.19	297,037,810.39
Long-term payables		45,953,005.78	46,651,523.81
Provisions		979,200.00	979,200.00
Deferred tax liabilities		7,551,104.37	7,193,940.84
Other non-current liabilities		<u>42,119,825.79</u>	<u>24,308,797.84</u>
Total Non-current Liabilities		<u>431,120,469.49</u>	<u>445,903,762.54</u>
TOTAL LIABILITIES		<u>2,908,394,345.29</u>	<u>3,059,214,496.28</u>
Shareholders' Equity:			
Share capital		417,641,867.00	417,641,867.00
Capital reserve		453,929,716.74	453,534,816.70
Special reserve		12,007,418.26	9,771,609.17
Surplus reserve		122,766,499.46	122,766,499.46
Retained profits	8	458,088,628.24	411,164,608.79
Exchange differences arising on translation of financial statements denominated in foreign currencies		<u>(39,070,045.55)</u>	<u>(34,773,808.84)</u>
Equity attributable to owners of the Company		<u>1,425,364,084.15</u>	1,380,105,592.28
Equity attributable to minority interests		<u>675,090,321.00</u>	<u>578,102,490.47</u>
TOTAL SHAREHOLDERS' EQUITY		<u>2,100,454,405.15</u>	<u>1,958,208,082.75</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>5,008,848,750.44</u>	<u>5,017,422,579.03</u>

**CONSOLIDATED INCOME STATEMENTS FOR THE SIX MONTHS ENDED
30 JUNE 2013**

	<i>Note V</i>	For the six months ended 30-Jun-13 RMB (unaudited)	30-Jun-12 RMB <i>(restated and unaudited)</i>
I Operating income		2,632,219,549.13	2,917,020,979.71
Less: Operating costs		2,195,350,935.30	2,402,956,057.96
Business taxes and levies		22,403,838.39	56,510,171.99
Selling expenses		28,476,055.54	43,205,605.89
Administrative		239,927,659.98	264,728,841.55
Financial expenses	10	17,296,627.85	31,636,091.07
Impairment losses of assets		4,782,666.51	(2,504,453.23)
Add: Investment income	11	3,388,818.37	(2,661,848.88)
II Operating profit		127,370,583.93	117,826,815.60
Add: Non-operating income	12	29,638,828.21	31,287,406.38
Less: Non-operating expenses		1,747,608.88	3,395,492.07
Including: Losses from disposal of non-current assets		603,049.20	563,778.23
III Total profit		155,261,803.26	145,718,729.91
Less: Income tax expenses	13	49,905,621.88	46,643,077.56
IV Net profit		105,356,181.38	99,075,652.35
Net profit attributable to owners of the Company		68,641,396.45	55,983,588.24
Profit or loss attributable to minority interests		36,714,784.93	43,092,064.11
V Earnings per share			
(I) Basic earnings per shares	14	0.16	0.13
(II) Diluted earnings per share	14	0.13	0.11
VI Other comprehensive income		(6,805,490.66)	1,217,479.98
VII Total comprehensive income		98,550,690.72	100,293,132.33
Total comprehensive income attributable to owners of the Company		64,345,159.74	56,729,070.19
Total comprehensive income attributable to minority interests		34,205,530.98	43,564,062.14

CONSOLIDATED CASH FLOW STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

	<i>Note V</i>	For the six months ended	
		30-Jun-13	30-Jun-12
		RMB	RMB
		(unaudited)	(restated and unaudited)
I Cash Flows from Operating Activities:			
Cash receipts from the sale of goods and the rendering of services		2,811,289,160.95	3,000,936,836.11
Receipts of tax refunds		—	1,191,044.38
Other cash receipts relating to operating activities		<u>33,378,309.84</u>	<u>61,454,339.62</u>
Sub-total of cash inflows from operating activities		<u>2,844,667,470.79</u>	<u>3,063,582,220.11</u>
Cash payments for goods purchased and services received		2,567,550,996.13	3,226,558,723.72
Cash payments to and on behalf of employees		447,417,992.02	431,447,489.31
Payments of various types taxes		132,888,510.80	175,238,047.44
Other cash payments relating to operating activities		<u>214,059,231.91</u>	<u>146,764,228.88</u>
Sub-total of cash outflows from operating activities		<u>3,361,916,730.86</u>	<u>3,980,008,489.35</u>
Net Cash Flows from Operating Activities		<u>(517,249,260.07)</u>	<u>(916,426,269.24)</u>

**CONSOLIDATED CASH FLOW STATEMENTS FOR THE SIX MONTHS
ENDED 30 JUNE 2013 (CONTINUED)**

	<i>Note V</i>	For the six months ended	
		30-Jun-13	30-Jun-12
		RMB	RMB
		(<i>unaudited</i>)	(<i>restated and unaudited</i>)
II Cash Flows from Investing Activities:			
Cash received from disposal of investments		16,000,000.00	—
Cash receipts from investments income		610,081.48	13,180,279.14
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets		4,197,011.14	6,782,997.04
Other cash receipts relating to investing activities		<u>5,401,156.87</u>	<u>8,000,000.00</u>
Sub-total of cash inflows from investing activities		<u>26,208,249.49</u>	<u>27,963,276.18</u>
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		192,313,564.61	135,765,234.64
Cash payments to acquire investments		4,800,000.00	—
Net cash payments for acquisitions of subsidiaries and other business units		3,422,644.17	—
Other cash payments relating to investing activities		<u>—</u>	<u>15,987,212.16</u>
Sub-total of cash outflows from investing activities		<u>200,536,208.78</u>	<u>151,752,446.80</u>
Net Cash Flows from Investing Activities		<u>(174,327,959.29)</u>	<u>(123,789,170.62)</u>

**CONSOLIDATED CASH FLOW STATEMENTS FOR THE SIX MONTHS
ENDED 30 JUNE 2013 (CONTINUED)**

	<i>Note V</i>	For the six months ended	
		30-Jun-13	30-Jun-12
		<i>RMB</i>	<i>RMB</i>
		<i>(unaudited)</i>	<i>(restated and unaudited)</i>
III Cash Flows from Financing Activities:			
Capital receipts from capital contributions		5,341,000.00	14,800,000.00
Cash receipts from borrowings		352,879,564.22	401,284,832.06
Other cash receipts relating to financing activities		39,510,446.49	6,949,591.41
Sub-total of cash inflows from financing activities		<u>397,731,010.71</u>	<u>423,034,423.47</u>
Cash repayments of borrowings		39,994,107.34	346,518,378.95
Cash repayments for distribution of dividends or profit or settlement of interest expenses		45,350,077.95	56,443,739.39
Other cash payments relating to other financing activities		<u>29,572,464.46</u>	<u>115,663,075.77</u>
Sub-total of cash outflows from financing activities		<u>114,916,649.75</u>	<u>518,625,194.11</u>
Net Cash Flows from Financing Activities		<u>282,814,360.96</u>	<u>(95,590,770.64)</u>
IV Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents			
		<u>326,391.60</u>	<u>668,882.70</u>
V Net Decrease in Cash and Cash Equivalents			
		<u>(408,436,466.80)</u>	<u>(1,135,137,327.80)</u>
Add: Opening balance of cash and cash equivalents	1	<u>1,253,888,037.55</u>	<u>2,226,151,619.32</u>
VI Closing Balance of Cash and Cash Equivalents			
	1	<u><u>845,451,570.75</u></u>	<u><u>1,091,014,291.52</u></u>

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITIES
FOR THE SIX MONTHS ENDED 30 JUNE 2013**

		Equity attributable to owners of the Company						Minority	Total	
		Share capital	Capital reserve	Special reserve	Surplus reserve	Retained profits	Others	Total	Interests	shareholders' equity
		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
I	At 31 December 2012 (audited)	417,641,867.00	453,534,816.70	9,771,609.17	122,766,499.46	411,164,608.79	(34,773,808.84)	1,380,105,592.28	578,102,490.47	1,958,208,082.75
II	At 1 January 2013	<u>417,641,867.00</u>	<u>453,534,816.70</u>	<u>9,771,609.17</u>	<u>122,766,499.46</u>	<u>411,164,608.79</u>	<u>(34,773,808.84)</u>	<u>1,380,105,592.28</u>	<u>578,102,490.47</u>	<u>1,958,208,082.75</u>
III	Changes for the period	—	394,900.04	2,235,809.09	—	46,924,019.45	(4,296,236.71)	45,258,491.87	96,987,830.53	142,246,322.40
	1. Net profit	—	—	—	—	68,641,396.45	—	68,641,396.45	36,714,784.93	105,356,181.38
	2. Other comprehensive income	—	—	—	—	—	(4,296,236.71)	(4,296,236.71)	(2,509,253.95)	(6,805,490.66)
	Subtotal of 1 and 2	—	—	—	—	68,641,396.45	(4,296,236.71)	64,345,159.74	34,205,530.98	98,550,690.72
	3. Owners' contributions in capital	—	—	—	—	—	—	—	91,718,232.55	91,718,232.55
	(1) Capital contribution from owners	—	—	—	—	—	—	—	92,201,817.30	92,201,817.30
	(2) Others	—	—	—	—	—	—	—	(483,584.75)	(483,584.75)
	4. Profit distribution	—	—	—	—	(21,717,377.00)	—	(21,717,377.00)	(31,178,250.00)	(52,895,627.00)
	(1) Distributions to shareholders	—	—	—	—	(21,717,377.00)	—	(21,717,377.00)	(31,178,250.00)	(52,895,627.00)
	5. Special reserve	—	—	2,235,809.09	—	—	—	2,235,809.09	2,242,317.00	4,478,126.09
	(1) Amount provided in the period	—	—	8,526,508.29	—	—	—	8,526,508.29	6,892,171.96	15,418,680.25
	(2) Amount utilized in the period	—	—	(6,290,699.20)	—	—	—	(6,290,699.20)	(4,649,854.96)	(10,940,554.16)
	6. Others	—	394,900.04	—	—	—	—	394,900.04	—	394,900.04
IV	At 30 June 2013 (unaudited)	<u>417,641,867.00</u>	<u>453,929,716.74</u>	<u>12,007,418.26</u>	<u>122,766,499.46</u>	<u>458,088,628.24</u>	<u>(39,070,045.55)</u>	<u>1,425,364,084.15</u>	<u>675,090,321.00</u>	<u>2,100,454,405.15</u>

**COMPANY 'S AND CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITIES - continued
FOR THE SIX MONTHS ENDED 30 JUNE 2013**

		Equity attributable to owners of the Company						Minority interests	Total shareholders' equity	
		Share capital	Capital reserve	Special reserve	Surplus reserve	Retained profits	Others	Total		
		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
I	At 31 December 2011 (audited)	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	177,006,357.49	1,312,046,872.55
	Add: Effect of business combination under common control	—	640,862,873.66	4,639,916.21	45,564,923.06	54,010,840.99	—	745,078,553.92	401,399,675.37	1,146,478,229.29
II	At 1 January 2012 (restated and audited)	<u>417,641,867.00</u>	<u>915,688,310.06</u>	<u>7,594,487.89</u>	<u>166,062,776.72</u>	<u>407,932,077.47</u>	<u>(34,800,450.16)</u>	<u>1,880,119,068.98</u>	<u>578,406,032.86</u>	<u>2,458,525,101.84</u>
III	Changes for the period	—	(336,914,603.66)	2,156,497.20	(45,564,923.06)	(11,050,647.93)	745,481.95	(390,628,195.50)	49,102,802.93	(341,525,392.57)
	1. Net profit	—	—	—	—	55,983,588.24	—	55,983,588.24	43,092,064.11	99,075,652.35
	2. Other comprehensive income	—	—	—	—	—	745,481.95	745,481.95	471,998.03	1,217,479.98
	Subtotal of 1 and 2	—	—	—	—	55,983,588.24	745,481.95	56,729,070.19	43,564,062.14	100,293,132.33
	3. Owners' contributions and reduction in capital	—	(336,914,603.66)	(856,054.28)	(45,564,923.06)	(41,975,723.17)	—	(425,311,304.17)	4,018,535.56	(421,292,768.61)
	(1) Capital contribution from owners	—	—	—	—	—	—	—	—	—
	(2) Free transfer of assets	—	(336,914,603.66)	(856,054.28)	(45,564,923.06)	(41,975,723.17)	—	(425,311,304.17)	(47,636,927.93)	(472,948,232.10)
	(3) Effect of business combination under common control	—	—	—	—	—	—	—	51,655,463.49	51,655,463.49
	4. Profit distribution	—	—	—	—	(25,058,513.00)	—	(25,058,513.00)	—	(25,058,513.00)
	(1) Distributions to shareholders	—	—	—	—	(25,058,513.00)	—	(25,058,513.00)	—	(25,058,513.00)
	5. Special reserve	—	—	3,012,551.48	—	—	—	3,012,551.48	1,520,205.23	4,532,756.71
	(1) Amount provided in the period	—	—	3,660,576.47	—	—	—	3,660,576.47	1,941,551.18	5,602,127.65
	(2) Amount utilized in the period	—	—	(648,024.99)	—	—	—	(648,024.99)	(421,345.95)	(1,069,370.94)
	6. Others	—	—	—	—	—	—	—	—	—
IV	At 30 June 2012 (restated and unaudited)	<u>417,641,867.00</u>	<u>578,773,706.40</u>	<u>9,750,985.09</u>	<u>120,497,853.66</u>	<u>396,881,429.54</u>	<u>(34,054,968.21)</u>	<u>1,489,490,873.48</u>	<u>627,508,835.79</u>	<u>2,116,999,709.27</u>

I BASIS OF PREPARATION OF INTERIM FINANCIAL STATEMENTS

The Company's and consolidated interim financial statements have been prepared in accordance with China Accounting Standard 32 "Interim Financial Reporting" and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on SEHK (the "Listing Rules").

II SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The accounting policies used in the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012 that was prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance ("MoF") on 15 February 2006 ("CAS") .

On 5 November 2012, MoF issued CAS Interpretation No.5 (the "Interpretation") which will be effective with prospective method on 1 January 2013, and retroactive adjustments will not be required. The Group has not early applied the Interpretation, and the application of Interpretation did not have significant influence of the financial statements of the Group.

As of 30 June 2013, the Group has total current liabilities in excess of total current assets of RMB 87,665,135.17. As the Group has the unutilized bank facilities of about RMB 3.3 billion, the Group will be able to operate as a going concern with sufficient funds. As a result, the financial statements are prepared on a going concern basis.

1. Statement of compliance with CAS

The financial statements of the Company have been prepared in accordance with CAS, and present truly and completely, the Company's and consolidated financial position as of 30 June 2013, and the Company's and consolidated results of operations and cash flows for the six months ended 30 June 2013.

2. Basis of accounting and principle of measurement

The Group has adopted the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, 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, from 1 January to 31 December. The accounting period of these interim financial statements is from 1 January to 30 June.

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 overseas subsidiaries choose 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**

Business combinations are classified into 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 profits.

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 recognized 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 PRC subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Company. Where the accounting policies and accounting periods adopted by foreign subsidiaries are inconsistent with those of the Company, appropriate adjustments are made to the subsidiaries' financial statements in accordance with the accounting policies and accounting periods of 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 profits.

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 profits is the translated closing balance of the previous year’s retained profits; the closing balance of retained profits 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, other receivables, etc.

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.

9.6.3 Financial guarantee contracts

Financial guarantee contracts represent those contracts in which the guarantor and the creditor agrees that the guarantor will settle debts or assume liabilities in accordance with terms therein if the debtor fails to make payment. Financial guarantee contracts other than those designated as financial liabilities at fair value through profit or loss or loan commitments that are not designated at fair value through profit or loss and granted at a rate below market rates are initially recognised at fair value less directly attributable transaction fees, and shall be subsequently measured at the higher of the following: the amount determined in accordance with CAS 13 "Contingencies" and the amount initially recognised less cumulative amortisation recognized in accordance with the principles set out in CAS No. 14"Revenue".

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 accounts receivable, other receivables, etc. Accounts receivables from sales of goods or rendering of services are initially recognised at the fair value of the contract.

10.1. *Receivables that are individually significant and for which bad debt provision is individually assessed*

Basis or monetary criteria for determining an individually significant receivable

The Group considers accounts receivable above RMB10 million (including RMB 10 million) and other receivables above RMB 2 million (including RMB 2 million) as receivables that are individually significant.

Method of determining provision for receivables that are individually significant and for which bad debt provision is individually assessed

The Group assesses the receivables individually for impairment. The bad debt is provided when the group will not receive the debt based on the original terms, and the amount for provision is the difference between the present value of expected future cash flows and the carrying amount.

10.2. *Receivables that are not individually significant but for which bad debt provision is individually assessed*

If there is objective evidence that receivables that are not individually significant has been impaired, the Group will individually assesses them and made bad debt provision based on the difference between its present value of expected future cash flows and carrying amounts.

11. Inventories

11.1 *Categories of inventories and initial measurement*

The Group's inventories mainly include materials in transit, raw materials, low cost and short-lived materials, packaging materials, work in progress, finished goods 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 *Amortisation method for low cost and short-lived consumable items and packaging materials*

Packaging materials and low cost and short-lived consumable items are amortised using the immediate write-off method.

11.4 *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.

11.5 *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 of CAS, 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 group 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 to 50	0 to 5	1.9 to 10
Building improvement	3 to 5	0	20 to 33.33
Transportation vehicle	5 to 8	0 to 5	11.88 to 20
Machinery and equipment	5 to 12	0 to 5	7.92 to 20
Office equipment and others	3 to 10	0 to 5	9.5 to 33.33
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. Capitalisation of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally and when the suspension is for a continuous period of more than 3 months. Capitalisation is suspended until the acquisition, construction or production of the asset is resumed. 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, software, coastline use right, passenger service licences, toll bridge franchise operating rights, trade mark rights, line license use rights and line operation rights, etc.

Intangible assets, other than toll bridge franchise operating rights which are 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.

The expected useful life of intangible assets is as follows:

Category	Expected useful life (years)
Land use rights	20 to 68
Software	5 to 10
Coastline use right	48
Passenger service licences	Indefinite
Toll bridge franchise operating rights	30
Trade mark rights	10
Line licences use rights and line operating rights	3 to 8

The Group assesses at each balance sheet date estimated useful lives and amortization method of intangible assets with a finite useful life, such as land use rights, software, coastline use right, toll bridge franchise operating rights, trademark rights and line license use rights and line operation rights, and makes adjustments when necessary. Passenger service licences with indefinite useful life are tested for impairment annually.

17.2 Research and development expenditure

Expenditure during the research phase is recognized 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 recognized as intangible asset. Expenditure during development phase that does not meet the following conditions is recognized 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 recognizes 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 recognized 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 recognized, it will not be reversed in any subsequent period.

18. **Long-term prepaid expenses**

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

The Group assesses at each balance sheet date whether there is any long-term prepaid expenses 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 recognized in profit or loss for the period.

19. Provisions

Provisions are recognized when the Group has a present obligation related to a contingency, 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 recognized 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.

When all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that the reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provisions.

20. Revenue

20.1 *Revenue from sale of goods*

Revenue from sale of goods is recognized 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 recognized 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 recognized 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 cost of services incurred to date as a percentage of total estimated cost of services to be incurred.

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

20.3 *Revenue from construction contracts*

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognized 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 recognized to the extent of contract costs that are expected to be recoverable; and contract costs are recognized as expenses in the period in which they are incurred; (2) if contract costs are not expected to be recoverable, they are recognized as expenses immediately when incurred and contract revenue is not recognized. 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 recognized using the percentage of completion method.

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

The cumulative costs incurred and cumulative gross profits (or losses) recognized 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) recognized 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) recognized, 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 recognized 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 recognized immediately in profit or loss for the period.

A government grant related to an asset is recognized as deferred income, and evenly amortized 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 recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized. If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period.

For repayment of a government grant already recognized, if there is related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the period. If there is no related deferred income, the repayment is recognized 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 recognized as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognized using the balance sheet liability method.

Except that deferred tax is not recognized for the provided but not yet utilized safe production costs which are considered as permanent differences rather than temporary differences, deferred tax is generally recognized for other temporary differences. Deferred tax assets for deductible temporary differences are recognized 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 owners' equity, in which case they are recognised in other comprehensive income or in owners' 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.

23.3 *The Group as lessee under finance leases*

At the commencement of the lease term, the Group records the leased asset at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments at the inception of the lease, and recognises a long-term payable at an amount equal to the minimum lease payments. The difference between the recorded amounts is accounted for as unrecognised finance charge. Besides, initial direct costs that are attributable to the leased item incurred during the process of negotiating and securing the lease agreement are also added to the amount recognised for the leased asset.

Unrecognised finance charges are recognised as finance charge for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of minimum lease payments less unrecognised finance charges is separated into long-term liabilities and the portion of long-term liabilities due within one year for presentation.

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. The benefit scheme to be offered to the retired staff and the internal retirees in future is recognized as a liability by the Group.

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.

III TAXES

Major categories of taxes and tax rates

Category of tax	Basis of tax computation	Tax rate
Value-added tax	Income from sale of products	13%, 17%
Value-added tax	Transportation income (Note)	exempted, 3%, 11%
Value-added tax	Income from rendering of service (Note)	6%
Business tax	Income from highway facilities and other auxiliary facilities, and income from rendering of service (Note)	5%
Business tax	Income from construction contracts transportation income and toll income	3%
Business tax	Transportation income (Note)	exempted, 3%
City maintenance and construction tax	VAT and business tax payables	5%, 7%
Educational surtax and surcharge	VAT and business tax payables	3%, 2%
Embankment protection cost	Taxable operating income	0.05%, 0.1%, 0.13%
Enterprise income tax (Mainland China)	Taxable profit	25%
Hong Kong profits tax	Assessable profit	16.5%

Note: In accordance with the Announcement 2012-No. 6, The Announcement on the Pilot of Changing from Business Tax (“BT”) to Value-added Tax (“VAT”) for Transportation Industry and Certain Modern Service Industries in Guangdong Province issued by the State Administration of Taxation of Guangdong Province, since 1 November 2012, organizations and individuals in the transportation industry and certain modern service industries shall pay VAT instead of BT (hereinafter referred to as “levying VAT instead of BT”) according to relevant requirements. Since 1 November 2012, the Company and its subsidiaries that meet the conditions of levying VAT instead of BT pilot shall apply the VAT rate stipulated by the Implementation Measures of the Pilot of Changing from Business Tax into Value-added Tax for Transportation Industry and Certain Modern Service Industries (Cai Shui [2011] No. 111). Accordingly, transportation revenues of the Group arising from cross-border transportation would be exempted from VAT, and part of the subsidiaries would use the simplified tax levy rate of 3% to account for value-added taxes.

IV BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

(1) **New subsidiaries that have been established during the period and that have been consolidated during the period through a business combination not involving enterprises under common control**

Full name of the subsidiary	Type	Address of registered office	Nature of business	Registered capital	Actual capital contribution at the end of the period	Proportion of ownership interest (%)	Proportion of voting power (%)	Established or acquired
Yang Jiang City Yueyun Langri Fuels Company Limited	Company Limited	Guangdong Yangjiang	Fuel retail	RMB 3,000,000.00	RMB 3,000,000.00	100%	100%	Established
Yang Jiang City Yueyun Langri Logistics Company Limited	Company Limited	Guangdong Yangjiang	General freight	RMB 2,000,000.00	RMB 2,000,000.00	100%	100%	Established
Long Chuan County Public Transportation Co., Ltd	Company Limited	Guangdong Heyuan	Public passenger transportation	RMB 500,000.00	RMB 500,000.00	100%	100%	Established
Yang Jiang City Yueyun Langri Property development Company Limited	Company Limited	Guangdong Yangjiang	Property development	RMB 5,000,000.00	RMB 5,000,000.00	100%	100%	Established
Guangdong Gangtong Vehicles Transportation Company Limited	Company Limited	Guangdong Guangzhou	Passenger transportation between Guangzhou and Hongkong	HK\$ 5,000,000.00	HK\$ 5,000,000.00	100%	100%	Established
He Yuan City Communication Group Tongxing Travel Automobile Company Limited (“HYTX”)	Company Limited	Guangdong Heyuan	Automobile transportation	RMB 1,000,000.00	RMB 1,000,000.00	100%	100%	Business combinations not involving enterprises under common control
He Yuan City Yue Yun Lvdu Public Transportation Co., Ltd (“YYLD”)	Company Limited	Guangdong Heyuan	Public transportation	RMB 9,000,000.00	RMB 9,000,000.00	100%	100%	Business combinations not involving enterprises under common control
Yang Jiang City Yangzha New Image Public Transportation Company Limited (“YZNI”)	Company Limited	Guangdong Yangjiang	Automobile transportation	RMB 1,000,000.00	RMB 1,000,000.00	100%	100%	Business combinations not involving enterprises under common control

(2) **Subsidiaries that are excluded from consolidation in the period**

Full name of the subsidiary	Type of disposal	Net assets on deregistration date	<i>RMB</i>
			Net loss from the beginning of the period to the date of deregistration
Yangjiang Xinhe Management Consultant Company Limited	Deregistration	1,208,961.86	(12,062.83)

(3) **The effect of new entity that has been consolidated through a business combination involving enterprises under common control in 2012 on consolidated income statement and consolidated cashflow for the six months ended 30 June, 2012**

Guangdong Vehicles Transportation Group Company Limited (“GVTG”) was newly acquired in 2012 through a business combination involving enterprises under common control, because its ultimate controlling party before and after the combination is Guangdong Provincial Communication Group Company Limited (“GCGC”). 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 effect of business combination under common control incurred in 2012 on the group's consolidated income statement for the six months ended 30 June, 2012 is as follows:

Item	<i>RMB</i>		
	For the six months ended 30 June, 2012 (Before restated) (Unaudited)	Effect of business combination involving enterprises under common control	For the six months ended 30 June, 2012 (Restated) (Unaudited)
Total operating income	1,944,898,853.76	972,122,125.95	2,917,020,979.71
Less: Operating costs	1,713,873,122.59	689,082,935.37	2,402,956,057.96
Business taxes and levies	21,472,545.49	35,037,626.50	56,510,171.99
Selling expenses	42,117,547.07	1,088,058.82	43,205,605.89
Administrative expenses	114,083,900.67	150,644,940.88	264,728,841.55
Financial expenses	16,193,082.62	15,443,008.45	31,636,091.07
Impairment losses of assets	(2,620,567.59)	116,114.36	(2,504,453.23)
Add: Investment income	134,071.40	(2,795,920.28)	(2,661,848.88)
Operating profit	39,913,294.31	77,913,521.29	117,826,815.60
Add: Non-operating income	8,352,428.47	22,934,977.91	31,287,406.38
Less: Non-operating expenses	1,795,785.30	1,599,706.77	3,395,492.07
Total profit	46,469,937.48	99,248,792.43	145,718,729.91
Less: Income tax expenses	16,880,002.59	29,763,074.97	46,643,077.56
Net profit	29,589,934.89	69,485,717.46	99,075,652.35
Net profit attributable to shareholders of the Company	29,524,958.19	26,458,630.05	55,983,588.24
Profit attributable to minority interests	64,976.70	43,027,087.41	43,092,064.11
Other comprehensive income	1,217,479.98	—	1,217,479.98
Total comprehensive income	30,807,414.87	69,485,717.46	100,293,132.33
Total comprehensive income Attributable to shareholders of the Company	30,270,440.14	26,458,630.05	56,729,070.19
Total comprehensive income attributable to minority interests	536,974.73	43,027,087.41	43,564,062.14

The effect of business combination under common control incurred in 2012 on the group's consolidated cash flow for the six months ended 30 June, 2012 is as follows:

Item	<i>RMB</i>		
	For the six months ended 30 June, 2012 (As reported) (Unaudited)	Effect of business combination involving enterprises under common control	For the six months ended 30 June, 2012 (Restated) (Unaudited)
I. Cash Flows from Operating Activities:			
Cash receipts from the sale of goods and the rendering of services	2,079,451,914.97	921,484,921.14	3,000,936,836.11
Receipts of tax refunds	1,191,044.38	—	1,191,044.38
Other cash receipts relating to operating activities	10,810,267.52	50,644,072.10	61,454,339.62
Sub-total of cash inflows from operating activities	2,091,453,226.87	972,128,993.24	3,063,582,220.11
Cash payments for goods purchased and services received	2,797,604,953.00	428,953,770.72	3,226,558,723.72
Cash payments to and on behalf of employees	168,142,283.71	263,305,205.60	431,447,489.31
Payments of various types of taxes	110,272,976.48	64,965,070.96	175,238,047.44
Other cash payments relating to operating activities	83,633,579.08	63,130,649.80	146,764,228.88
Sub-total of cash outflows from operating activities	3,159,653,792.27	820,354,697.08	3,980,008,489.35
Net Cash Flow from Operating Activities	(1,068,200,565.40)	151,774,296.16	(916,426,269.24)
II. Cash Flows from Investing Activities:			
Cash receipts from investment income	—	13,180,279.14	13,180,279.14
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets	935,411.04	5,847,586.00	6,782,997.04
Other cash received relating to investing activities	8,000,000.00	—	8,000,000.00
Sub-total of cash inflows from investing activities	8,935,411.04	19,027,865.14	27,963,276.18
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets	42,142,645.21	93,622,589.43	135,765,234.64
Cash payments to acquire investments	125,134.39	15,862,077.77	15,987,212.16
Sub-total of cash outflows from investing activities	42,267,779.60	109,484,667.20	151,752,446.80
Net Cash Flow from Investing Activities	(33,332,368.56)	(90,456,802.06)	(123,789,170.62)

Item	For the six months ended 30 June, 2012 (As reported) (Unaudited)	Effect of business combination involving enterprises under common control	For the six months ended 30 June, 2012 (Restated) (Unaudited)
III. Cash Flows from Financing Activities:			
Cash receipts from capital contributions	—	14,800,000.00	14,800,000.00
Cash receipts from borrowings	180,000,000.00	221,284,832.06	401,284,832.06
Other cash receipts relating to financing activities	—	6,949,591.41	6,949,591.41
Sub-total of cash inflows from financing activities	180,000,000.00	243,034,423.47	423,034,423.47
Cash repayments of borrowings	160,000,000.00	186,518,378.95	346,518,378.95
Cash payments for distribution of dividends or settlement of interest expenses	32,351,806.81	24,091,932.58	56,443,739.39
Other cash payments relating to financing activities	109,005,610.24	6,657,465.53	115,663,075.77
Sub-total of cash outflows from financing activities	301,357,417.05	217,267,777.06	518,625,194.11
Net Cash Flow from Financing Activities	(121,357,417.05)	25,766,646.41	(95,590,770.64)
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents	668,882.70	—	668,882.70
V. Net Increase (Decrease) in Cash and Cash Equivalents	(1,222,221,468.31)	87,084,140.51	(1,135,137,327.80)
Add: Opening balance of Cash and Cash Equivalents	2,090,675,547.91	135,476,071.41	2,226,151,619.32
VI. Closing Balance of Cash and Cash Equivalents	868,454,079.60	222,560,211.92	1,091,014,291.52

V NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 Cash and cash equivalents

As at 30 June 2013, the closing balance of cash included the restricted monetary funds of customs deposit, security deposit for bank acceptance bills, letter of guarantee and performance bonds, and special fund for sale of house totally amounting to RMB25,508,823.24 (31 December 2012: RMB8,960,403.81) which was deducted from the balance of cash and cash equivalents.

2 Accounts receivable

The Group assessed the credit worthiness of potential clients and set corresponding credit limits according to the internal credit assessment policies before accepting new clients,. Except for the requirement that new clients usually need to make payments in advance, various companies of the Group have different credit policies, depending on their business market and operation requirements. Credit period is generally 3 months, while the credit period of major clients can be extended to 6 months.

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

Ageing	30 June 2013	31 December 2012
	RMB	RMB
Within 3 months	439,419,413.73	482,666,420.42
Over 3 months and within 6 months	201,433,946.57	31,848,936.82
Over 6 months and within 1 year	27,443,662.06	18,615,408.71
Over 1 year and within 2 years	117,820,047.12	120,666,653.41
Over 2 years and within 3 years	17,846,885.54	51,256,017.63
Over 3 years	<u>62,244,630.33</u>	<u>26,065,682.18</u>
Total	<u>866,208,585.35</u>	<u>731,119,119.17</u>

The carrying amount of accounts receivable is arrived at after deducting of bad debt provision amounted to RMB 24,445,844.21 (31 December 2012: RMB24,452,273.42).

3 Fixed assets

The increase of RMB 279,232,835.90 in the original cost for the current period consists of acquisitions of RMB 51,799,993.20, an increase of RMB 132,585,784.05 transferred from construction in progress, an increase of RMB 94,810,052.02 due to changes of consolidation scope, and an increase of RMB 37,006.63 for other reasons.

The decrease of RMB 121,615,596.40 in the carrying amount for the current period consists of a decrease of RMB 40,907.61 on the transfer from owner-occupied properties to investment properties, a decrease of RMB 1,932,987.39 on the effect of foreign exchange differences, a decrease of RMB 3,354,174.98 on disposals, and a decrease of RMB 115,993,986.06 due to depreciation provided for the current period, and an decrease of RMB 293,540.36 for other reasons.

The carrying amount of disposed fixed assets for the current period was RMB 3,354,174.98, of which the sales proceed was RMB 4,168,960.75 and the disposal gain was RMB 814,785.77.

As at 30 June 2013, the original cost of fixed assets that are fully depreciated but are still in use is RMB 400,004,944.78 (31 December 2012: RMB 316,582,023.09).

As at 30 June 2013, fixed assets with carrying amount of RMB 89,299,788.01 (31 December 2012: RMB 96,675,028.21) were pledged for bank borrowings. As at 30 June 2013, there are no other restricted fixed assets than those pledged for bank borrowings.

As at 30 June 2013, the carrying amount of buildings without certificate or title of which has not been officially transferred in the Group was RMB 108,802,983.51 (31 December 2012: RMB 65,688,092.44).

As at 30 June 2013, the carrying amount of vehicles without certificate in the Group was RMB 34,265,470.19 (31 December 2012: RMB 0).

4 Intangible assets

The increase of RMB 97,406,494.12 in the original cost for the current period consists of an increase of RMB 9,058,352.80 on acquisition of land use rights, line licences use rights and line operating rights, software etc., and an increase of RMB 88,348,141.32 due to change of consolidation scope.

The decrease of RMB 17,676,778.22 in the carrying amount for the current period consists of a decrease of RMB 1,288,962.48 on the transfer from land use right to investment property, a decrease of RMB 1,043,825.06 due to effect of foreign exchange differences, a decrease of RMB 102.08 on disposals, and a decrease of RMB 15,343,888.60 due to amortization provided for the current period.

As at 30 June 2013, intangible assets with carrying amount of RMB 39,241,464.55 (31 December 2012: RMB 21,715,916.71) were pledged for bank borrowings. As at 30 June 2013, there are no other restricted intangible assets than those pledged for bank borrowings.

As at 30 June 2013, the carrying amount of the land use rights without certificate or title of which has not been officially transferred in the Group was RMB 40,969,468.47 (31 December 2012: RMB 16,011,965.43).

As at 30 June 2013, land use rights with carrying amount of RMB 7,219,377.27 (31 December 2012: RMB 7,219,377.27) were obtained through appropriation. As the certificate of title did not stipulate useful life, these land use rights had not been amortized.

5 Short-term borrowings

Ageing		30 June 2013 RMB	31 December 2012 RMB
Short-term borrowings-Unsecured and non-guaranteed loans	<i>Note1</i>	306,500,000.00	5,400,000.00
Short-term borrowings-Secured loans with securities under the Group's custody	<i>Note2</i>	14,500,000.00	5,000,000.00
Short-term borrowings-letter of credit mortgaged loans		22,770,972.69	—
Short-term borrowings-guaranteed loans	<i>Note3</i>	<u>5,000,000.00</u>	<u>—</u>
Total		<u>348,770,972.69</u>	<u>10,400,000.00</u>

Note1: The loans are unsecured and non-guaranteed bank borrowings that fall due within one year. The loan interest rate floats monthly.

Note2: For the details of pledged assets and their amount, please refer to Note 5.3 and Note 5.4 to the financial statements.

Note3: The borrowings were guaranteed by GVTG, a subsidiary of the Group, and a 3rd-party company, Guangzhou City No. 2 Public Bus Company to one of the subsidiaries of the Group, Guangdong Yueyun No.2 Transportation Company Limited.

Note4: According to the bank borrowings agreements, the Group has no short-term borrowings that expired but not repaid.

6 Accounts payable

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

Ageing		30 June 2013 RMB	31 December 2012 RMB
Within 3 months		585,351,254.27	671,852,022.50
Over 3 months and within 6 months		35,678,529.65	35,012,871.81
Over 6 months and within 1 year		73,229,270.61	28,924,131.40
Over 1 year and within 2 years		29,854,398.78	48,323,978.62
Over 2 years and within 3 years		15,184,150.92	12,790,847.56
Over 3 years		<u>31,254,395.91</u>	<u>27,251,132.21</u>
Total		<u>770,552,000.14</u>	<u>824,154,984.10</u>

7 Bonds payable

RMB

Bonds name	Period	Issue date	Face value	Amount of discount	Amortized discount at 1 January 2013	Amortization for the current period	Carrying amount at 30 June 2013
Non-public directional debt financing	3 years	2012/11/30	300,000,000.00	(3,041,667.00)	79,477.39	485,534.80	297,523,345.19

In 2012, According to “GVTG non-public directional debt financing issuance agreement” and “GVTG underwriting of non-financial corporate debt financing instruments of inter-bank bond market agreement”, GVTG entrusted the Bank of HuaXia as the underwriter to issue the non-public directional debt financing instrument for the first phase. The issued amount of first phase is RMB 300 million with a term of three years. The interest of principal is paid annually with coupon rate of 5.8%. On the maturity, the principal and interest are returned. GCGC provides the principal and interest in full unconditional and irrevocable joint guarantee for the bond.

8 Retained profits

	For the six months ended	
	30 June 2013	30 June 2012
	RMB	RMB
		<i>(restated)</i>
Retained profits at the beginning of the period (Before adjustment)	411,164,608.79	353,921,236.48
Add: Effect on business combination involving enterprises under common control	—	54,010,840.99
Retained profits at beginning of year (After adjustment)	411,164,608.79	407,932,077.47
Add: Net profit attributable to owners of the Company for the period	68,641,396.45	55,983,588.24
Less: Appropriation to statutory surplus reserve	—	—
Appropriation to discretionary surplus reserve	—	—
Profits attributable to owners of the Company	479,806,005.24	463,915,665.71
Less: Declaration of dividends	<i>Note 1</i> 21,717,377.00	25,058,513.00
Free assets transfer	<i>Note 4</i> —	41,975,723.17
Retained profits at the end of the period	<i>Note 3</i> <u>458,088,628.24</u>	<u>396,881,429.54</u>
Including: profit distribution decided after the balance sheet date	<i>Note 2</i> —	—

Note 1: A final dividend of RMB 0.052(tax included) per share for year 2012 amounting to RMB 21,717,377.00 were approved by shareholders in annual general meeting held on 30 May 2013. Dividend payable was recorded in the current period's financial statements (prior period in 2012: RMB0.06 (tax included) per share amounting to RMB 25,058,513.00).

Note 2: The Board does not recommend the payment of an interim dividend for the period.

Note 3: As at 30 June 2013, the Group's retained profits included appropriation to surplus reserve by subsidiaries amounting to RMB 229,028,357.36 (31 December 2012: RMB 228,601,159.89). As at 30 June 2013, the Company's distributable reserve was RMB 179,602,528.01 (31 December 2012: RMB 170,631,710.75).

Note 4: It was decreased due to free assets transfer by GVTG before acquisition of GVTG by the Company.

9 Depreciation, amortisation and cost of goods sold

Net profit for the interim period has been deducted depreciation and amortisation of a total of RMB136,149,134.12 (prior period in 2012: RMB135,045,510.5) and cost of goods sold of RMB1,433,083,756.21 (prior period in 2012: RMB1,377,756,780.91).

10 Financial expenses

	For the six months ended	
	30 June 2013	30 June 2012
	RMB	RMB
		<i>(restated)</i>
Interest expenses	24,197,922.76	38,181,201.98
Less: Capitalised interest expense	—	—
Less: Interest income	6,678,026.81	10,127,040.29
Exchange differences	(2,347,135.49)	(278,425.80)
Less: Capitalised exchange differences	—	—
Amortisation of unrecognised financial cost	530,000.00	866,263.00
Others	<u>1,593,867.39</u>	<u>2,994,092.18</u>
Total	<u>17,296,627.85</u>	<u>31,636,091.07</u>

11 Investment income

	For the six months ended	
	30 June 2013	30 June 2012
	<i>RMB</i>	<i>RMB</i>
		<i>(restated)</i>
Income (loss) from investments in associates under equity method	3,028,813.61	(803,027.42)
Income (loss) from investments in joint ventures under equity method	(3,692.81)	390,482.45
Income from long-term equity investments under cost method	300,000.00	—
Income (loss) on disposal of long-term equity investments	—	(81,216.85)
Amortization of other non-current assets	(229,690.69)	(2,168,087.06)
Others-Income from investment products offered by banks	<u>293,388.26</u>	<u>—</u>
Total	<u>3,388,818.37</u>	<u>(2,661,848.88)</u>

There are no significant restrictions on remittance of investment income.

12 Non-operating income

	For the six months ended	
	30 June 2013	30 June 2012
	<i>RMB</i>	<i>RMB</i>
		<i>(restated)</i>
Total gains on disposals of non-current assets	1,417,834.97	1,423,826.20
Including: Gains on disposals of fixed assets	1,417,834.97	1,423,826.20
Gains on disposals of intangible assets	—	—
Liability written off	—	2,071,524.25
Government grants (Note)	22,803,193.29	21,145,212.96
Others	<u>5,417,799.95</u>	<u>6,646,842.97</u>
Total	<u>29,638,828.21</u>	<u>31,287,406.38</u>

Note: Government grants mainly consist of refund of tax, fuels subsidies received by GVTG in accordance with Cai Jian No. [2009]1008 “Interim Measures for the Special Funds Administration of Refined Oil Prices Subsidies for Urban and Rural Road Passenger Transport” and other relevant regulations, subsidies for operation of supporting rural passenger transport and public transportation operation etc.

13 **Income tax expenses**

	For the six months ended	
	30 June 2013	30 June 2012
	<i>RMB</i>	<i>RMB</i>
		<i>(restated)</i>
Current income tax	45,074,470.82	46,813,505.24
Including: Mainland China current income tax	45,054,070.70	46,650,343.07
Hong Kong profits tax	20,400.12	163,162.17
Adjustments to income tax of last year	1,484,004.82	(1,168,661.55)
Deferred income tax	<u>3,347,146.24</u>	<u>998,233.87</u>
 Total	 <u>49,905,621.88</u>	 <u>46,643,077.56</u>

Please refer details of enterprise income tax rates to Note III to the financial statements.

14 **Earnings per share**

	For the six months ended	
	30 June 2013	30 June 2012
	<i>RMB</i>	<i>RMB</i>
		<i>(restated)</i>
Net profit for the current period attributable to owners of the Company	68,641,396.45	55,983,588.24
Including: Net profit from continuing operations	68,641,396.45	59,044,349.79
Net profit from discontinuing operations	—	(3,060,761.55)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	417,641,867	417,641,867
Add: Increase of weighted average number of outstanding ordinary shares under the conversion of Perpetual Subordinated Convertible Securities (“PSCS”)	102,850,364	102,850,364
Weighted average number of outstanding ordinary shares for calculation of diluted earnings per share	<u>520,492,231</u>	<u>520,492,231</u>
 Calculated based on net profit attributable to owners of the Company:		
Basic earnings per share	0.16	0.13
Diluted earnings per share	<u>0.13</u>	<u>0.11</u>

For the six months ended

30 June 2013

	Material logistics services RMB	Expressway service zones RMB	Motor transportation and auxiliary services RMB	Transportation intelligence services RMB	Taiping Interchange RMB	Unallocated RMB	Inter-segment elimination RMB	Total RMB
Operating income								
External revenue	1,180,496,620.51	306,992,837.12	1,067,654,611.36	—	75,112,761.04	1,962,719.10	—	2,632,219,549.13
Inter-segment revenue	—	359,596.74	647,430.00	—	—	2,446,010.70	(3,453,037.44)	—
Total segment operating income	1,180,496,620.51	307,352,433.86	1,068,302,041.36	—	75,112,761.04	4,408,729.80	(3,453,037.44)	2,632,219,549.13
Segment operating profit (loss)	<u>7,974,993.28</u>	<u>24,591,414.55</u>	<u>67,865,830.47</u>	<u>—</u>	<u>27,026,274.57</u>	<u>959,503.00</u>	<u>(1,047,431.94)</u>	<u>127,370,583.93</u>

30 June 2012

	Material logistics services RMB	Expressway service zones RMB	Motor transportation and auxiliary services RMB	Transportation intelligence services RMB	Taiping Interchange RMB	Unallocated RMB	Inter-segment elimination RMB	Total RMB
Operating income								
External revenue	1,303,578,396.26	258,831,047.98	1,115,410,160.16	170,396,923.84	68,640,126.67	164,324.80	—	2,917,020,979.71
Inter-segment revenue	—	294,082.00	—	4,232,445.95	—	2,966,282.10	(7,492,810.05)	—
Total segment operating income	1,303,578,396.26	259,125,129.98	1,115,410,160.16	174,629,369.79	68,640,126.67	3,130,606.90	(7,492,810.05)	2,924,513,789.71
Segment operating profit (loss)	<u>1,628,842.61</u>	<u>16,841,567.23</u>	<u>82,326,368.06</u>	<u>(3,879,437.68)</u>	<u>22,498,537.71</u>	<u>1,374,857.82</u>	<u>(2,963,920.15)</u>	<u>117,826,815.60</u>

16 **Net current assets**

	30 June	31 December
	2013	2012
	<i>RMB</i>	<i>RMB</i>
Current assets	2,389,608,740.63	2,619,448,882.24
Less: Current liabilities	<u>2,477,273,875.80</u>	<u>2,613,310,733.74</u>
Net current assets (liabilities)	<u>(87,665,135.17)</u>	<u>6,138,148.50</u>

17 **Total assets less current liabilities**

	30 June	31 December
	2013	2012
	<i>RMB</i>	<i>RMB</i>
Total assets	5,008,848,750.44	5,017,422,579.03
Less: Current liabilities	<u>2,477,273,875.80</u>	<u>2,613,310,733.74</u>
Total assets less current liabilities	<u>2,531,574,874.64</u>	<u>2,404,111,845.29</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Upon the restructuring completed at the end of 2012 and following half a year of ramping up, the Group's three-pillar businesses approach, namely motor vehicle transportation and auxiliary services, material logistics services and expressway service zone business, are taking shape. All three business segments are progressing well, laying a solid foundation for our leap-forward development in the future.

The performance of each segment as of 30 June 2013 is as follows:

Motor vehicle transportation and auxiliary services

i. Domestic transportation business

Facing the challenges brought about by high-speed rail and urban rail, the Group aptly utilized the flexibility and convenience of road passenger transportation to strengthen our market position. As of end of June 2013, the passenger traffic was 27.734 million passengers for road passenger transportation with a passenger revenue of approximately 3.6 billion passenger-kilometres, maintaining a similar level as last year.

The Group actively explored new business opportunities and raised points of new growth during the first half of the year. During the first six months of the year, our expressway rescue business had a steady growth with two regional dispatch centres each established in eastern Guangdong and northern Guangdong, laying the ground for the establishment of a sizeable, network-based and integrated transportation rescue business model. During the period between January and June 2013, approximately 26,200 calls of the expressway rescue business were actually handled. During the period, the Group also conducted study for entering into the insurance assessment business.

During the first six months of 2013, the Group actively pushed forward consolidation of our resources and carried out market study and due diligence for the relevant businesses. Based on our strategic plan, all advertising resources of our vehicles and terminals would be centralized and managed by Guangdong New Way Advertising Company Limited, a subsidiary of the Group. In addition, our "Loyee" convenience stores will be gradually opened at our "Yueyun" terminals to achieve a branding effect for the Group to maximize the integrated value.

To expand the passenger transportation business of our routes and terminal network within Guangdong Province and to maintain our competitive edge in Guangdong vehicle transportation market, the Group actively pursued negotiations with operators in Shaoguan, Qingyuan and Xinfeng for cooperation during the first six months in 2013 based on our “mergers & acquisitions-consolidation-growth” development approach.

ii. *Cross-border transportation business*

Maintenance of passenger transportation routes: we strengthened communication with competent local authorities and cooperating partners and conducted market research to better understand the operations of peer operators in order to well maintain our existing passenger transportation routes. Routes, frequencies, fares, locations of stops, etc. were adjusted and higher actual load rates were achieved, thus securing our market share.

Expansion of scope of service: we improved the bus stop locations in Hong Kong and opened a through bus service centre in Tsuen Wan, which further strengthened our reputable GD-HK through bus brand image. We invested significant resources in the operation of Guangzhou’s first through bus terminal at Dashatou for through buses travelling between Guangdong and Hong Kong and Guangdong and Macau. We added Kechun metro station to our bus stop list aiming to make such terminal a transportation hub for Guangdong, Hong Kong and Macau travelers as soon as possible. Shuttle bus service between Hong Kong and Shenzhen Bay port was launched during the period, which allowed us to better utilize our bus resources and achieve higher revenue. In addition, we were also successfully granted 15 charter coach licences.

Strengthening and expansion of customer base: we put strengthening and expansion of customer base as the focus of cross-border freight transportation during the period and successfully renewed our service contracts with our major customers. Despatch of freight was also enhanced during the period.

Material logistics service

Facing slowdown in construction of expressways in Guangdong Province, the Group actively explored opportunities for providing materials to companies not within Guangdong Provincial Communication Group Company Limited (“GCGC”) while maintaining our business with GCGC in order to keep the size of our material logistics service. The Group participated in nine material supply projects during the first half of 2013, including GCGC projects such as the Guangzhou-Lechang Expressway, the expansion project of the Guangzhou-Qingyuan Expressway,

Zhaoqing-Huadu Expressway and the expansion project of the Foshan-Kaiping Expressway, as well as non-GCGC projects such as the Guangzhou-Gaoming Expressway, Guizhou-Guangdong rail line, Guangzhou Metro Line 6, Dongjiang grand bridge and the China Southern Power Grid project.

Our asphalt warehousing and wharf businesses remained steady. As of 30 June 2013, the Group's Dongguan Nan Yue Jia Fu Logistics Company Limited handled receipt of approximately 67,500 tons of base asphalt and shipping of approximately 54,500 tons of base asphalt, and finished processing of approximately 12,600 tons of modified PG76 asphalt and approximately 117 tons high viscosity modified asphalt. We reached a preliminary agreement with the Shanghai Futures Exchange, pursuant to which the asphalt warehouse under the Group would be admitted as the Shanghai Futures Exchange's warehouse for settlement of asphalt futures in southern China. The Storage Centre Wharf of the Company has become the only asphalt loading and unloading wharf approved by customs in Dongguan. The wharf's second phase construction completed soft foundation engineering work during the period.

The Group actively explored new business areas for expanding our logistics business and our integrated logistics port project has commenced preliminary work.

The Ministry of Commerce of the PRC promulgated the Method for Grading Operation and Management of Steel Trading Enterprises in 2013. As a recommended enterprise of the Guangdong Provincial Metal Material Industry Association, the Company joined the national grading exercise. We have passed the preliminary assessment and on-site assessment and we will strive to become one of the first steel trading enterprises graded 5A.

Expressway service zone service

In respect of expressway service zone business, during the first half of 2013, the Group continued the planning and construction of our service zones to improve the commercial operating conditions. We also increased our efforts in soliciting service providers to open stores in our service zones and improved the commercial value of the zones. During the first half of the year, the planning and tendering of Xiangang and Reshui service zones for their renovation in order to fully explore the business potential of them. There were in total 105 projects that had completed the signing of agreements in relation to opening of stores or providing services in our service zones, of which four projects belonged to Class A projects that involved contracting fees of over RMB1 million and 19 belonged to Class B project that involved contracting fees

below RMB1 million but above RMB0.3 million. The Group increased the efforts to introduce quality and renowned brands in the service zones. We successfully improved our image by introducing a number of reputable and quality service providers of vehicle repair services in the zones.

The Group actively participated in the construction of new service zones and strived to acquire new service zone resources. In the first half of the year, new service zones in which the Group took part included three pairs of service zones at Xiyang (Meijiang-Dapu section), Fucheng (Yunfu-Luoding section) and Liangchun (Erenhot-Guangzhou section), and new entrusted operation rights acquired included the service zones of the new sections of Yunfu-Luoding Expressway, Meijiang-Dapu Expressway, Erenhot-Guangzhou Expressway and Zhaoqing-Huadu Expressway.

The Group accelerated construction of petrol stations and completed the application for confirmation of construction plans of new petrol stations and successfully obtained the related permits and licences. During the first half of the year, we obtained the confirmation documents for the construction plans of Xiyang and Fucheng petrol stations. We also obtained the business licences of Xiegang (North) and Yayao petrol stations and both stations had commenced operation.

Taking the opportunity provided by the Group's asset reorganization, we prudently proceeded with integration of our motor vehicle transportation and expressway businesses, taking into consideration our current status to better utilize our resources and improve economic efficiency. The Group pursued due diligence for opening convenience stores beyond expressway areas during the first half of the year. The study of opening Loyee convenience stores at Yangjiang and Zhaoqing passenger terminals was completed and the projects have entered the operating stage. We also carried out due diligence for our advertising business and a preliminary media consolidation and utilization plan had been formulated.

For our advertising business, the Group continued to focus on taking over the related resources from GCGC. There were in total 47 expressway sections that were under the management of GCGC and so far 38 of which had been entrusted by agreement to the Group for operation. Such arrangement has laid a foundation for achieving scalable operation of advertising business.

Tai Ping Interchange toll business

As of 30 June 2013, Tai Ping Interchange recorded revenue of approximately RMB75 million, representing an increase of approximately 9.43% over the same period last year.

Development of land held by Guangdong Province Transportation Engineering Company Limited

As approved by the extraordinary general meeting held on 30 November 2010, the Company acquired 100% equity interests of Guangdong Province Transportation Engineering Company Limited. According to 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)) issued in January 2011, a land parcel owned by Guangdong Province Transportation Engineering Company Limited was included in the “old towns, old plants and old villages” (the “Three Olds”) redevelopment project. According to the newly revised 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), the use of the land parcel of Guangdong Province Transportation Engineering Company Limited is now changed to commercial purposes, which meet the overall economic and industrial development and city planning requirements of Baiyun District of Guangzhou and meet the requirements under the district redevelopment policy. The land has been included in the plan for the “Three Olds” target redevelopment project of Baiyun District of Guangzhou. According to the related official documents, the Baiyun Government supports the redevelopment of the land by the Group upon application and payment of land premiums. The Group will actively pursue the project.

OUTLOOK AND STRATEGIES

It is expected that the domestic economy of the PRC will develop according to the basic guiding principle of “economic growth not slipping below the lower limit and inflation not exceeding the upper limit” of the Central Government heading the second half of 2013. The Central Government may launch stimulus policies favourable to certain sectors to support development of the real economy, in particular investments on improvement of urban infrastructure, environmental protection and public services. Such investments will have direct impact on the Group’s principal businesses and the business development of the Group will thus benefit from them.

Under the Guangdong Expressway Construction Plan 2013-2017, there will be 69 expressway projects in Guangdong Province, totalling 5,464 kilometres with a total investment of RMB722.6 billion. The relevant Guangdong government authority has emphasised that the targets for expressway construction set by the Guangdong Provincial Party Committee and Guangdong Provincial Government should be completed as scheduled in order to promote a new tide of development of Guangdong Province’s transportation sector. In view of the expected acceleration of construction of expressways in Guangdong Province in the next few years, the Group expects that

its material logistics business and expressway service zone business will have significant growth. In addition, the improving expressway network will also stimulate the Group's passenger transportation business and passenger terminal business.

In the future, the Group will leverage on its strengths in transportation resources to optimize the portfolio of businesses continuously, and focus its efforts on the development of road transportation and modern logistics industries for a period of five years, to transform the Group into a conglomerate comprising road transportation, expressway service zones, modern logistics, commercial properties and advertising media, with outstanding competitive strengths, for providing quality services to customers, generating satisfactory returns for shareholders, creating an environment that allows employees to develop and generating positive benefits for the society.

The Group will build a sound portfolio of businesses in future by way of strategic restructuring to acquire new momentum of growth and support the realization of a balanced sustainable development among the core businesses, strategic businesses and emerging businesses.

1. Road transportation, expressway service zones and modern logistics services are our primary businesses, which form the keystone for the sound development of the Group's overall business portfolio. While further strengthening its own management capabilities, the Group will increase acquisition and consolidation efforts to enhance the core competitiveness of the primary businesses comprehensively;
2. Commercial properties and advertising media are our strategic businesses, which will be the key driving forces for business growth of the Group in the next five years, and the Group will support their developments through consolidation and acquisition of resources, formation of alliances and collaborations, market and product extensions;
3. Automobile leasing and tourism services are emerging businesses, which will be vigorously developed in the next five years.

For better adapting to the strategic needs, the Group will enhance the cultivation of strategic and emerging businesses based on existing resources and capabilities and strive to create new sources of economic growth through enhancement of capabilities.

I. Road transportation

Road transportation will be founded on inter-city passenger transportation and passenger terminal operations as pillar businesses with great efforts in the development of urban public transport, express small freight transport and rural passenger transportation services, to supplement automobile leasing and travel service operations.

1. Inter-city passenger transportation, urban public transport and rural passenger transportation operations mainly compete through consolidation and acquisitions, intensive operations and government relationships to gradually develop competitiveness in the areas of financing, branding, marketing, lean operation and service management;
2. Terminal operations will compete through computerized and systematic operations to gradually develop operational capabilities for property development and diversification;
3. Express small freight transport will compete through service networking, standardization and branding to gradually develop business expansion, customer service and information technology capabilities;
4. Automobile leasing and travel service operations compete through branding and personalized services, and capabilities of financing, business expansion, customer service and solutions will be enhanced in future.

II. Modern logistics operations

On the basis of GCGC's internal material supplies, logistics and property business will be developed, asphalt processing and trading operations will be developed, and warehousing and logistics operations will be enhanced.

1. Operating efficiency of material supplies will be enhanced, workflow processes will be optimized and the management system will be improved;
2. Marketing capabilities of the materials and logistics operations will be enhanced and an incentive scheme for material trading will be created to focus on the development of the asphalt trading business and expansion into intra-provincial market for engineering projects;

3. In reliance on the advantage of the parent company, quality land resources will be acquired and strategic alliances will be formed to establish a logistics park with integrated services, providing basic services such as warehousing, loading and unloading services for the provision of logistic services for internal supplies and trading of materials and cultivate the operational capabilities of a logistic park;
4. Logistic operations such as warehousing and transportation for internal materials will be improved, comprehensive logistics operational capabilities will be developed to establish a team capable of providing professional logistic services.

III. Expressway service zones

1. Operations of the expressway service zones will be upgraded through the business model of “from a point to an area”, together with diversification in growth models, stronger human resources management mechanism and optimized organization, to realize the industrial upgrade by way of computerization.
 - (1) Through conducting a stock-taking exercise on the resources available in existing service zones and classify the them into categories under the two criteria of “potential value and financial performance” to determine the development target and enhancement strategies for each category of service zones;
 - (2) Through priority and compensatory development approaches and value discovery in the investor solicitation process, intensive commercial development will be carried out on service zones with commercial value;
 - (3) Efforts in building the brand of “Loyee” will be enhanced to increase brand influence and operating capacity and convenience store operations outside the service areas will be actively developed.
 - (4) Capabilities will be developed along the key points of the value chain to enhance comprehensive operational capabilities and increase the operational efficiency of the value chain significantly.

2. The advertising media business will be gradually developing from “competition on resources” to “competition on capabilities”, profit sources will be diversified through “merger and acquisition” of growth engines which focused on “growing the portfolio of businesses”.
 - (1) Systematic stock-taking and ranking of developments will be conducted on existing positions of resources to increase the developing efforts on existing resources and in turn to realize consolidation of advertising resources from other segments within the Group;
 - (2) Marketing and branding management systems matching industrial features with characteristics of demand will be established;
 - (3) Sales management system based on business model and internal capability platform will be established;
 - (4) Customer mix will be actively adjusted and internal pricing mechanism will be optimized to expand the scale of operations and enhance the utilization efficiency of resources.

IV. Commercial properties

The Group will gradually develop a comprehensive real estate business segment with properties at central locations, properties along transportation routes and the development of stock land in important locations of central urban areas.

1. Properties at central locations will be developed on the basis of existing passenger terminals, their construction and operation will be mainly dependent on the inter-city and intra-city transportation infrastructure for the primary business of road transportation to establish terminal business districts;
2. Properties along transportation routes will be developed on the basis of the in-depth commercial development of service zones at important nodes and are mainly dependent on transportation infrastructural construction for their development;
3. The development of stock land in important locations of central urban areas held by the Group will be accelerated.

FINANCIAL REVIEW

Revenue

The revenue of the Group for the first half of the year mainly derived from three business segments, namely motor vehicle transportation and auxiliary services, material logistics services and expressway service zones operation. Revenue of Tai Ping Interchange was included in the revenue of the Group. Upon completion of the asset swap at the end of 2012, the transportation intelligence services no longer accounted for in the Group's accounts starting from this year. Revenue of the Group for the first half of the year amounted to RMB2,632 million (2012: RMB2,917 million), representing a decrease of RMB285 million or approximately 9.76% over the same period last year, which was mainly due to (i) motor vehicle transportation and auxiliary services being affected by the transfer of three companies out of the Group, including Meizhou Yueyun, in June 2012, and the policy on the change from business tax to value-added tax, which resulted in a decrease in revenue by RMB142 million year-on-year (if the above factors are excluded, revenue from motor vehicle transportation and auxiliary services for the first half year actually increased by RMB95 million compared to the same period last year, representing an increase of approximately 9.71%); and (ii) the decrease in the projects for supply of material logistics services and decline of steel prices; and (iii) divestment of transportation intelligence services business during the year 2012.

Revenue by business segments:

	For the six months ended 30 June			
	2013		2012 (restated)	
	<i>RMB'000</i>	<i>Percentage</i>	<i>RMB'000</i>	<i>Percentage</i>
Motor vehicle transportation and auxiliary services	1,067,655	40.56%	1,115,410	38.24%
Material logistics services	1,180,497	44.85%	1,303,579	44.69%
Expressway service zones	306,993	11.66%	258,831	8.87%
Transportation intelligence services	—	N/A	170,397	5.84%
Tai Ping Interchange	75,112	2.85%	68,640	2.35%
Others	1,963	0.08%	164	0.01%
Total	<u>2,632,220</u>	<u>100.00%</u>	<u>2,917,021</u>	<u>100.00%</u>

Motor transportation and auxiliary services

Motor transportation and auxiliary services are one of the major sources of the Group's revenue. Such business recorded revenue of RMB1,068 million (2012: RMB1,115 million) for the first half of the year, representing a decrease of RMB47 million, or approximately 4.28%, over the same period last year, and accounted for approximately 40.56% (2012: 38.24%) of the Group's total revenue. The decrease in revenue was mainly due to (i) a decrease of RMB114 million in revenue as compared to the same period last year as a result of the transfer of three companies out of the Group including Meizhou Yueyun in June 2012; (ii) and the policy on the change from business tax to value-added tax, the change from tax inclusive price to tax exclusive price, which resulted in a decrease of RMB28 million in revenue according to estimates. If the above factors were excluded, revenue of motor transportation and auxiliary services would increase by RMB95 million or approximately 9.71% as compared to the same period last year, mainly due to the increase in consolidated benefits from merger and acquisition and restructuring by the Group through the "merger and acquisition — consolidation — growth" development model and by the regional companies through the increase of the recovery of proprietary routes, expansion of the scope of operation and the addition of new routes and customer sources.

Material logistics services

Material logistics service is one of the major sources of revenue. During the first half of the year, our revenue amounted to RMB1,180 million (2012: RMB1,304 million), representing a decrease of RMB124 million or approximately 9.44% over the same period last year and accounting for approximately 44.85% (2012: 44.69%) of the Group's total revenue. The decrease in revenue was mainly due to the decrease in quantity of services provided as a result of decreased number of work projects and decline in steel price.

Expressway service zones

As at 30 June 2013, the number of the Group's operating service zones was 63.5 pairs (at 30 June 2012: 60 pairs). The revenue of expressway service zones amounted to RMB307 million (2012: RMB259 million), representing an increase of RMB48 million, or approximately 18.61%, as compared to the same period last year, and accounting for approximately 11.66% (2012: 8.87%) of the Group's total revenue. Such increase was mainly attributable to (i) increased number of service zones; (ii) a year-on-year increase in passenger traffic due to factors such as "toll free for small

vehicles during major holidays”; (iii) increased revenue from greening projects as a result of adding of Guiyang Shuiyang Shancheng greening project, Jiangmen-Zhaoqing Highway LH3 greening project and Guangdong-Hunan Expressway greening project; and (iv) the increase in one-off admission fees.

Transportation intelligence services

Upon completion of the asset swap at the end of 2012, the Group did not engage in the transportation intelligence services business. Revenue from transportation intelligence services for the same period last year amounted to RMB170 million, accounting for approximately 5.84% of the Group’s total revenue.

Tai Ping Interchange

Revenue from Tai Ping Interchange amounted to RMB75 million (2012: RMB69 million) for the first half of the year, representing an increase of RMB6 million, or 9.43% over the same period last year. Such change was mainly due to increased revenue as a result of strengthened efforts to combat escapes from paying tolls led by GCGC and organic growth in vehicle traffic during the period, partially offset by the effect of “Toll-Free in Major Festivals and Holidays for Small Passenger Vehicles Policy (重大假日免收小型客車通行).”

Gross profit

Gross profit of the Group for the first half of the year amounted to RMB437 million (2012: RMB514 million), representing a decrease of RMB77 million, or approximately 15.02% as compared to the same period last year. Such decrease was mainly due to the combined effects of the following: (i) the gross profit of motor vehicle transportation and auxiliary services decreased by RMB51.98 million mainly due to the transfer of three companies out of the Group, including Meizhou Yueyun, in June 2012 and the policy on the change from business tax to value-added tax, resulting in a decrease in gross profit by approximately RMB61.37 million over the same period last year (if the above factors were excluded, gross profit from motor vehicle transportation and auxiliary services for the first half year actually increased by RMB9.39 million compared to the same period last year); (ii) divestment of transportation intelligence services, whose gross profit were RMB43.71 million for the previous period; (iii) the decrease in gross profit was narrowed since the gross profit was increased by RMB18.49 million from material logistics services, expressway zones and Tai Ping Interchange as compared to the same period last year. Gross profit margin for the first half of the year was 16.60% (2012: 17.62%), representing a decrease of 1.02 percentage points as compared to the same period last

year, which was mainly attributed to a decrease in gross profit margin of the motor vehicle transportation operations from 27.18% the same period last year to 23.53% during this period due to the policy on the change from business tax to value-added tax, and divestment of transportation intelligence services business during the year 2012 whose gross profit margin was 25.65%.

Gross profit by business segments:

	For the six months ended 30 June			
	2013		2012 (restated)	
	<i>RMB'000</i>	<i>Percentage</i>	<i>RMB'000</i>	<i>Percentage</i>
Motor vehicle transportation and auxiliary services	251,229	57.51%	303,209	58.98%
Material logistics services	55,071	12.61%	50,808	9.88%
Expressway service zones	66,665	15.26%	58,512	11.38%
Transportation intelligence services	—	N/A	43,709	8.50%
Tai Ping Interchange	62,442	14.29%	57,663	11.22%
Others	<u>1,462</u>	<u>0.33%</u>	<u>164</u>	<u>0.03%</u>
Total	<u>436,869</u>	<u>100.00%</u>	<u>514,065</u>	<u>100.00%</u>

Motor vehicle transportation and auxiliary services

- Motor vehicle transportation and auxiliary services attained gross profit of RMB251 million (2012: RMB303 million) for the first six months of the year, representing a decrease of RMB52 million, or approximately 17.14%, with a gross profit margin of 23.53% (2012: 27.18%).

Cross-border transportation business accounted for gross profit of RMB19 million (2012: RMB20 million), maintaining a similar level as compared to the same period last year.

Gross profit from the domestic transportation business was RMB232 million (2012: RMB283 million), representing a decrease of RMB51 million, or approximately 18.01%. The decrease was mainly attributed to domestic transportation being affected by the transfer of three companies, including Meizhou Yueyun, in June 2012, resulting in a decrease of RMB33.58 million in gross profit as compared to the same period last year, and the the policy on the change from business tax to value-added tax, resulting in a decrease in gross profit by approximately RMB27.79 million year on year (if the above factors were excluded, gross profit from motor vehicle transportation and auxiliary

services for the first half of this year actually increased by RMB10.39 million or 4.69% compared to the same period last year). The gross profit margin of domestic transportation operations was approximately 19.30% (2012: 29.12%). Decrease in gross profit margin was mainly due to (i) the effect of the policy on the change from business tax to value-added tax; (ii) the projects acquired last year were still at their incubation period with low gross profit margins of approximately 10.73%. If the above factors were excluded, gross profit margin of the domestic transportation operations was 24.81% (2012: 24.69%), remaining basically flat as compared to the same period last year.

Material logistics services

Gross profit from material logistics services business amounted to RMB55 million (2012: RMB51 million), representing an increase of RMB4 million, or approximately 8.39% as compared to the same period last year. Gross profit margin was 4.67% (2012: 3.90%), an increase of 0.77 percentage point as compared to the same period last year. Such increase was mainly due to lower steel price and relatively stable gross profit during the period.

Expressway service zones

Expressway service zone business attained gross profit of RMB67 million (2012: RMB59 million) during the first half of the year, representing an increase of RMB8 million or approximately 13.93%, with gross profit margin at 21.72% (2012: 22.61%), representing a decrease of 0.89 percentage point as compared to the same period last year. The number of service zones increased during the period, new service zones were at initial stage of operation with low gross profit margins.

Transportation intelligence services

The Company no longer engaged in transportation intelligence services during the period, compared to a gross profit of RMB44 million for the same period last year, which accounted for approximately 8.50% of the Group's gross profit.

Tai Ping Interchange

Gross profit of Tai Ping Interchange for the period amounted to RMB62 million (2012: RMB58 million), representing an increase of RMB4 million, or approximately 8.29%. Gross profit margin was 83.13% (2012: 84.01%). The decrease in gross profit margin was mainly attributed to a slight increase in the maintenance cost as compared to the same period last year.

Business tax and other surcharges

Business taxes and other surcharges decreased to RMB22 million from RMB57 million for the same period last year, representing a decrease of RMB35 million, or 60.35%. Such decrease was mainly due to significantly lower taxes and surcharges of the motor vehicle transportation business as a result of the effect of the policy on the change from business tax to value-added tax.

Selling and administrative expenses

In the first half of the year, selling and administrative expenses of the Company amounted to RMB268 million (2012: RMB308 million), representing a decrease of RMB40 million, or approximately 12.84%, over the same period last year. Such decrease was mainly attributable to change in scope of consolidation and strengthened internal control by the Group with emphasis on cost and expense control during the first half of the year.

Finance costs

Finance costs for the year amounted to RMB17 million (2012: RMB32 million), representing a decrease of RMB15 million or approximately 45.33% as compared to the same period last year. Such decrease was mainly due to the strengthening of internal control by the Group during the first half of the year and the cash pool function of the Group was fully utilized as a result of reasonable planning on funding arrangements that realized the synergy of restructuring, resulting in a substantial decrease in finance costs.

Net profit

The Group recorded net profit of RMB105 million for the first six months ended 30 June 2013 (2012: RMB99 million), representing an increase of RMB6 million or 6.34% over the same period last year. Net profit attributable to owners of the Company amounted to RMB69 million (2012: RMB56 million), representing an increase of RMB13 million or approximately 22.61%. Such increase was mainly attributable to (i) increase in profit of the Company which is engaged in material logistics services over the same period last year due to strengthened financial cost control; (ii) increase in profit of Guangdong Top-E Expressway Service Zone Company Limited (廣東通驛高速公司路服務區有限公司) which is engaged in expressway service zone business due to higher revenue over the same period in 2012; and (iii) increase in profit of Guangdong Yueyun Langri Co., Ltd. (廣東粵運朗日股份有限公司) which is engaged in motor transportation and auxiliary services due to higher revenue over the same period in 2012.

Liquidity and capital structure

As at 30 June 2013, cash and cash equivalents amounted to RMB845 million (31 December 2012: RMB1,254 million). As at 30 June 2013, balance of bills payable amounted to RMB436 million (31 December 2012: RMB848 million); net current liabilities amounted to RMB88 million (31 December 2012: net current assets amounted to RMB6 million); current ratio was 0.96 times (31 December 2012: 1.00 times); liabilities to assets ratio of the Group was 58.07% (31 December 2012: 60.97%).

Cash flow

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

For the first half of the year, the movement of cash and cash equivalents (after deducting the effect of foreign exchange) were as follows:

	For the six months ended 30 June		
	2013 RMB'000	2012 RMB'000	Change RMB'000
<i>Cash from/(used in)</i>			
Operating activities	(517,249)	(916,426)	399,177
Investing activities	(174,328)	(123,789)	(50,539)
Financing activities	<u>282,814</u>	<u>(95,591)</u>	378,405
Decrease in cash and cash equivalents	<u>(408,763)</u>	<u>(1,135,806)</u>	727,043

Operating activities

The net cash outflow from operating activities amounted to RMB517 million (2012: net cash outflow of RMB916 million) in the first half of the year, representing a decrease of RMB399 million, which was mainly attributable to the decrease in the Company's payment for the bank acceptance bills and the domestic letters of credit which were issued but not encashed as compared to the same period last year.

Investing activities

The net cash used in investing activities in the first half of the year amounted to RMB174 million, mainly attributable to the utilisation of RMB192 million on purchase of fixed assets.

Financing activities

The net inflow from financing activities in the first half of the year amounted to RMB283 million (2012: net outflow of RMB96 million), which was mainly attributable to short term borrowings.

Borrowings

As at 30 June 2013, outstanding borrowings of the Group was RMB755 million, comprising (i) unsecured short-term loans of RMB312 million (31 December 2012: RMB5 million); (ii) secured short-term loans of RMB15 million (31 December 2012: RMB5 million); (iii) letter of credit mortgaged loans of RMB23 million (31 December 2012: nil); (iv) secured long-term loans of RMB102 million (31 December 2012: RMB104 million); (v) unsecured long-term loans of 2 million (31 December 2012: Nil); (vi) finance lease payables of RMB3 million (31 December 2012: RMB5 million); and (vii) bonds payable of RMB298 million (31 December 2012: RMB297 million).

Acquisitions

As at 30 June 2013, the Group had no acquisitions pending for completion.

Post balance sheet date events:

Nil.

Pledge of assets

As at 30 June 2013, fixed assets at the net value of RMB89 million (31 December 2012: RMB97 million) and land use right at the net value of RMB39 million (31 December 2012: RMB22 million) of the Group were pledged as security for bank borrowings.

Foreign exchange risk and hedging

Most of the revenue and expenditure of the Group are settled or denominated in Renminbi, except for the revenue and expenditure that relate to cross-border transportation services. In the first half of 2013, the working capital and liquidity of the Group were slightly affected by the fluctuations in currency exchange rate. The Directors believe that the Group will have sufficient foreign currency to meet its demand. Meanwhile, the Group will continue to pay close attention to the currency fluctuations of Renminbi, and will adopt proper measures to reduce the currency risk exposures of the Group based on its operating needs.

Contingent liabilities

In September 2010, a maximum amount guarantee contract was entered into between Guangdong Vehicles Transportation Group (“GVTG”) and Guangzhou Branch of Huaxia Bank Co., Ltd., pursuant to which GVTG provided guarantee at the maximum of RMB80 million for the bank borrowings granted to Meizhou Yueyun by Guangzhou Branch of Huaxia Bank Co., Ltd during the period from 11 February 2010 to 11 February 2011 at nil consideration. As of 30 June 2013, the balance of borrowings of Meizhou Yueyun in Guangzhou Branch of Huaxia Bank Co., Ltd. was RMB56 million (31 December 2012: RMB65 million). On 25 February 2013, GCGC issued a letter pursuant to which GCGC agreed to undertake the guarantee provided by GVTG to Meizhou Yueyun. On 9 August 2013, Meizhou Yueyun had repaid Guangzhou Branch of Huaxia Bank Co., Ltd. the remaining balance of the borrowings.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

The Company and its subsidiaries had not purchased, sold or redeemed any of the listed shares of the Company during the six months ended 30 June 2013.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance in the Group and the Board considers that effective corporate governance is crucial to the success of a company and to enhance shareholder’s value.

The Company fully complied with the Corporate Governance Code during the period from 1 January 2013 to 30 June 2013.

The Company considers that sufficient measures have been taken to ensure that corporate governance practices of the Company were in line with the Corporate Governance Code during the six months ended 30 June 2013.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct (“Code of Conduct”) regarding securities transactions by the Directors and Supervisors. Having made specific enquiry of all Directors and Supervisors, each of the Directors and Supervisors confirmed that they complied with the requirements set out in the Model Code and the Code of Conduct for the six months ended 30 June 2013.

BOARD OF DIRECTORS

As at 30 June 2013, the Board consisted of nine members, including four executive Directors, Mr. Xuan Zongmin, Mr. Tang Yinghai, Mr. Yao Hanxiong and Mr. Guo Junfa; two non-executive Directors, Mr. Liu Wei and Mr. Li Bin; and three independent non-executive Directors, Mr. Gui Shouping, Mr. Liu Shaobuo and Mr. Peng Xiaolei.

REVIEW BY AUDIT AND CORPORATE GOVERNANCE COMMITTEES

The Company has established the Audit and Corporate Governance Committee in compliance with the Corporate Governance Code. The Company has complied with the requirements on the audit committee set out in Rule 3.21 to the Listing Rules during the six months ended 30 June 2013.

The primary duties of the Audit and Corporate Governance Committee are, among other things, to appoint external auditors, review and supervise the financial reporting process, review interim and annual results and internal control system of the Group, provide advice and comments to the Board and monitor the corporate governance of the Company. As at 30 June 2013, the Audit and Corporate Governance Committee consisted of three members, Mr. Peng Xiaolei (Chairman) and Mr. Liu Shaobo, independent non-executive directors, and Mr. Li Bin, a non-executive director. The committee has reviewed the unaudited interim financial report of the Company for the six months ended 30 June 2013 and recommended its adoption by the Board. The auditor of the Company, Deloitte Touche Tohmatsu CPA Ltd. (special general partnership), has also reviewed the unaudited interim financial report for the period in accordance with Chinese Standards on Review Engagements 2101 “Review of Financial statements” issued by the Chinese Institute of Certified Public Accountants.

SUPERVISORY COMMITTEE

As at 30 June 2013, the supervisory committee consisted of seven members, two of whom were independent Supervisors (namely Mr. Bai Hua and Ms. Lu Zhenghua), two of whom were shareholder Supervisors (namely Mr. You Xiacong and Ms. Li Haihong) and three of whom were Supervisors representing the staff of the Group (namely Ms. Ke Lin, Ms. Li Hui and Mr. Lei Jian).

EMPLOYEES AND REMUNERATION POLICIES

The Group had 12,865 employees as at 30 June 2013. Total staff cost for the Group for the six months ended 30 June 2013, including remuneration of the Directors, amounted to approximately RMB457 million.

The remuneration of the employees of the Group (including the executive Directors) comprises of basic salary, allowance and performance bonus. The basic salary is determined according to the position, work experience of the employees and with reference to the market salaries. The allowance is determined according to the remuneration system of the Group. The performance bonus is determined according to the performance assessment results of the employees.

The remuneration of the independent non-executive Directors is determined with reference to the remuneration standards in the capital market for independent non-executive directors with similar business scope and scale.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013.

On 19 March 2013, the Board recommended the payment of the final dividend of 2012 of RMB0.052 per ordinary share (pre-tax). Such proposal was approved by the shareholders of the Company at the annual general meeting of the Company held on 30 May 2013 (the “AGM”). Please refer to the circular of the Company dated 11 April 2013 for details.

CHANGE OF COMPANY NAME

The Shareholders considered and approved the change of the Company’s English name from “Guangdong Nan Yue Logistics Company Limited” to “Guangdong Yueyun Transportation Company Limited” and the change of its Chinese name from “廣東南粵物流股份有限公司” to “廣東粵運交通股份有限公司” at the AGM, which came into effect on 5 August 2013. For the relevant details, please refer to the Company’s circular dated 11 April 2013.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Shareholders considered and approved certain amendments to the articles of association of the Company (the “Articles of Association”) at the AGM. Amendments to the Articles of Association are for the purposes to (a) make corresponding amendments to the relevant articles of the Articles of Association due to the change of Chinese and English names of the Company; and (b) make corresponding changes to the content of the relevant scope of operations of the Articles of Association to reflect the actual operating status following the reorganization of the Company. For further information relating to the above transaction, please refer to the Company’s circular dated 11 April 2013.

The legal advisers to the Company as to Hong Kong laws and laws of the PRC have respectively confirmed that the proposed amendments to the Articles of Association are in compliance with the requirements of the Listing Rules and do not violate the applicable laws of the PRC. The Company confirms that there is nothing unusual about the proposed amendments to the Articles of Association for a company listed in Hong Kong.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE’S WEBSITE

The electronic version of this announcement has been published on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.gdyueyun.com>). An interim report for the year ended 30 June 2013 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board of
Gangdong Yueyun Transportation Company Limited
Liu Wei
Chairman of the Board

Guangzhou, the People’s Republic of China
22 August 2013

As at the date of this announcement, the Board comprises Mr. Xuan Zongming, Mr. Tang Yinghai and Mr. Yao Hanxiong and Mr. Guo Junfa as executive directors of the Company, Mr. Liu Wei and Mr. Li Bin as non-executive directors of the Company, and Mr. Gui Shouping, Mr. Liu Shaobo and Mr. Peng Xiaolei as independent non-executive directors of the Company.

** 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 “廣東粵運交通股份有限公司” and English name “Guangdong Yueyun Transportation Company Limited”.*