THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular, you should obtain independent professional advice.

If you have sold or transferred all your shares in **GZI Transport Limited**, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

越秀交通有限公司

GZI Transport Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1052)

MAJOR TRANSACTION

ACQUISITION OF AN ADDITIONAL 20% INTEREST IN GUANGZHOU NORTHERN SECOND RING EXPRESSWAY CO., LTD.

Financial adviser to the Company

DBS

A letter from the board of directors of GZI Transport Limited is set out on pages 4 to 16 of this circular.

18 December 2006

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Pages

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"Acceptance Notice"	means the acceptance notice served by Bentfield on 14 November 2006 on Guangzhou Development Infrastructure to accept the offer of the 20% equity interest in GNSR Expressway Co., Ltd.;
"Acquisition"	means the acquisition of an additional 20% equity interest in GNSR Expressway Co., Ltd. through the exercise of the Pre-emption Right by Bentfield;
"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Bentfield"	means Bentfield Limited, a company incorporated in the British Virgin Islands with limited liability, which is an indirect wholly-owned subsidiary of the Company, the principal business of which is the holding of a 40% equity interest in GNSR Expressway Co., Ltd.;
"Board"	means the board of Directors;
"Company"	means GZI Transport Limited (越秀交通有限公司), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange;
"Consideration"	means the consideration of RMB666,200,000 (i.e. approximately HK$659,603,960) payable by Bentfield to Guangzhou Development Infrastructure for a 20% equity interest in GNSR Expressway Co., Ltd.;
"DBS"	means DBS Asia Capital Limited, the financial adviser of the Company in relation to the Acquisition. DBS is a licensed corporation to engage in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO;
"Directors"	means directors of the Company;
"Enlarged Group"	means the Group upon completion of the Acquisition;
"Equity Transfer Agreement"	means the equity transfer agreement dated 20 November 2006, and entered into between Bentfield and Guangzhou Development Infrastructure for the transfer of the 20% equity interest in GNSR Expressway Co., Ltd.;
"First Joint Announcement"	means the joint announcement made by GZI and the Company on 14 November 2006 in relation to the Acquisition;

"GHDC"	means "廣州市公路開發公司" (for identification purposes, in English, Guangzhou Highways Development Company), a PRC state-owned enterprise, which is a connected person of the Company by virtue of its shareholding interests of 20%, 49%, 20%, 45% and 20%, respectively, in five subsidiaries of the Company;
"GNSR Expressway"	means Guangzhou Northern Second Ring Expressway;
"GNSR Expressway Co., Ltd."	means Guangzhou Northern Second Ring Expressway Co., Ltd.;
"Greater China"	means Greater China Appraisal Limited, the independent professional business valuer appointed by the Company, who is an Independent Third Party;
"Group"	means the Company and its subsidiaries;
"Guangzhou Development Infrastructure "	means 廣州發展基建投資有限公司 (Guangzhou Development Infrastructure Investments Co., Ltd.), the vendor in the Acquisition;
"GZI"	means Guangzhou Investment Company Limited (越秀投資有限公司), a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange and on the stock exchange operated by Singapore Exchange Securities Trading Limited;
"HK$"	means Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong Financial Reporting Standards"	includes all Hong Kong Financial Reporting Standards (HKFRS), Hong Kong Accounting Standards (HKAS) and interpretations issued by the Hong Kong Institute of Certified Public Accountants;
"Independent Third Party(ies)"	means independent third party(ies) who is (are) not connected persons of the Company as defined in the Listing Rules and is (are) independent of the Company and the connected persons of the Company;
"JV Agreement"	means the joint venture agreement entered into between GHDC and Bentfield dated 18 June 1996 to govern the management and operation of GNSR Expressway Co., Ltd., and as supplemented from time to time to reflect any changes in the equity holders of GNSR Expressway Co., Ltd.;
"Latest Practicable Date"	means 14 December 2006;
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange;

"Offer Notice"	means the notice served by Guangzhou Development Infrastructure on Bentfield dated 16 October 2006, pursuant to the terms of the JV Agreement and the articles of association of GNSR Expressway Co., Ltd., advising that it will sell its 20% equity interest in GNSR Expressway Co., Ltd. to the highest bidder at an auction of such interest;
"PRC"	means the People's Republic of China;
"Pre-emption Right"	means the pre-emption right under the JV Agreement;
"RMB"	means Renminbi, the lawful currency of the PRC;
"Second Joint Announcement"	means the joint announcement made by GZI and the Company on 20 November 2006 in relation to the entering into of the Equity Transfer Agreement;
"Share(s)"	means ordinary share(s) of HK$0.10 each in the capital of the Company;
"SFO"	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified for the time being;
"Shareholders"	means shareholders of the Company;
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited;
"subsidiary"	has the same meaning as in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as at the date hereof and "subsidiaries" shall be construed accordingly;
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules;
"THI Asia"	means THI Asia Consultants Limited, the independent professional traffic consultant appointed by the Company, who is an Independent Third Party;
"Traffic Study Report"	means the traffic and revenue study report prepared by THI Asia dated 14 November 2006, as set out in Appendix V;
"Transferee Confirmation Result Notice"	means the confirmation notice dated 16 November 2006, and issued by the Guangzhou Asset and Equity Exchange (廣州產權交易所) to confirm the proposed equity transfer; and
"Valuation Report"	means the business valuation report regarding GNSR Expressway Co., Ltd. prepared by Greater China dated 14 November 2006, as set out in Appendix IV.

In this circular, unless otherwise specified, amounts in RMB are converted to HK$ at a conversion rate of HK$1.00 = RMB1.01 for illustration only. No representation is made that any amounts in RMB or HK$ could have been or could be converted at such rate or any other rates.

越秀交通有限公司
GZI Transport Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 1052)

Executive Directors:
OU Bingchang *(Chairman)*
LI Xinmin
LI Zhuo
LIANG Ningguang
LIANG Yi
DU Xinrang
HE Zili
ZHANG Siyuan
TAN Yuande
HE Baiqing
ZHANG Huping

Non-executive Director:
POON Jing

Independent Non-executive Directors:
FUNG Ka Pun
LAU Hon Chuen Ambrose
CHEUNG Doi Shu

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head Office and Principal Place of Business:
25th Floor
Yue Xiu Building
160 Lockhart Road
Wanchai
Hong Kong

18 December 2006

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

ACQUISITION OF AN ADDITIONAL 20% INTEREST IN GUANGZHOU NORTHERN SECOND RING EXPRESSWAY CO., LTD.

1. INTRODUCTION

Reference is made to the First Joint Announcement dated 14 November 2006 jointly issued by GZI and the Company in which the directors of GZI and the Directors jointly announced that, at board meetings of the directors of each of GZI and the Company held on 9 November 2006, the respective boards of GZI and the Company approved the exercise by Bentfield of the Pre-emption Right to acquire from Guangzhou Development Infrastructure an additional 20% equity interest in GNSR Expressway Co., Ltd. for a consideration of RMB666,200,000 (i.e., approximately HK$659,603,960).

Reference is also made to the Second Joint Announcement dated 20 November 2006 jointly issued by GZI and the Company in which the directors of GZI and the Directors jointly announced that subsequent to the First Joint Announcement, Bentfield has entered into the Equity Transfer Agreement with Guangzhou Development Infrastructure on 20 November 2006.

The purpose of this circular is to provide Shareholders with further details of the Acquisition, the Equity Transfer Agreement and to set out the independent business valuation, traffic and revenue forecast and operation and maintenance study of GNSR Expressway.

2. THE ACQUISITION

On 16 October 2006, Guangzhou Development Infrastructure, pursuant to the terms of the JV Agreement and the articles of association of the GNSR Expressway Co., Ltd., served the Offer Notice on Bentfield advising that it will sell its 20% equity interest in GNSR Expressway Co., Ltd. to the highest bidder at an auction of such interest. To the best knowledge, information and belief of the Directors, the present opportunity to acquire an additional 20% equity interest from Guangzhou Development Infrastructure arose out of the Guangzhou Development Enterprises Holdings Group Co., Ltd.'s intention to divest of its non-core investments. The auction was held on 16 October 2006 and was conducted by the Guangzhou Asset and Equity Exchange (廣州產權交易所), a government body independent of both GZI and the Company. Notice of the auction was published in the Guangzhou Daily on 8 September 2006 and also on the website of the Guangzhou Asset and Equity Exchange for a period of 20 days from 8 September 2006. The auction was open to tenders from the public provided that such bidders were eligible to do so according to the Transfer Procedure Rules regarding the 20% equity interest in GNSR Expressway Co., Ltd. Based on the information contained in the Offer Notice, the highest bidder is a subsidiary of a company whose shares are also listed on the Main Board of the Stock Exchange and who is independent of both GZI and the Company. Furthermore, the Company has been advised that the highest bidder has agreed to purchase Guangzhou Development Infrastructure's 20% equity interest in GNSR Expressway Co., Ltd. for a consideration of RMB666,200,000 (i.e., approximately HK$659,603,960) on the terms and conditions as set out in a draft Equity Transfer Agreement attached to the Offer Notice. The right to exercise the Pre-emption Right under the Offer Notice was valid up to 15 November 2006.

Under the JV Agreement and the articles of association of GNSR Expressway Co., Ltd., in the event that any equity holder of the company wishes to transfer all or part of its equity interest, it must first offer the same to the other existing equity holder(s) who may purchase the same on the same terms and conditions as those offered to the third party. If more than one equity holder elects to exercise their pre-emption right, then the equity interest to which the offer notice relates to will be transferred on a pro-rata basis. The period within which the Pre-emption Right may be exercised by the equity holders of GNSR Expressway Co., Ltd. other than Benfield to acquire Guangzhou Development Infrastructure's 20% equity interest in the joint venture pursuant to the Offer Notice lapsed on 16 November 2006.

On 9 November 2006, at a board meeting of the directors of each of GZI and the Company, the board of each of GZI and the Company approved the exercise by Bentfield of its Pre-emption Right to acquire from Guangzhou Development Infrastructure an additional 20% equity interest in GNSR Expressway Co., Ltd., and an Acceptance Notice has been served on Guangzhou Development Infrastructure on 14 November 2006. Upon completion of the Acquisition, the Company will, through Bentfield, own an aggregate interest of 60% in GNSR Expressway Co., Ltd., and GNSR Expressway

Co., Ltd. will become a non wholly-owned subsidiary of the Company. There are no restrictions on the subsequent sale of the equity interest in GNSR Expressway Co., Ltd., save for the pre-emption right as set out in the JV Agreement and the articles of association of GNSR Expressway Co., Ltd. The only asset of GNSR Expressway Co., Ltd. is the GNSR Expressway.

3. TERMS AND CONDITIONS OF THE ACQUISITION

The following is a summary of the terms and conditions of the Acquisition as provided in the Equity Transfer Agreement:

Date

20 November 2006

Parties

(1) Bentfield (as purchaser); and

(2) Guangzhou Development Infrastructure (as vendor).

The Directors confirm that to the best of their knowledge, information and belief, having made all reasonable enquiries, Guangzhou Development Infrastructure and its ultimate beneficial owners are Independent Third Parties.

Consideration

The Consideration payable for the Acquisition is RMB666,200,000 (i.e., approximately HK$659,603,960). Bentfield has remitted the deposit in the amount of HK$132,580,000 (i.e. approximately RMB133,905,800) in full to Guangzhou Development Infrastructure while the balance of the Consideration will be payable within five days of attaining the relevant authority's approval of the equity transfer. The Consideration is payable by way of fund transfer to Guangzhou Development Infrastructure's designated bank account.

The Consideration is based upon the highest price tendered by an Independent Third Party in an auction held for Guangzhou Development Infrastructure's 20% equity interest in GNSR Expressway Co., Ltd. As stated in the Valuation Report, as set out in Appendix IV, the fair value of GNSR Expressway Co., Ltd. is RMB3,366,300,000 (i.e., approximately HK$3,332,970,297)*(Note)* as at 16 October 2006, and the fair value of Guangzhou Development Infrastructure's 20% equity interest in GNSR Expressway Co., Ltd. is estimated to be RMB673,260,000 (i.e., approximately HK$666,594,059).

Note: In the business valuation report contained in the Company's circular dated 20 January 2006 ("Previous Business Valuation") in relation to the Group's disposal of 6% interest in GNSR Expressway Co., Ltd., the fair value of GNSR Expressway Co., Ltd. was appraised at approximately RMB1,106,000,000 (while it was appraised at approximately RMB3,366,300,000 in the present Valuation Report). According to Greater China, "the change of value is mainly a result of the difference between the respective traffic volume and toll revenue forecasted by the respective independent traffic consultants and a lower discount rate of 12.8% as used in the current valuation as compared to the discount rate of 15.0% used in the Previous Business Valuation". It was noted that the average daily traffic volume of 2006 as stated in section E5 of the Traffic Study Report amounted to 56,845 vehicles per day and was calculated based on first 9 months average recorded for 2006 and adjusted to the annual average daily traffic volume by using seasonal factors, representing an increase of approximately 23.3% over the historical average daily traffic volume of 2005. The increase in average daily traffic volume in 2006 between the Previous Business Valuation and the present Valuation Report was partly due to the delay in the expected opening from 2006 to 2008 of Huanan Expressway Phase III (a dual-3 carriageway with a total length of about 11 kms south of GNSR Expressway and will be parallel to the section of Taihe to Longshan interchanges of GNSR Expressway), which would have a forecasted diversion effect of 8,400 vehicles per day in 2008.

The Group has arranged for external loan financing to cover up to approximately 75.8% of the Consideration. The Group will use its internal resources to fund the remaining approximately 24.2% of the Consideration.

The Group is currently in discussion with its bank for a new secured term loan of up to HK$500,000,000 (equivalent to approximately 75.8% of the Consideration). The offer of the term loan is subject to acceptable documentation and satisfaction of certain other conditions. The Group is currently finalising the terms of the term loan with the bank and the Directors are confident that the term loan will be obtained on acceptable terms. The Group has already obtained a letter of intent dated 7 November 2006 from one of its principal bankers for granting of the loan.

Deposit

On the same date as the Equity Transfer Agreement was signed between Bentfield and Guangzhou Development Infrastructure, i.e. on 20 November 2006, Bentfield had remitted the deposit in the amount of HK$132,580,000 (i.e. approximately RMB133,905,800) in full to the bank account designated by Guangzhou Development Infrastructure. The deposit shall be refunded to Bentfield without interest if the Equity Transfer Agreement is terminated for any of the reasons listed in the paragraph headed "Termination" below.

Termination

The Equity Transfer Agreement may also be terminated:

(1) if a force majeure event occurs;

(2) by mutual agreement of the parties;

(3) by the exercise by other equity holders of GNSR Expressway Co., Ltd. (other than Bentfield) of their Pre-emption Right under the JV Agreement; or

(4) the relevant regulatory approval of the equity transfer is not obtained or registration of the equity transfer is not completed by the relevant authorities within one year of signing of the Equity Transfer Agreement.

As the period within which the Pre-emption Right may be exercised by other equity holders of GNSR Expressway Co., Ltd. to acquire Guangzhou Development Infrastructure's 20% equity interest in the joint venture pursuant to the Offer Notice lapsed on 16 November 2006, the Equity Transfer Agreement will not be terminated for the reason set out in (3) above.

The Company understands that the relevant regulatory approval in (4) above refers to the approval from the Department of Foreign Trade and Economic Cooperation of Guangdong Province (廣東省對外貿易經濟合作廳) for the approval of the equity transfer and the registration of the equity transfer is with the Guangzhou Administration for Industry and Commerce (廣州市工商行政管理局).

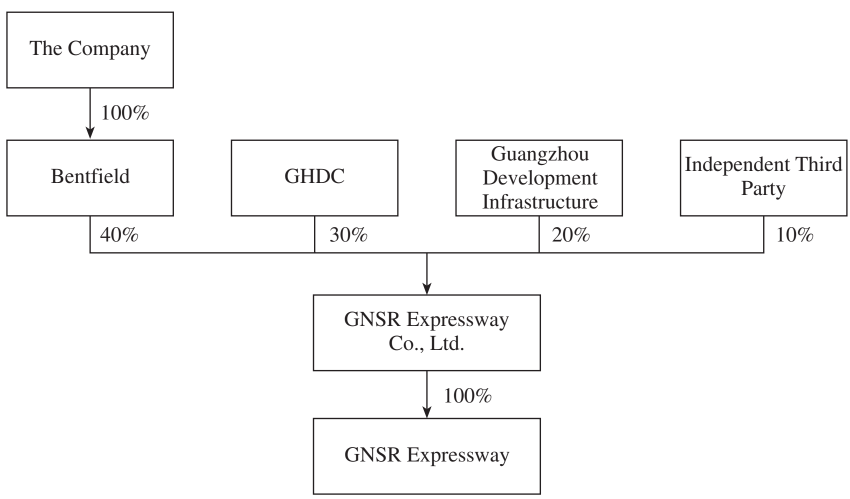
Completion

Completion shall take place on the date of completion of registration of the transfer of the equity interest by the Guangzhou Administration for Industry and Commerce.

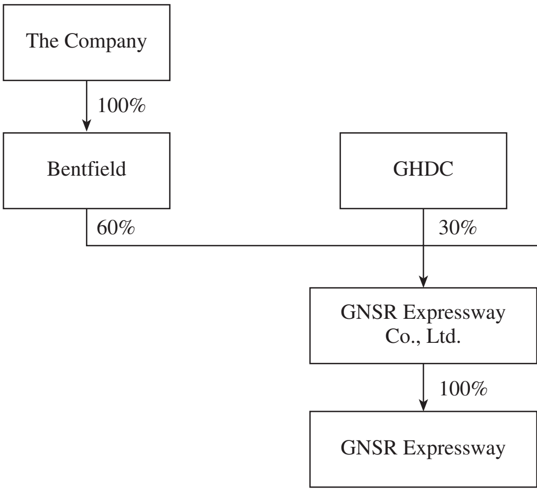
Equity holding structure before and immediately after the Acquisition

The following charts show the equity holding structures of GNSR Expressway Co., Ltd. before, and immediately after, completion of the Acquisition:

(i) *Before completion of the Acquisition*



(ii) *Immediately after completion of the Acquisition*



GNSR Expressway Co., Ltd. is currently accounted for in the Group's accounts as a jointly controlled entity under the equity accounting method, however, it will be consolidated as a subsidiary of the Company after the completion of the Acquisition.

4. INFORMATION ON GNSR EXPRESSWAY CO., LTD.

GNSR Expressway Co., Ltd. is a sino-foreign joint venture company established in the PRC, which is currently owned as to 40% by Bentfield, as to 30% by GHDC, as to 20% by Guangzhou Development Infrastructure, and as to 10% by an Independent Third Party. Pursuant to the JV Agreement and the articles of association of GNSR Expressway Co., Ltd., GNSR Expressway Co., Ltd.'s dividend is shared among its equity holders in proportion to their respective equity interests in the company.

GNSR Expressway Co., Ltd. was owned as to 51% by Bentfield and as to 49% by GHDC when it was established in 1996. On various dates in 1997 and 1998, GHDC disposed of 30% of its equity interest in GNSR Expressway Co., Ltd. to two Independent Third Parties. Guangzhou Development Infrastructure acquired its 20% equity interest in GNSR Expressway Co., Ltd. on 16 May 2000 from one of the Independent Third Parties. Immediately before 29 December 2005, GNSR Expressway Co., Ltd. was owned as to 46% by Bentfield, as to 24% by GHDC, as to 20% by Guangzhou Development Infrastructure and as to the remaining 10% by an Independent Third Party. Bentfield entered into a sale and purchase agreement with GHDC on 29 December 2005, pursuant to which, Bentfield agreed to sell and GHDC agreed to purchase a 6% equity interest in GNSR Expressway Co., Ltd. The disposal by Bentfield of a 6% equity interest in GNSR Expressway Co., Ltd. on 29 December 2005 was effected pursuant to the Company's investment strategy of adjusting its level of equity interest in joint venture companies to 40% where less than a 50% interest is held or where no controlling equity interest could reasonably be obtained in order to alleviate the situation associated with non-controlling equity interests in such joint venture companies. The gain on disposal of the 6% equity interest in GNSR Expressway Co., Ltd. as reflected in the Company's 2005 Annual Report was HK$11,705,000.

As at the date of this circular, the only asset of GNSR Expressway Co., Ltd. is GNSR Expressway, which is a six-lane 42.4 km expressway with nine toll stations. It provides connections to 11 provincial, national highways and expressways to the north of Guangzhou. GNSR Expressway was completed in 2001, and commenced toll collection in January 2002.

Based on the "Financial Information of GNSR Expressway Co., Ltd." as set out in Appendix II to this circular, the turnover, net profit before and after income tax for the two financial years ended 31 December 2004 and 2005 and for the six months ended 30 June 2006, all prepared in accordance with the Hong Kong Financial Reporting Standards, were as follows:

	For the financial year ended 31 December		**For the six months ended 30 June**
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*
Turnover	209,356	279,863	160,420
Profit before income tax	31,885	112,929	82,034
Profit after income tax	25,515	92,836	68,023
Non-current assets	2,443,370	2,386,433	2,365,083
Current assets	19,625	14,421	15,390
Current liabilities	643,248	445,221	211,806
Non-current liabilities	1,000,000	1,043,050	1,188,061
Equity	819,747	912,583	980,606

GNSR Expressway Co., Ltd. benefited from the synergy effect resulting from the continuous development of expressway network such as the opening of the Jingzhu Expressway and Guanghui Expressway (both connecting GNSR Expressway) and the new Guangzhou Airport. For the years 2004, 2005 and for the first half of 2006, GNSR Expressway Co., Ltd. had turnover growth of 90.8%, 33.7% and 19.8% respectively. The following traffic figures are extracted from the Group's 2004 and 2005 annual reports and 2006 interim report:

	Average daily toll traffic volume	
Year / Period	**vehicle / day**	**period to period change**
2004	30,791	+147.85%
2005	43,965	+42.8%
Interim 2006	53,294	+27.8%

According to the "Financial Information of GNSR Expressway Co., Ltd." as set out in Appendix II to this circular, for the two financial years ended 31 December 2004 and 2005 and for the six months ended 30 June 2006, profits after income tax were approximately RMB25,515,000 (representing

164.8% growth compared to year 2003), RMB92,836,000 (representing 263.8% growth compared to year 2004) and RMB68,023,000 (representing 67.4% growth compared to first half of 2005) respectively mainly due to increasing operating profits from strong traffic growth and decreasing finance costs from continuous repayment of loan.

5. INFORMATION ON GUANGZHOU DEVELOPMENT INFRASTRUCTURE

Guangzhou Development Infrastructure is a wholly-owned subsidiary of 廣州發展實業控股集團股份有限公司 (Guangzhou Development Enterprises Holdings Group Co., Ltd.). The main business of Guangzhou Development Infrastructure is the holding of equity interests in 廣州南沙發展燃氣有限公司 (Guangzhou Nansha Development Gas Co., Ltd.) and GNSR Expressway Co., Ltd.

Guangzhou Development Enterprises Holdings Group Co., Ltd. is a company whose shares are listed on the Shanghai Stock Exchange. The main business of Guangzhou Development Enterprises Holdings Group Co., Ltd. is the investment, construction, production, management and operations of electricity, energy logistics and infrastructure facilities.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Guangzhou Development Infrastructure and its ultimate beneficial owner are Independent Third Parties.

6. PRINCIPAL BUSINESS OF THE COMPANY

The Company and its subsidiaries are principally engaged in investment in, and development, operation and management of, toll highways, expressways and bridges mainly in Guangdong Province.

7. REASONS FOR AND BENEFITS OF THE ACQUISITION

While noting the earlier disposal of a 6% interest in GNSR Expressway Co., Ltd. was effected pursuant to the Company's investment strategy of adjusting its level of equity interest in joint venture companies to 40% where less than a 50% interest is held or where no controlling equity interest could reasonably be obtained in order to alleviate the situation associated with non-controlling equity interests in such joint venture companies and that the present opportunity for the Acquisition arose out of the Guangzhou Development Enterprises Holdings Group Co., Ltd.'s intention to divest of its non-core assets, the Directors considered the reasons for and benefits of the Acquisition are as follows:

(1) consolidation of control of GNSR Expressway Co., Ltd., which will become a subsidiary of the Group upon completion of the Acquisition (which is consistent with the Company's investment strategy stated above) and the accounts of GNSR Expressway Co., Ltd. will be consolidated with those of the Company and its subsidiaries;

(2) acceptable investment return;

(3) strong financial performance for the years ended 31 December 2004 and 2005 and for the six months ended 30 June 2006 and upward trend of the traffic volume forecast (as reflected

in the Traffic Study Report) resulting from (i) the expected early opening of the Western Second Ring Expressway by December 2006 and Eastern Second Ring Expressway in 2008 ahead of schedule, both of which are expected to bring more traffic to the GNSR Expressway; (ii) the delay in the expected completion of Huanan Expressway Trunkway Phase III, which might have a possible diversion effect, from 2006 to 2008; and (iii) the higher than expected increase in vehicle ownership due to the prohibition of motorcyclists to use urban highways in Guangzhou;

(4) the recent introduction of new macro economic revision policies are expected to drive up the development costs and risks associated with the construction of new toll expressways which are expected to reduce competition from new expressways;

(5) the recent continual appreciation trend of RMB following the implementation of the PRC's new RMB exchange rate regime; and

(6) the recent change in HK$ interest rate trends from up to down.

The Directors consider that the Consideration and the terms of the Acquisition are fair and reasonable and in the interests of the Shareholders as a whole.

8. SIGNIFICANT FINANCIAL EFFECTS OF THE ACQUISITION

Upon completion of the Acquisition, the Company's equity holding in GNSR Expressway Co., Ltd. will increase from 40% to 60%. Accordingly, GNSR Expressway Co., Ltd. will become a subsidiary of the Group and the earnings, assets and liabilities of which will be consolidated into those of the Company from the date of completion of the Acquisition. Prior to the Acquisition, the Group's investment in GNSR Expressway Co., Ltd. was treated as investment in a jointly controlled entity and its results were accounted for by the equity method of accounting.

The Directors considered the "Unaudited Pro Forma Financial Information" as set out in Appendix III to this circular and noted the following significant financial effects of the Acquisition (assuming completion of the Acquisition on 30 June 2006) to the Enlarged Group as compared to the financial position of the Group as at 30 June 2006.

	Before the Acquisition	**Upon completion of the Acquisition (pro forma Enlarged Group)**	**Change**	
	(HK$)	*(HK$)*	*(HK$)*	%
Net assets	4,112,297,000	6,070,479,000	+1,958,182,000	+47.6%
Borrowings	472,495,000	2,268,535,000	+1,796,040,000	+380.1%
Cash and bank balances	344,523,000	197,094,000	-147,429,000	-42.8%

Impacts on assets and liabilities

At the date of completion of the Acquisition, all the identifiable assets and liabilities of GNSR Expressway Co., Ltd. would be stated at fair value and consolidated into the account of the Company from the date of Acquisition.

On the assets side, the Acquisition would have material impacts on "interests in toll highways and bridges", "goodwill" and "bank balances and cash" in the Enlarged Group level. Based on the "Unaudited Pro Forma Financial Information" as set out in Appendix III to this circular, "interests in toll highways and bridges" increased from HK$1,923,886,000 to HK$6,612,930,000 after consolidating the "interests in toll highways and bridges" of GNSR Expressway Co., Ltd. stated at fair value; the "investment in jointly controlled entities" of HK$603,634,000 was reduced by HK$368,057,000 being the carrying value of the Group's investment in 40% equity interest in GNSR Expressway Co., Ltd. as a result of the change in accounting treatment of investment in GNSR Expressway Co., Ltd. from equity method of accounting (before Acquisition) to fully consolidation (after Acquisition); "goodwill" of HK$78,045,000 was created being the excess of the Consideration over the aggregate of the fair value of the net assets (including deferred income tax liabilities arose from fair value adjustments) of GNSR Expressway Co., Ltd. attributable to the 20% interest acquired; and "bank balances and cash" declined from HK$344,523,000 to HK$197,094,000 as the Company intended to finance approximately 24.2% of the Consideration of the Acquisition by internal funds.

On the liabilities side, the major impacts of the completion of the Acquisition would be on "borrowings" and "deferred income tax liabilities". On the date of Acquisition (assuming on 30 June 2006), the borrowings of the Group would be increased by the existing borrowing of GNSR Expressway Co., Ltd. as shown in Appendix II to this circular under "Financial Information of GNSR Expressway Co., Ltd." of approximately HK$1,296,040,000 and the HK$500,000,000 new secured term loan currently in negotiation between the Company and the bankers, to finance approximately 75.8% of the Consideration. "Deferred income tax liabilities" increased from HK$5,740,000 to HK$448,795,000 after consolidating the "deferred income tax liabilities" of GNSR Expressway Co., Ltd.

Impacts on net assets

As set out under "Financial Information of the Group" in Appendix I to this circular, the Group recorded consolidated net assets of HK$4,112,297,000 as at 30 June 2006 and that the consolidated net assets attributable to the Shareholders (i.e. after deducting minority interests of HK$215,769,000) was approximately HK$3,896,528,000.

According to the Valuation Report, the fair value of GNSR Expressway Co., Ltd. is, which has been arrived at based on discounted cash flow, approximately RMB3,366,300,000 (equivalent to approximately HK$3,332,970,297) while its book value as disclosed under the "Financial Information of GNSR Expressway Co., Ltd." in Appendix II to this circular is approximately RMB980,606,000 (equivalent to approximately HK$970,897,000). At the date of the completion of the Acquisition, all the identifiable assets and liabilities of GNSR Expressway Co., Ltd. would be stated at fair value and an asset revaluation surplus which represents the increase in the fair value of GNSR Expressway Co., Ltd.'s net assets attributable to the Group's initial 40% interest would be created under the purchase method of accounting.

As stated under "Unaudited Pro Forma Financial Information" in Appendix III to this circular, the pro forma net assets of the Enlarged Group will be HK$6,070,479,000, had the completion of the Acquisition taken place on 30 June 2006. The increment in the pro forma net asset value of the Enlarged Group will be approximately HK$1,958,182,000.

Impacts on earnings

As set out under the "Financial Information of the Group" in Appendix I to this circular, the audited profit attributable to Shareholders was HK$305,898,000 for the year ended 31 December 2005 and the unaudited profit attributable to Shareholders for the six months ended 30 June 2006 was HK$198,804,000. Share of profits of jointly controlled entity (i.e. GNSR Expressway Co., Ltd.) represented approximately 13.1% and 15.3% of the profit attributable to Shareholders for the year ended 31 December 2005 and for the six months ended 30 June 2006 respectively.

The Acquisition is likely to affect the earnings of the Group by way of:

— increase contributions from the operations of GNSR Expressway Co., Ltd. given the historical financial performance of GNSR Expressway Co. Ltd. and its projected revenue growth shown in the Traffic Study Report;

— decrease in earnings due to amortization of the fair value adjustments of HK$2,362,074,000 recognized at the date of the Acquisition as shown in the "Unaudited Pro Forma Financial Information" in Appendix III to this circular; and

— decrease in earnings due to increased finance costs to service the additional debt required for the acquisition of the additional 20% equity interest in GNSR Expressway Co., Ltd.

Despite the anticipated finance costs that will incur from the new borrowing to fund the Acquisition and the amortization of fair value adjustments in the coming years, taking into account the historical earnings growth of GNSR Expressway Co., Ltd. and that its toll revenue will continue to increase in the coming years as projected in the Traffic Study Report, the Directors consider that the Acquisition would enhance the revenue and earnings base of the Enlarged Group over time.

Gearing and working capital position

As shown in the unaudited condensed consolidated interim balance sheet of the Group included in the "Financial Information of the Group" in Appendix I to this circular, the Group had total borrowings of approximately HK$472,495,000, bank balances and cash of approximately HK$344,523,000 and net assets attributable to the Shareholders of approximately HK$3,896,528,000 at 30 June 2006. The Group's gearing ratio[(1)] (calculated as total borrowings to total capitalization, which is equal to the sum of total borrowings and net assets attributable to the Shareholders) is approximately 10.8%.

(1) Computation of the gearing ratio can be referred to the Group's 2006 interim report under "Management and Discussion Analysis — Capital Structure".

The consideration of the Acquisition is RMB666,200,000 (equivalent to approximately HK$659,603,960) of which 75.8% is intended to be covered by bank borrowing and 24.2% by cash at hand. The Group is currently in negotiation with its bankers on the terms of a new secured term loan of up to HK$500,000,000 and the Directors are confident that the new secured term loan will be obtained on acceptable terms.

After the Acquisition, the financial statements of GNSR Expressway Co., Ltd. would be consolidated into the Company. As per "Financial Information of GNSR Expressway Co., Ltd." as set out in Appendix II to this circular, borrowing of GNSR Expressway Co., Ltd. as at 30 June 2006 amounted to RMB1,309,000,000 (equivalent to approximately HK$1,296,040,000). The said borrowing is an unsecured floating rate RMB project loan. Approximately 10.6% of the said loan is maturing within one year and approximately 89.4% is maturing after five years. The effective interest rate per annum of the said loan is 5.51%. Total equity of GNSR Expressway Co., Ltd. as at 30 June 2006 amounted to RMB980,606,000 (equivalent to approximately HK$970,897,000). Gearing ratio of GNSR Expressway Co., Ltd. using the same calculation method used by the Group would be approximately 57.2% (the gearing ratio of the Group mentioned above was 10.8%). As at the Latest Practicable Date, the total borrowing of GNSR Expressway Co., Ltd. has been reduced to RMB1,196,000,000 (equivalent to approximately HK$1,184,158,000) and the repayment was entirely funded from the internal funds of GNSR Expressway Co., Ltd.

As stated under "Unaudited Pro Forma Financial Information" in Appendix III to this circular, had the Acquisition been completed on 30 June 2006, the unaudited pro forma total borrowings of the Enlarged Group would be approximately HK$2,268,535,000 (including a bank borrowing of HK$500,000,000 to finance the Acquisition) and the unaudited pro forma bank balances and cash of the Enlarged Group would be approximately HK$197,094,000. Given the current low gearing level of the Group, the Directors consider that funding part of the Consideration by way of bank finance, which would increase the gearing ratio of the Enlarged Group to a comfortable level, would have an accretive effect on Shareholder's return on equity.

Despite the temporary decrease in the cash position and the expected increase in gearing ratio of the Enlarged Group due to the Acquisition, taking into account the strong future cash inflows of GNSR Expressway Co., Ltd. as projected in the Valuation Report, the Directors consider that the Acquisition would significantly strengthen the overall cash position of the Enlarged Group over time.

For the period ending twelve months from the date of this circular, the Directors, after due and careful consideration on the financial resources available to the Enlarged Group, including internally generated funds and assuming the loan is successfully negotiated, are of the opinion that in the absence of any unforeseen circumstances, the Group has sufficient working capital for its present requirements.

9. FUTURE PROSPECTS

As mentioned in the subsection "Reasons for and benefits of the Acquisition" above, the Directors believe that the acquisition of an additional 20% equity interest in GNSR Expressway Co., Ltd. would bring in acceptable investment return to the Enlarged Group as supported by the Valuation Report. In particular, the Acquisition enables the Company to obtain a controlling interest in GNSR

Expressway Co., Ltd. so that the Enlarged Group may exercise control on the financial and operational aspects as well as the dividend policy of GNSR Expressway Co., Ltd. In the past, GNSR Expressway Co., Ltd. has consistently applied all its surplus cash to early prepayment of the existing project loan to minimize finance costs. After completion of the Acquisition, the Enlarged Group would enjoy the flexibility of being able to change this zero dividend policy as and when and in such manner as it considers appropriate to the best interests of the Enlarged Group as a whole, taking into consideration from time to time of the differentials between prevailing finance costs at the level of GNSR Expressway Co., Ltd. as well as at the entity level of the Company, and above all the rate of return on investments to its Shareholders.

The Directors foresee that the PRC will continue to increase its infrastructure investments and to upgrade and expand from time to time its expressway network; which in turn would create good opportunities to the Enlarged Group. The Directors consider the Acquisition, which is partly funded by its internal resources and partly by external borrowing without the need of raising new equity, as the capturing of a rare opportunity for investment in a fast-growing expressway which would provide a strong growth revenue and earnings base to the Enlarged Group amidst increasing competition and development risks. Following the Acquisition, the Enlarged Group will continue to actively and cautiously explore new potential expressway projects; to enlarge its market share through investments in toll collecting expressways so as to enhance the Enlarged Group's profit earning capability with an aim of securing better return to its Shareholders.

10. LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. The Acquisition is, therefore, subject to the approval of the Shareholders. To the best of the knowledge, information and belief of the directors, having made all reasonable enquiries, Guangzhou Development Infrastructure and its ultimate owners are Independent Third Parties. On this basis, no Shareholder has a material interest in the Acquisition and hence, no Shareholder should be required to abstain from voting on the resolution to approve the Acquisition. Since no shareholder of the Company is required to abstain from voting, the Company has obtained written approval for the Acquisition from GZI (holding approximately 0.01% of the issued share capital in the Company) and its four subsidiaries, namely Housemaster Holdings Limited (holding approximately 32.95% of the issued share capital in the Company), Delta Force Holdings Limited (holding approximately 10.09% of the issued share capital in the Company), Lawson Enterprises Limited (holding approximately 10.09% of the issued share capital in the Company) and Power Head Limited (holding approximately 14.12% of the issued share capital in the Company), being a closely allied group of Shareholders which collectively are interested in approximately 67.25% of the issued share capital of the Company, in lieu of holding the relevant general meeting, pursuant to Rule 14.44(2) of the Listing Rules.

Yours faithfully,
For and on behalf of the Board
GZI Transport Limited
Ou Bingchang
Chairman

1. FINANCIAL SUMMARY

The following is summary of the audited consolidated results of the Group for the three years ended 31 December 2003, 2004 and 2005 as extracted from the relevant annual reports of the Company for the years presented.

	Years ended 31 December		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	424,845	400,212	428,873
Operating profit	133,688	158,938	189,626
Finance costs	(25,889)	(15,547)	(24,268)
Profit before income tax	372,326	336,429	327,119
Income tax expense	(34,433)	(33,635)	(61,133)
Profit after income tax	337,893	302,794	265,986
Minority interests	(31,995)	(25,765)	(42,164)
Profit attributable to equity holders	305,898	277,029	223,822
Earnings per share (HK cents)			
- Basic	27.4	24.9	20.7
- Diluted	27.4	24.8	20.4

Note: The accounting policies adopted by the Group were changed in 2005 due to the adoption of new/revised Hong Kong Financial Reporting Standards and the 2004 figures have been restated to reflect these changes. The 2003 figures have not been restated since management had assessed the effects which were immaterial.

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The following are the audited financial statements of the Group for the year ended 31 December 2005 together with notes thereto as extracted from the annual report of the Group for the year ended 31 December 2005.

Consolidated Income Statement
For the year ended 31 December 2005

	Note	**2005** *HK$'000*	**Restated 2004** *HK$'000*
Turnover	4	424,845	400,212
Business tax		(20,772)	(21,687)
		404,073	378,525
Other gains, net	5	17,035	462
Amortisation/depreciation of interests in toll highways and bridges		(106,051)	(104,681)
Toll highways and bridges maintenance expenses		(92,967)	(75,072)
General and administrative expenses		(44,151)	(40,296)
Impairment losses on available-for-sale financial assets	21	(44,251)	—
Operating profit		133,688	158,938
Finance costs	7	(25,889)	(15,547)
Share of profits less losses of associates	20	184,414	152,543
Interest income on loans to associates	20	40,099	30,383
		224,513	182,926
Share of profits of jointly controlled entities	19	40,014	10,112
Profit before taxation		372,326	336,429
Taxation	8	(34,433)	(33,635)
Profit for the year		337,893	302,794

Consolidated Income Statement (continued)
For the year ended 31 December 2005

	Note	**2005**	**Restated 2004**
		HK$'000	*HK$'000*
Attributable to:			
Equity holders of the Company	9	305,898	277,029
Minority interests		31,995	25,765
		337,893	302,794
Earnings per share for profit attributable to the equity holders of the Company during the year			
- Basic	10	HK27.4 cents	HK24.9 cents
- Diluted	10	HK27.4 cents	HK24.8 cents
Dividends	11	111,544	108,675

Consolidated Balance Sheet
As at 31 December 2005

	Note	2005 HK$'000	Restated 2004 HK$'000
ASSETS			
Non-current assets			
Interests in toll highways and bridges	14	1,980,017	2,040,020
Leasehold land	15	718	2,124
Property, plant and equipment	16(a)	23,541	26,408
Investment properties	17	8,210	4,500
Investments in jointly controlled entities	19	475,549	422,893
Investments in associates	20	1,686,542	1,642,570
Deferred tax assets	28	417	586
Available-for-sale financial assets	21	65,925	—
Other investments	22	—	143,123
		4,240,919	4,282,224
Current assets			
Accounts receivable	23	13,428	11,147
Other receivables, deposits and prepayments	23	7,862	4,439
Bank balances and cash	24	368,883	188,850
		390,173	204,436
Total assets		4,631,092	4,486,660
EQUITY			
Share capital	25	111,544	111,465
Reserves	26	3,641,015	3,372,843
		3,752,559	3,484,308
Minority interests		245,111	248,555
Total equity		3,997,670	3,732,863

Consolidated Balance Sheet (continued)

As at 31 December 2005

	Note	2005	Restated 2004
		HK$'000	*HK$'000*
LIABILITIES			
Non-current liabilities			
Borrowings	27	421,864	551,223
Deferred tax liabilities	28	5,985	7,253
		427,849	558,476
Current liabilities			
Due to			
A minority shareholder of subsidiaries	29	5,919	68,125
Holding companies	29	3,652	2,969
Accounts payable		620	2,057
Other payables and accrued charges		38,130	39,769
Current tax liabilities		13,021	11,039
Borrowings	27	144,231	71,362
		205,573	195,321
Total liabilities		633,422	753,797
Total equity and liabilities		4,631,092	4,486,660
Net current assets		184,600	9,115
Total assets less current liabilities		4,425,519	4,291,339

Balance Sheet
As at 31 December 2005

	Note	**2005** *HK$'000*	**2004** *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	16(b)	591	606
Investments in subsidiaries	18(a)	1,263,948	1,263,948
		1,264,539	1,264,554
Current assets			
Due from subsidiaries	18(b)	1,428,324	1,519,193
Deposits and prepayments	23	125	192
Bank balances and cash	24	156,310	75,485
		1,584,759	1,594,870
Total assets		2,849,298	2,859,424
EQUITY			
Share capital	25	111,544	111,465
Reserves	26	2,706,021	2,721,359
Total equity		2,817,565	2,832,824
LIABILITIES			
Current liabilities			
Due to holding companies	29	18,404	17,754
Other payables and accrued charges		13,329	8,846
Total liabilities		31,733	26,600
Total equity and liabilities		2,849,298	2,859,424

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	**2005** *HK$'000*	**2004** *HK$'000*
Operating activities			
Net cash generated from operations	30	272,313	237,937
Interest paid		(16,687)	(13,595)
China enterprise income taxation paid		(33,550)	(33,413)
Net cash generated from operating activities		222,076	190,929
Investing activities			
Purchase of property, plant and equipment	16(a)	(300)	(667)
Capital injection into a jointly controlled entity	19	(53,846)	(82,160)
Disposal of partial interest in a jointly controlled entity		63,558	—
Repayment of loans by associates	20	153,630	152,247
Interest received		3,041	1,303
Dividends received from associates	20	53,229	26,652
Net cash generated from investing activities		219,312	97,375
Financing activities			
Repayment of bank loans		(39,807)	(161,501)
Repayment of loans from minority shareholders of subsidiaries		(56,074)	(1,316)
Dividends paid		(114,296)	(100,296)
Dividends paid to minority shareholders of subsidiaries		(50,214)	(85,630)
Issue of shares		595	313
Net cash used in financing		(259,796)	(348,430)
Increase/(decrease) in cash and cash equivalents		181,592	(60,126)
Cash and cash equivalents at 1 January		188,850	251,739
Effect of foreign exchange rate changes		(1,559)	(2,763)
Cash and cash equivalents at 31 December		368,883	188,850
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		368,883	188,850

Consolidated Statement of Changes in Equity
For the year ended 31 December 2005

		Attributable to equity holders of the Company			
	Note	**Share capital** *HK$'000*	**Reserves** *HK$'000*	**Minority interests** *HK$'000*	**Total** *HK$'000*
Balance at 1 January 2004, as previously reported as equity		111,423	3,198,983	—	3,310,406
Balance at 1 January 2004, as previously separately reported as minority interests		—	—	308,420	308,420
Balance at 1 January 2004, as restated		111,423	3,198,983	308,420	3,618,826
Currency translation differences and net loss recognised directly in equity	26	—	(3,144)	—	(3,144)
Profit for the year		—	277,029	25,765	302,794
Total recognised income for 2004		—	273,885	25,765	299,650
Issue of share capital	25 & 26	42	271	—	313
Dividends	26	—	(100,296)	(85,630)	(185,926)
		42	(100,025)	(85,630)	(185,613)
Balance at 31 December 2004		111,465	3,372,843	248,555	3,732,863
Balance at 1 January 2005, as previously reported as equity		111,465	3,372,257	—	3,483,722
Balance at 1 January 2005, as previously separately reported as minority interests		—	—	248,555	248,555
Adjustment for deferred tax arising from revaluation of investment properties	26	—	586	—	586
Balance at 1 January 2005, as restated		111,465	3,372,843	248,555	3,732,863
Opening adjustment on adoption of HKAS 39	26	—	15,620	—	15,620
Balance at 1 January 2005 after opening adjustment, as restated		111,465	3,388,463	248,555	3,748,483

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2005

	Note	Attributable to equity holders of the Company **Share capital** *HK$'000*	 **Reserves** *HK$'000*	**Minority interests** *HK$'000*	**Total** *HK$'000*
Currency translation differences	26	—	80,902	14,775	95,677
Decrease in fair value of available-for-sale financial assets	26	—	(36,088)	—	(36,088)
Fair value adjustment on loans from minority shareholders of subsidiaries	26	—	15,620	—	15,620
Net income recognised directly in equity		—	60,434	14,775	75,209
Profit for the year		—	305,898	31,995	337,893
Total recognised income for 2005		—	366,332	46,770	413,102
Issue of share capital	25 & 26	79	516	—	595
Dividends	26	—	(114,296)	(50,214)	(164,510)
		79	(113,780)	(50,214)	(163,915)
Balance at 31 December 2005		111,544	3,641,015	245,111	3,997,670

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) ***Basis of preparation***

The consolidated financial statements of GZI Transport Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases — Incentives
HKAS-Int 21	Income Taxes — Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of new/revised HKASs 1, 7, 8, 16, 21, 23, 24, 27, 28, 31, 33, 36, 38, HKAS-Int 15, HKFRS 3 and HK-Int 4 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and jointly controlled entities and other disclosures.

- HKASs 7, 8, 16, 23, 27, 28, 31, 33, 36, 38, HKAS-Int 15, HKFRS 3 and HK-Int 4 had no material effect on the Group's policies.

- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit and loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of investment properties of which the changes in fair values are recorded in the income statement as part of other gains. In prior years, the increases in fair value were credited to the investment properties revaluation reserve; decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment has resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 16 - the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 21 - prospective application for accounting goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 - does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to other investments for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39, if any, are determined and recognised at 1 January 2005;
- HKAS 40 - since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property;
- HKAS-Int 15 does not require the recognition of incentives for leases beginning before 1 January 2005;
- HKFRS 2 - only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and
- HKFRS 3 - prospectively after the adoption date.

The effect of the changes in the accounting policies described above on equity, results and earnings per share are as follows:

	As at 1 January 2005 *HK$'000*
Equity	
Decrease in loans from minority shareholders of subsidiaries on fair value adjustment (note i)	15,620
Decrease in deferred taxation on change of basis of recovery of revalued assets (note ii)	586
	16,206

	For the year ended 31 December 2004 *HK$'000*
Results	
Deferred taxation credit on revalued assets (note ii)	586
Attributable to:	
Equity holders of the Company	586

	For the year ended 31 December 2004
	HK cents
Earnings per share	
Basic and diluted	
Deferred taxation credit on revalued assets (note ii)	0.1

The following is a summary of the effect of changes in the accounting policies described above on individual accounting caption:

Increase/(decrease)	**Effect on adoption of HKAS 17**	**(note i) Effect on adoption of HKAS 39**	**(note ii) Effect on adoption of HKAS-Int 21**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Income statement items for the year ended 31 December 2004				
Taxation	—	—	586	586
Earnings per share				
- basic and diluted (HK cents)	—	—	0.1	0.1
Balance sheet items as at 1 January 2005				
Leasehold land	2,124	—	—	2,124
Fixed assets	(2,124)	—	—	(2,124)
Total assets	—	—	—	—
Non-current borrowings	—	(15,620)	—	(15,620)
Deferred taxation	—	—	(586)	(586)
Total liabilities	—	(15,620)	(586)	(16,206)
Net assets	—	15,620	586	16,206
Reserves and total equity	—	15,620	586	16,206

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

- **HKAS 19 (Amendment), Employee Benefits** (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the financial statements. The Group will apply this amendment from annual periods beginning 1 January 2006.

- **HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions** (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.

- **HKAS 39 (Amendment), The Fair Value Option** (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.

- **HKAS 39 and HKFRS 4 (Amendments), Financial Instruments: Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts** (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is not relevant to the Group.

- **HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources** (effective from 1 January 2006). These amendments are not relevant to the Group's operations, as the Group is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.

- **HKFRS 6, Exploration for and Evaluation of Mineral Resources** (effective from 1 January 2006). HKFRS 6 is not relevant to the Group's operations.

- **HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

- **HKFRS-Int 4, Determining whether an Arrangement contains a Lease** (effective from 1 January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

- **HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds** (effective from 1 January 2006). HKFRS-Int 5 is not relevant to the Group's operations.

- **HK (IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment** (effective from 1 December 2005). HK (IFRIC)-Int 6 is not relevant to the Group's operations.

(b) ***Consolidation***

(i) *Subsidiaries*

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet the investments in subsidiaries are stated at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) *Associates*

Associates are all entities over which the Group has significant influence in its management. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(iii) *Joint ventures*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

In the Company's balance sheet the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

(c) ***Interests in toll highways and bridges***

Interests in toll highways and bridges comprise tangible infrastructures and intangible operating rights. Depreciation of tangible infrastructure is calculated to write off their costs on a units—of—usage basis based on the traffic volume for a particular period of 30 to 36 years over the projected total traffic volume throughout the life of the assets. The Group reviews regularly the projected total traffic volume throughout the life of the respective assets, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change. Amortisation of intangible operating rights is provided on a straight-line basis over periods of 20 to 30 years in which the operating rights are held.

(d) ***Property, plant and equipment***

(i) *Depreciation*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs, including related borrowing costs, of bringing the asset to its present working condition and location for its intended use.

Property, plant and equipment are depreciated at rates sufficient to write off their cost over their estimated useful lives to the Group on a straight-line basis. The principal annual rates used for this purpose are as follows:

Buildings	4%
Furniture, fixtures and equipment	10% to 33%
Motor vehicles	20% to 33%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(ii) *Gain or loss on disposal of property, plant and equipment*

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(iii) *Cost of restoring and improving property, plant and equipment*

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(e) ***Investment properties***

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external values.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the period in which they are incurred.

Changes in fair values are recognised in the income statement.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

(f) ***Impairment of non-financial assets***

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are received for possible reversal of the impairment at each reporting date.

(g) ***Financial assets***

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as other investments.

Other investments held for long term are stated at cost less accumulated impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair value have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(h) ***Accounts and other receivable***

Accounts and other receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(i) ***Cash and cash equivalents***

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts.

(j) ***Borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(k) ***Deferred taxation***

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax, if it is not accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) ***Share-based compensation***

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(m) ***Revenue recognition***

(i) Toll revenue is recognised on a receipt basis.

(ii) Dividend income is recognised when the right to receive payment is established.

(iii) Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) Operating lease rental income is recognised on a straight-line basis.

(n) ***Borrowing costs***

Borrowing costs are capitalised when funds are borrowed to finance the construction of highways and bridges up to the commencement of economic operations of the toll highways and bridges.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

(o) ***Retirement benefit costs***

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(p) ***Translation of foreign currencies***

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(q) ***Contingent liabilities and contingent assets***

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2 Financial risk management

2.1 ***Financial risk factors***

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and economic risk), credit risk, liquidity risk and cash flow and fair value interest-rate risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the Group's financial performance. The Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks.

(a) *Market risk*

(i) Foreign exchange risk

Majority of the subsidiaries of the Group operates in the Mainland of China ("China") with most of the transactions denominated in Chinese Renminbi ("Renminbi"). The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars. It has not hedged its foreign exchange rate risk.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the China government.

(ii) Economic risk

The Group is exposed to economic risk as it operates and manages a limited number of toll highways and bridges which are mostly located in the Guangdong province in south China.

(b) *Credit risk*

The Group has no significant concentrations of credit risk. The carrying amount of the accounts receivable included in the consolidated balance sheets represents the Group's maximum exposure to credit risk in relation to its financial assets.

(c) *Liquidity risk*

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

(d) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk.

2.2 ***Fair value estimation***

The nominal value less estimated credit adjustments of accounts receivable, accounts payable and balances with related parties are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3 Critical accounting estimates and assumptions

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

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

(a) ***Depreciation on interests in toll highways and bridges***

Interests in toll highways and bridges of the Group and investee companies comprise tangible infrastructures and intangible operating rights. Depreciation of tangible infrastructures is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the assets.

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

At present, the range of annual traffic growth rates that have been projected for individual toll highways and bridges is around 2% to 5%.

(b) ***Current taxation and deferred taxation***

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

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

4 Turnover

The Group is principally engaged in the operation and management of toll highways and bridges in China. Turnover recognised is as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Toll revenue	424,845	400,212

No analysis of the Group's turnover and contribution to operating profit by activity and geographic area is presented as they were principally derived from the operations of the Group's toll projects in China.

Business segment information is not required as the revenue, results and assets of the toll operations represent more than 90% of the total revenue, results and assets of the Group respectively.

5 Other gains, net

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Interest income	3,041	1,303
Rental income	264	15
Gain on disposal of partial interest in a jointly controlled entity	11,705	—
Fair value gains/(losses) on investment properties	1,306	(1,691)
Others	719	835
	17,035	462

6 Expenses by nature

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

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Amortisation of prepaid leasehold land (note 15)	30	122
Depreciation of property, plant and equipment (note 16(a))	2,397	2,427
Auditors' remuneration	775	770
Net exchange loss/(gain)	11,486	(952)
Outgoings in respect of investment properties	25	27
Staff costs (note 12)	48,351	25,016

7 Finance costs

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Interest on bank borrowings	8,103	13,362
Interest on amount due to a minority shareholder of subsidiaries	2,166	2,185
Interest on loans from minority shareholders of subsidiaries	15,620	—
	25,889	15,547

8 Taxation

(a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable to Hong Kong profits tax during the year (2004: nil).

(b) China enterprise income taxation is provided on the profits of the Group's investments in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law"). Under the China Tax Law, the Group's investments in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50% reduction in income tax for the next three to five years. The principal income tax rate is 18%. Certain of the Group's investments in China are qualified for the aforesaid tax holiday.

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

	Group	
		Restated
	2005	**2004**
	HK$'000	*HK$'000*
Current taxation		
China enterprise income tax	35,532	35,370
Deferred taxation (note 28)	(1,099)	(1,735)
	34,433	33,635

The taxation on the Group's profit before taxation less incomes from associates and jointly controlled entities differs from the theoretical amount that would arise using the principal applicable tax rate as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Profit before taxation less incomes from associates and jointly controlled entities	107,799	143,391
Calculated at a tax rate of 18% (2004: 18%)	19,404	25,810
Income not subject to tax	(3,711)	(873)
Expenses not deductible for tax purposes	20,197	10,504
Effect of different tax rates	(1,457)	(1,806)
Taxation charge	34,433	33,635

9 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$98,442,000 (2004: HK$85,041,000).

10 Earnings per share

Basic

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

	2005	2004
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	305,898	277,029
Weighted average number of ordinary shares in issue ('000)	1,114,929	1,114,385
Basic earnings per share (HK cents)	27.4	24.9

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options outstanding during the year which are dilutive potential ordinary shares. Calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2005	2004
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	305,898	277,029
Weighted average number of ordinary shares in issue ('000)	1,114,929	1,114,385
Adjustments for share options ('000)	560	922
Weighted average number of ordinary shares for diluted earnings per share ('000)	1,115,489	1,115,307
Diluted earnings per share (HK cents)	27.4	24.8

11 Dividends

	Company	
	2005	**2004**
	HK$'000	*HK$'000*
Interim, paid, of HK$0.05 (2004: HK$0.045) per share	55,772	50,151
Final, proposed, of HK$0.05 (2004: HK$0.0525) per share	55,772	58,524
	111,544	108,675

At a meeting held on 19 April 2006, the Directors proposed a final dividend of HK$0.05 per share. This proposed dividend is not reflected as a dividend payable in these financial statements, but is reflected as an appropriation of retained earnings for the year ended 31 December 2005.

12 Staff costs (including directors' emoluments)

	2005	**2004**
	HK$'000	*HK$'000*
Wages and salaries	42,966	22,953
Pension costs (defined contribution plans)	2,167	612
Social security costs	1,241	356
Staff welfare	1,977	1,095
	48,351	25,016

The Group operates a defined contribution scheme ("ORSO Scheme") for certain Hong Kong employees as defined in the Occupational Retirement Schemes Ordinance. Contributions to the scheme by the employer and employees are calculated as 5% to 8% and 5% respectively of the employees' basic salaries.

The Group's contributions to the ORSO Scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There are no forfeited contributions for both years presented.

The Group also participates in the Mandatory Provident Fund Scheme ("MPF Scheme") for other Hong Kong employees. The Group's MPF Scheme contributions are at 5% of the employees' relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is more than HK$5,000 per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

Subsidiaries of the Company in China are required to participate in defined contribution retirement plans organised by the respective Provincial or Municipal People's Government, and make monthly contributions to the retirement plans equivalent to 16% to 24% of the monthly salaries of the employees.

13 Directors' and senior management's emoluments

(a) The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive director				
OU Bingchang	—	720	832	1,552
LI Xinmin	—	690	624	1,314
LI Zhuo (e)	—	540	706	1,246
XIAO Boyan (b)	—	150	—	150
CHEN Guangsong	—	600	693	1,293
CHEN Jiahong (a)	—	500	653	1,153
LIANG Ningguang	—	600	693	1,293
LIANG Yi	—	600	693	1,293
DU Liangying (b)	—	150	—	150
DU Xinrang	—	600	784	1,384
HE Zili	—	570	659	1,229
ZHANG Siyuan	—	570	745	1,315
ZHONG Ming (b)	—	150	—	150
TAN Yuande (e)	—	450	588	1,038
HE Baiqing (e)	—	450	588	1,038
ZHANG Huping (d)	—	100	131	231
	—	7,440	8,389	15,829
Non-executive director				
POON Jing	38	—	—	38
FUNG Ka Pun*	68	—	—	68
LAU Hon Chuen Ambrose*	68	—	—	68
CHEUNG Doi Shu*	68	—	—	68
	242	—	—	242
	242	7,440	8,389	16,071

** independent non-executive director*

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive director				
OU Bingchang	—	720	728	1,448
YIN Hui (c)	—	180	—	180
LI Xinmin	—	600	603	1,203
XIAO Boyan	—	600	607	1,207
CHEN Guangsong	—	600	607	1,207
CHEN Jiahong	—	600	603	1,203
LIANG Ningguang	—	600	607	1,207
LIANG Yi	—	600	607	1,207
DU Liangying	—	600	603	1,203
DU Xinrang	—	600	603	1,203
HE Zili	—	480	485	965
ZHANG Siyuan	—	480	482	962
ZHONG Ming	—	600	603	1,203
	—	7,260	7,138	14,398
Non-executive director				
POON Jing	38	—	—	38
FUNG Ka Pun*	38	—	—	38
LAU Hon Chuen Ambrose*	38	—	—	38
CHEUNG Doi Shu*	38	—	—	38
	152	—	—	152
	152	7,260	7,138	14,550

** independent non-executive director*

Notes:

(a) Resigned on 2 November 2005

(b) Resigned on 19 April 2005

(c) Resigned on 18 March 2004

(d) Appointed on 2 November 2005

(e) Appointed on 19 April 2005

No Directors waived emoluments in respect of years ended 31 December 2005 and 2004. No emoluments were paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office for both years presented.

(b) The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2005 and 2004 are also directors whose emoluments are reflected in the analysis presented above.

14 Interests in toll highways and bridges

	Group		
	Intangible operating rights	**Tangible infrastructure**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004			
Cost	2,197,752	403,755	2,601,507
Accumulated amortisation/depreciation	(401,834)	(54,972)	(456,806)
Net book amount	1,795,918	348,783	2,144,701
Year ended 31 December 2004			
Opening net book amount	1,795,918	348,783	2,144,701
Amortisation/depreciation	(92,234)	(12,447)	(104,681)
Closing net book amount	1,703,684	336,336	2,040,020
At 31 December 2004			
Cost	2,197,752	403,755	2,601,507
Accumulated amortisation/depreciation	(494,068)	(67,419)	(561,487)
Net book amount	1,703,684	336,336	2,040,020
Year ended 31 December 2005			
Opening net book amount	1,703,684	336,336	2,040,020
Exchange differences	38,116	7,932	46,048
Amortisation/depreciation	(93,290)	(12,761)	(106,051)
Closing net book amount	1,648,510	331,507	1,980,017
At 31 December 2005			
Cost	2,248,518	413,462	2,661,980
Accumulated amortisation/depreciation	(600,008)	(81,955)	(681,963)
Net book amount	1,648,510	331,507	1,980,017

15 Leasehold land

The Group's interests in leasehold land represent prepaid operating lease payments and their net book value are analysis as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
In Hong Kong held on:		
Leases of between 10 to 50 years	718	2,124

	2005	**2004**
	HK$'000	*HK$'000*
At 1 January	2,124	3,961
Transfer to investment properties (note 17)	(1,376)	(1,715)
Amortisation of prepaid operating lease payment	(30)	(122)
At 31 December	718	2,124

16 Property, plant and equipment

(a) ***Group***

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004				
Cost	26,580	15,538	5,128	47,246
Accumulated depreciation	(6,725)	(4,952)	(2,924)	(14,601)
Net book amount	19,855	10,586	2,204	32,645
Year ended 31 December 2004				
Opening net book amount	19,855	10,586	2,204	32,645
Additions	—	454	213	667
Transfer to investment properties (note 17)	(4,476)	—	—	(4,476)
Disposals	—	(1)	—	(1)
Depreciation	(1,101)	(807)	(519)	(2,427)
Closing net book amount	14,278	10,232	1,898	26,408
At 31 December 2004				
Cost	19,864	15,883	5,332	41,079
Accumulated depreciation	(5,586)	(5,651)	(3,434)	(14,671)
Net book amount	14,278	10,232	1,898	26,408
Year ended 31 December 2005				
Opening net book amount	14,278	10,232	1,898	26,408
Exchange differences	—	217	41	258
Additions	21	279	—	300
Transfer to investment properties (note 17)	(1,028)	—	—	(1,028)
Depreciation	(749)	(1,146)	(502)	(2,397)
Closing net book amount	12,522	9,582	1,437	23,541
At 31 December 2005				
Cost	18,265	16,496	5,443	40,204
Accumulated depreciation	(5,743)	(6,914)	(4,006)	(16,663)
Net book amount	12,522	9,582	1,437	23,541

(b) ***Company***

	Furniture, fixtures and equipment *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
At 1 January 2004			
Cost	1,241	1,731	2,972
Accumulated depreciation	(771)	(1,696)	(2,467)
Net book amount	470	35	505
Year ended 31 December 2004			
Opening net book amount	470	35	505
Additions	156	—	156
Depreciation	(45)	(10)	(55)
Closing net book amount	581	25	606
At 31 December 2004			
Cost	1,339	1,731	3,070
Accumulated depreciation	(758)	(1,706)	(2,464)
Net book amount	581	25	606
Year ended 31 December 2005			
Opening net book amount	581	25	606
Additions	47	22	69
Depreciation	(74)	(10)	(84)
Closing net book amount	554	37	591
At 31 December 2005			
Cost	1,378	1,753	3,131
Accumulated depreciation	(824)	(1,716)	(2,540)
Net book amount	554	37	591

17 Investment properties

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
At 1 January	4,500	—
Transfer from leasehold land and buildings (notes 15 and 16(a))	2,404	6,191
Fair value gains/(losses) (note 5)	1,306	(1,691)
At 31 December	8,210	4,500

The investment properties of the Group were revalued at 31 December 2005 on the basis of their open market value as determined by an independent firm of professional surveyor, CS Surveyors Limited, employed by the Group.

The Group's interests in investment properties at their net book values are analysed as follows:

	2005	**2004**
	HK$'000	*HK$'000*
In Hong Kong, held on:		
Leases of between 10 to 50 years	8,210	4,500

18 Investments in subsidiaries and amounts due from subsidiaries

(a) Investments in subsidiaries

	Company	
	2005	**2004**
	HK$'000	*HK$'000*
Unlisted shares, at cost	1,848,497	1,848,497
Less: accumulated impairment losses	(584,549)	(584,549)
	1,263,948	1,263,948

Details of the principal subsidiaries of the Company are set out in note 35.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2005.

(b) The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

19 Investments in jointly controlled entities

	Group Share of net assets	
	2005	**2004**
	HK$'000	*HK$'000*
At 1 January 2005	422,893	330,621
Share of post-acquisition results and reserve		
- profit before taxation	49,309	13,609
- taxation	(9,295)	(3,497)
	40,014	10,112
Capital injection	53,846	82,160
Disposals	(51,853)	—
Exchange differences	10,649	—
At 31 December 2005	475,549	422,893

The Group's interest in its jointly controlled entities were as follows:

	Guangzhou Northern Second Ring Expressway Co., Ltd.		Guangzhou Western Second Ring Expressway Co., Ltd.	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Income	117,549	85,766	—	—
Expenses	(77,535)	(75,654)	—	—
Profit	40,014	10,112	—	—
Assets:				
Non-current assets	920,716	1,052,975	399,211	90,144
Current assets	5,547	8,476	46,107	13,681
	926,263	1,061,451	445,318	103,825
Liabilities:				
Non-current liabilities	(558,225)	(671,803)	(175,000)	—
Current liabilities	(30,470)	(48,915)	(132,337)	(21,665)
	(588,695)	(720,718)	(307,337)	(21,665)
Net assets	337,568	340,733	137,981	82,160

Details of the Group's jointly controlled entities are set out in note 35.

At 31 December 2005, Guangzhou Western Second Ring Expressway Co., Ltd., of which 35% interest is held by the Group, had a capital commitment of approximately HK$1,712,000,000 (2004: HK$2,528,000,000).

20 Investments in associates

	Group		
	Share of net assets	**Loans receivable**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004	726,415	914,678	1,641,093
Share of post-acquisition results and reserve			
- profit before taxation	178,122	—	178,122
- taxation	(25,579)	—	(25,579)
	152,543	—	152,543
Dividends	(26,652)	—	(26,652)
Interests	—	30,383	30,383
Repayments	—	(152,247)	(152,247)
Exchange differences	(2,767)	217	(2,550)
At 31 December 2004	849,539	793,031	1,642,570
At 1 January 2005	849,539	793,031	1,642,570
Share of post-acquisition results and reserve			
- profit before taxation	202,211	—	202,211
- taxation	(17,797)	—	(17,797)
	184,414	—	184,414
Dividends	(53,229)	—	(53,229)
Interests	—	40,099	40,099
Repayments	—	(153,630)	(153,630)
Exchange differences	20,598	5,720	26,318
At 31 December 2005	1,001,322	685,220	1,686,542

The loan balances are unsecured, have no fixed repayment terms and bears interests at the prevailing US dollars prime rates ranging from 5.250% to 7.250% (2004: 4.000% to 5.250%) per annum and lending rates of financial institutions in China at 6.120% (2004: 6.120%) per annum.

The carrying amounts of the loans receivable are denominated in the following currencies:

	Group 2005 HK$'000	Group 2004 HK$'000
Hong Kong dollar	1,024	9,181
US dollar	351,808	422,732
Renminbi	332,388	361,118
	685,220	793,031

The Group's interest in its associates were as follows:

	Guangdong Humen Bridge Co., Ltd.		Guangdong Qinglian Highway Development Co., Ltd.		Guangzhou Northing Freeway Co., Ltd.		Guangdong Shantou Bay Bridge Co., Ltd.	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	642,719	647,663	731,084	732,735	350,624	211,243	296,412	305,636
Liabilities	(439,207)	(553,255)	(402,969)	(404,228)	(131,070)	(15,119)	(46,271)	(75,136)
Net assets	203,512	94,408	328,115	328,507	219,554	196,124	250,141	230,500
Revenue	152,340	136,821	27,909	29,365	133,685	118,888	35,087	43,488
Profit/(loss)	102,723	79,326	(7,408)	(17,357)	71,503	67,280	17,596	23,294

Details of the Group's associates are set out in note 35.

21 Available-for-sale financial assets

	Group 2005 HK$'000
At 1 January	143,123
Impairment losses	(44,251)
Decrease in fair value charged to equity (note 26)	(36,088)
Exchange differences	3,141
At 31 December	65,925

Balances represent financial assets of unlisted securities stated at fair value as at 31 December 2005.

22 Other investments

	Group 2004 HK$'000
Unlisted investments, at cost	176,743
Less: accumulated impairment losses	(33,620)
	143,123

23 Accounts and other receivables, deposits and prepayments

Accounts and other receivables, deposits and prepayments approximate their fair values.

24 Bank balances and cash

	Group		Company	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	253,068	157,597	40,495	44,232
Short-term bank deposits	115,815	31,253	115,815	31,253
	368,883	188,850	156,310	75,485

The effective interest rate on short-term bank deposits was 3.86% (2004: 0.90%); these deposits have an average maturity of 33 days.

Bank balances and cash are denominated in the following currencies:

	Group		Company	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollar	82,935	27,338	82,838	27,287
US dollar	51,376	47,054	34,958	31,356
Renminbi	234,572	114,458	38,514	16,842
	368,883	188,850	156,310	75,485

The conversion of the Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Chinese government.

25 Share capital

	Company Ordinary shares of HK$0.1 each	
	Number of shares	*HK$'000*
Authorised:		
At 31 December 2004 and 31 December 2005	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2004	1,114,233,530	111,423
Issued under employee share option scheme	416,000	42
At 31 December 2004	1,114,649,530	111,465
Issued under employee share option scheme	792,000	79
At 31 December 2005	1,115,441,530	111,544

Share options

On 25 June 2002, the Company adopted a new share option scheme, under which it may grant options to employees (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the number of shares in issue as at 25 June 2002. The exercise price is determined by the Board and must be at least the highest of (a) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited (the "Stock Exchange")'s daily quotation sheets on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. As at 31 December 2005, no such options have been granted to any person since its adoption.

As at 31 December 2005, there were outstanding options granted under an old share option scheme to subscribe for shares of the Company. All options granted under the old share option scheme will continue to be valid and exercisable in accordance with the rules of the old share option scheme.

Movements in the number of share options outstanding and their related exercise price are as follows:

Date of grant	Exercise price per share	Balance outstanding as at 1 January		Options lased during the year		Options exercised during the year		Balance outstanding as at 31 December	
	HK$	2005	2004	2005	2004	2005	2004	2005	2004
7 April 2000	0.752	1,114,000	1,530,000	(92,000)	—	(792,000)	(416,000)	230,000	1,114,000

All outstanding options were exercisable as at 31 December 2005 and 2004. Options exercised in 2005 resulted in 792,000 shares (2004: 416,000 shares) being issued at HK$0.752 (2004: HK$0.752) each. The related weighted average share price at the time of exercise was HK$2.58 (2004: HK$2.26) per share.

The aforesaid share options are exercisable at any time within the period from the first anniversary date of the grant to the business day preceding the sixth anniversary date of the grant, of which a maximum of 30%, 60% and 100% thereof are exercisable from the first, second and third anniversaries of the date of grant respectively.

26 Reserves

Group

	Share premium HK$'000	Capital reserve (note (a)) HK$'000	Capital contribution reserve HK$'000	Exchange fluctuation reserve HK$'000	Statutory reserves (note (b)) HK$'000	Available-for-sale financial assets fair value reserve HK$'000	Retained earnings note (c) HK$'000	Total HK$'000
At 1 January 2004	576,676	1,705,497	—	14,623	29,049	—	873,138	3,198,983
Currency translation differences:								
- Group	—	—	—	(594)	—	—	—	(594)
- Associates	—	—	—	(2,550)	—	—	—	(2,550)
Profit for the year	—	—	—	—	—	—	277,029	277,029
Issue of shares	271	—	—	—	—	—	—	271
2003 Final dividend	—	—	—	—	—	—	(50,145)	(50,145)
2004 Interim dividend (note 11)	—	—	—	—	—	—	(50,151)	(50,151)
At 31 December 2004	576,947	1,705,497	—	11,479	29,049	—	1,049,871	3,372,843
Representing:								
Retained earnings							991,347	
2004 Final dividend proposed							58,524	
							1,049,871	
At 1 January 2005, as previously reported	576,947	1,705,497	—	11,479	29,049	—	1,049,285	3,372,257
Adjustment for deferred tax arising from revaluation of investment properties	—	—	—	—	—	—	586	586
At 1 January 2005, as restated	576,947	1,705,497	—	11,479	29,049	—	1,049,871	3,372,843
Opening adjustment on adoption of HKAS 39	—	—	15,620	—	—	—	—	15,620
Balance at 1 January 2005 after opening adjustment, as restated	576,947	1,705,497	15,620	11,479	29,049	—	1,049,871	3,388,463
Currency transaction differences								
- Group	—	—	—	43,935	—	—	—	43,935
- Associates	—	—	—	36,967	—	—	—	36,967
Decrease in fair value of available-for-sale financial assets	—	—	—	—	—	(36,088)	—	(36,088)
Fair value adjustment on loans from minority shareholders of subsidiaries	—	—	15,620	—	—	—	—	15,620
Profit for the year	—	—	—	—	—	—	305,898	305,898
Issue of shares	516	—	—	—	—	—	—	516
2004 Final dividend (note 11)	—	—	—	—	—	—	(58,524)	(58,524)
2005 Interim dividend (note 11)	—	—	—	—	—	—	(55,772)	(55,772)
At 31 December 2005	577,463	1,705,497	31,240	92,381	29,049	(36,088)	1,241,473	3,641,015
Representing:								
Retained earnings							1,185,701	
2005 Final dividend proposed							55,772	
							1,241,473	

(a) Reserve arising from consolidation represents the difference between the nominal value of the shares/registered capital of the subsidiaries acquired and the nominal value of the shares issued by Kiu Fung Limited, a subsidiary of the Company, as consideration therefor on 30 November 1996.

(b) Statutory reserves represent enterprise expansion and general reserve funds set up by the operating subsidiaries, associates and jointly controlled entities in China. As stipulated by regulations in China, the Company's subsidiaries, associates and jointly controlled entities established and operated in China are required to appropriate a portion of their after-tax profits (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective boards of directors. According to the Foreign Investment Enterprises Accounting Standards in China, upon approval by the board, the general reserve funds may be used for making up losses and increasing capital while the enterprise expansion fund may be used for increasing capital. Included in the Group's statutory reserves is HK$1,536,000 (2004: HK$1,536,000) attributable to an associate.

(c) Included in the Group's retained earnings are retained earnings of HK$486,007,000 (2004: HK$344,891,000) and accumulated losses of HK$10,700,000 (2004: HK$54,116,000) attributable to associates and jointly controlled entities respectively.

Company

	Share premium	Contributed surplus	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	576,676	1,773,497	386,170	2,736,343
Profit for the year	—	—	85,041	85,041
Issue of shares	271	—	—	271
2003 Final dividend	—	—	(50,145)	(50,145)
2004 Interim dividend (note 11)	—	—	(50,151)	(50,151)
At 31 December 2004	576,947	1,773,497	370,915	2,721,359
Representing:				
Retained earnings			312,391	
2004 Final dividend proposed			58,524	
			370,915	
At 1 January 2005	576,947	1,773,497	370,915	2,721,359
Profit for the year	—	—	98,442	98,442
Issue of shares	516	—	—	516
2004 Final dividend (note 11)	—	—	(58,524)	(58,524)
2005 Interim dividend (note 11)	—	—	(55,772)	(55,772)
At 31 December 2005	577,463	1,773,497	355,061	2,706,021
Representing:				
Retained earnings			299,289	
2005 Final dividend proposed			55,772	
			355,061	

The contributed surplus represents the difference between the nominal value of the shares issued by the Company in exchange for all the issued ordinary shares of Kiu Fung Limited and the value of net assets of the underlying subsidiaries acquired by the Company as at 30 November 1996. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders. At Group level, the contributed surplus is classified as components of reserves of the underlying subsidiaries.

27 Borrowings

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Non-current		
Long-term bank borrowings	—	112,676
Loans from minority shareholders of subsidiaries	421,864	438,547
	421,864	551,223
Current		
Short-term bank borrowings	67,308	65,728
Current portion of long-term bank borrowings	76,923	5,634
	144,231	71,362
Total borrowings, unsecured and denominated in Renminbi	566,095	622,585

(a) The maturity of bank borrowings is as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Within one year	144,231	71,362
In the second year	—	112,676
	144,231	184,038

The loans from minority shareholders of subsidiaries are not repayable within one year.

(b) The effective interest rate of bank borrowings at the balance sheet date was 5.184% (2004: 5.049%).

Except for an aggregate amount of HK$120,561,000 (2004: HK$120,561,000) which bears interest at the prevailing lending rates of financial institutions in China of 6.120% (2004: 5.760% to 6.120%) per annum, the loans from minority shareholders of subsidiaries are interest-free.

(c) The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings	—	112,676	—	112,676
Loans from minority shareholders of subsidiaries	421,864	438,547	421,864	422,927
	421,864	551,223	421,864	535,603

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 5% (2004: 5%).

The carrying amounts of current borrowings approximate their fair value.

28 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable income tax rate.

Deferred taxation as at 31 December represents:

	Group	
		Restated
	2005	2004
	HK$'000	*HK$'000*
Deferred tax assets		
Hong Kong profits tax	(417)	(586)
Deferred tax liabilities		
China enterprise income tax	5,985	7,253
	5,568	6,667

The gross movement on the deferred taxation account is as follows:

	Group	
		Restated
	2005	2004
	HK$'000	*HK$'000*
At 1 January	6,667	8,402
Credited in the income statement *(note 8(c))*	(1,099)	(1,735)
At 31 December	5,568	6,667

The detail movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax assets:

	Revaluation of investment properties
	HK$'000
At 1 January 2004	—
Credited to income statement	(586)
At 31 December 2004	(586)
Charged to income statement	169
At 31 December 2005	(417)

Deferred tax liabilities:

	Accelerated depreciation
	HK$'000
At 1 January 2004	8,402
Credited to income statement	(1,149)
At 31 December 2004	7,253
Credited to income statement	(1,268)
At 31 December 2005	5,985

29 Amounts due to a minority shareholder of subsidiaries and holding companies

The amounts are unsecured, repayable on demand and denominated in Renminbi.

At 31 December 2005, the amounts are interest free. At 31 December 2004, an amount of HK$53,719,000 due to a minority shareholder of subsidiaries bore interest at 4.0% per annum and the remaining amounts were interest free.

30 Note to the consolidated cash flow statement

Reconciliation of operating profit to net cash generated from operations

	2005	**2004**
	HK$'000	*HK$'000*
Operating profit	133,688	158,938
Interest income	(3,041)	(1,303)
Amortisation/depreciation of interests in toll highways and bridges	106,051	104,681
Amortisation of prepaid leasehold land	30	122
Depreciation of property, plant and equipment	2,397	2,427
Impairment losses on available-for-sale financial assets	44,251	—
Fair value (gains)/losses on investment properties	(1,306)	1,691
Gain on disposal of partial interest in a jointly controlled entity	(11,705)	—
Exchange differences	11,486	(952)
Operating profit before working capital changes	281,851	265,604
(Increase)/decrease in receivables, deposits and prepayments	(5,710)	615
Decrease in payables and accrued charges	(3,828)	(28,282)
Net cash generated from operations	272,313	237,937

31 Contingent liabilities

At 31 December 2005 and 2004, the Group has pledged the income derived from its 24.3% effective interest in an associate to a bank in favour of a joint venture partner in this associate (the "Joint Venture Partner"), in respect of the repayment of a bank loan by the Joint Venture Partner amounting to Rmb500,000,000 and interest thereon (collectively referred to as "Relevant Loan").

A counter-indemnity has been provided by the Joint Venture Partner to the Group against all liabilities arising from such pledge. In addition, Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), the ultimate holding company of the Company, has issued an indemnity to the Group under which any shortfall between the counter-indemnity given by the Joint Venture Partner and the Relevant Loan to the bank will be satisfied/paid by Yue Xiu if the counter-indemnity given by the Joint Venture Partner to the Group is insufficient to cover the Relevant Loan.

32 Commitments

At 31 December 2005, the Group had financial commitments in respect of equity capital to be injected to a jointly controlled entity of approximately HK$198,558,000 (2004: HK$247,990,000), and future aggregate minimum lease payments/receipts under non-cancellable operating leases of premises as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Lease payments		
Not later than one year	202	—
Lease receipts		
Not later than one year	293	—
Later than one year and not later than five years	29	—
	322	—

The Company had no commitments at 31 December 2005 and 2004.

33 Related party transactions

(a) ***Related parties***

The Group is controlled by GZI Transport (Holdings) Limited, which owns approximately 67% of the Company's shares. The Company's Directors regard Yue Xiu (incorporated in Hong Kong) to be the ultimate holding company.

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. The table set forth below summarised the names of significant parties and nature of relationship with the Company as at 31 December 2005:

Significant related party	**Relationship with the Company**
Yue Xiu	The ultimate holding company
Guangzhou Investment Company Limited ("GZI")	An intermediate holding company
Guangzhou Highways Development Company ("GHDC"), a state-controlled enterprise	A minority shareholder of subsidiaries
Guangzhou Northern Second Ring Expressway Co., Ltd. ("GNSR")	A jointly controlled entity of a subsidiary
Guangzhou Western Second Ring Expressway Co., Ltd.	A jointly controlled entity of a subsidiary
Guangdong Humen Bridge Co., Ltd.	An associate of a subsidiary
Guangdong Qinglian Highway Development Co., Ltd.	An associate of a subsidiary
Guangdong Shantou Bay Bridge Co., Ltd.	An associate of a subsidiary
Guangzhou Northring Freeway Co., Ltd.	An associate of a subsidiary
Other state-controlled enterprises	Related parties of the Company

(b) ***Transactions with related parties other than state-controlled enterprises***

	2005	2004
	HK$'000	*HK$'000*
Administrative service fees shared with GZI	1,300	1,300
Rental expenses paid to Yue Xiu	202	—

(c) ***Key management compensation***

	2005	2004
	HK$'000	*HK$'000*
Salaries and other short-term benefits	16,071	14,550

(d) ***Transactions with state-controlled enterprises***

The Group is ultimately controlled by the Chinese government, which also controls a significant portion of the productive assets and entities in China. The Group develops, operates and manages toll highways and bridges and thus, is likely to have extensive transactions with the vehicles and employees of state controlled entities while such employees are on corporate business as well as key management personnel and their close family members. These transactions are carried out on normal commercial terms that are consistently applied to all users and are made on a cash basis. Due to the vast volume and the pervasiveness of these transactions, the management is unable to determine the aggregate amount of the transactions for disclosure. Management believes that meaningful information relative to related party disclosures has been adequately disclosed.

(i) On 29 December 2005, the Group entered into an agreement to transfer 6% of its equity interest in GNSR to GHDC for a cash consideration of HK$63,558,000.

(ii) As at 31 December 2005 and 2004, all bank deposits and bank borrowings were with state-controlled banks.

For the years ended 31 December 2005 and 2004, all bank deposits interest incomes were from and all bank borrowings interest expenses were paid to state-controlled banks.

(iii) For the year ended 31 December 2004, toll roads management fees paid and payable to GHDC amounted to HK$62,235,000.

34 Approval of financial statements

The financial statements were approved by the Board on 19 April 2006.

35 Group structure

As at 31 December 2005, the Company held shares/interest in the following principal subsidiaries, jointly controlled entities and associates.

	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Percentage of attributable interest held by the Company 2005 and 2004		Principal activities
			Direct	Indirect	
Principal subsidiaries					
Asian East Worldwide Limited	British Virgin Islands	50,000 Ordinary shares of US$1 each	—	100	Investment holding in Guangzhou Northring Freeway Co., Ltd.
Bentfield Limited	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding in Guangzhou Northern Second Ring Expressway Co., Limited
Fortune Success Group Ltd.	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding in Guangzhou Tailong Highways Development Company Limited
Guangzhou Nanxin Highways Development Company Limited	People's Republic of China, limited liability company	Rmb141,463,000	—	80	Development and management of Guangshen Highway linking Guangzhou and Shenzhen
Guangzhou Qiaowei Highways Development Company Limited	People's Republic of China, limited liability company	Rmb12,326,000	—	100	Investment holding in Guangzhou Suiqiao Development Company Limited
Guangzhou Suiqiao Development Company Limited	People's Republic of China, limited liability company	Rmb1,000,000	—	100	Investment holding in Guangdong Humen Bridge Co., Ltd.

	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Percentage of attributable interest held by the Company 2005 and 2004		Principal activities
			Direct	Indirect	
Guangzhou Taihe Highways Development Company Limited	People's Republic of China, limited liability company	Rmb155,980,000	—	80	Development and management of Guangcong Highway Section I linking Guangzhou and Conghua
Guangzhou Tailong Highways Development Company Limited	People's Republic of China, limited liability company	Rmb116,667,000	—	51	Development and management of Guangcong Highway Section II linking Guangzhou and Conghua, and Provincial Highway 1909 linking Conghua and Longtan
Guangzhou Weian Highways Development Company Limited	People's Republic of China, limited liability company	Rmb175,750,000	—	80	Development and management of Guangshan Highway linking Guangzhou and Shantou
Guangzhou Xinguang Highways Development Company Limited	People's Republic of China, limited liability company	Rmb143,333,000	—	55	Development and management of Guanghua Highway linking Guangzhou and Huadu
Guangzhou Yue Peng Information Ltd.	People's Republic of China, limited liability company	Rmb160,000,000	—	100	Investment holding
Hunan Yue Tung Highway and Bridge Development Company Limited	People's Republic of China, limited liability company	Rmb21,000,000	—	75	Development and management of Xiang Jiang Bridge II in Hunan Province

	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Percentage of attributable interest held by the Company 2005 and 2004		Principal activities
			Direct	Indirect	
Ickleton Limited	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding in Guangzhou Taihe Highways Development Company Limited
Kam Cheong Limited	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding
Kinleader Co., Ltd.	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding
Kiu Fung Limited	British Virgin Islands	2 Ordinary shares of HK$1 each	100	—	Investment holding
Onwell Enterprises Limited	British Virgin Islands	100 Ordinary shares of US$1 each	—	100	Investment holding in Guangdong Qinglian Highway Development Co., Ltd.
Pioneer Business Limited	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding in Guandong Humen Bridge Co., Ltd.
Profit Optima Ltd.	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding
Proterall Limited	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding in Guangzhou Qiaowei Highways Development Company Limited
Shaanxi Jinxiu Transport Co., Limited	People's Republic of China, limited liability company	Rmb100,000,000	—	100	Development and management of Xian-Lintong Expressway in Shaanxi Province
Smart Top Enterprises Limited	Hong Kong	2 Ordinary shares of HK$1 each	—	100	Property holding

	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Percentage of attributable interest held by the Company 2005 and 2004		Principal activities
			Direct	Indirect	
Sparco Development Limited	British Virgin Islands	100 Ordinary shares of US$1 each	—	100	Investment holding in Shaanxi Jinxiu Transport Co., Limited
Super Praise Ltd.	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding in Guangdong Shantou Bay Bridge Co., Ltd.
Superfield Limited	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding in Guangzhou Nanxin Highways Development Company Limited
Teckstar Limited	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding in Guangzhou Weian Highways Development Company Limited
Top Global Holdings Ltd.	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding in Guangzhou Xinguang Highways Development Company Limited
Unionwin Investment Limited	British Virgin Islands	1 Ordinary share of US$1 each	—	100	Investment holding
Yan Tung Investment Limited	British Virgin Islands	10,000 Ordinary shares of US$1 each	—	83.3	Investment holding in Hunan Yue Tung Highway and Bridge Development Company Limited

	Place of establishment and operation	Issued and fully paid up share capital/ registered capital	Percentage of voting power	Percentage of attributable interest held by the Company Direct	Percentage of attributable interest held by the Company Indirect	Principal activities
Jointly controlled entities						
Guangzhou Northern Second Ring Expressway Co., Ltd.	People's Republic of China	Rmb900,000,000	40	—	40 (2004: 46)	Development and management of Guangzhou Northern Second Ring Expressway in Guangzhou
Guangzhou Western Second Ring Expressway Co., Ltd.	People's Republic of China	Rmb1,000,000,000	33	—	35 (2004: 35)	Development and management of Guangzhou Western Second Ring Expressway in Guangzhou

	Place of establishment and operation	Issued and fully paid up share capital/registered capital	Percentage of attributable interest held by the Company 2005 and 2004 Direct	Percentage of attributable interest held by the Company 2005 and 2004 Indirect	Principal activities
Associates					
Guangdong Humen Bridge Co., Ltd.	People's Republic of China	Rmb273,900,000	—	25	Development and management of Humen Bridge in Humen
Guangdong Qinglian Highway Development Co., Ltd.	People's Republic of China	Rmb1,200,000,000	—	23.6	Development and management of National Highway 107 linking Qingyuan and Lianzhou
Guangdong Shantou Bay Bridge Co., Ltd.	People's Republic of China	Rmb75,000,000	—	30	Development and management of Shantou Bay Bridge in Shantou
Guangzhou Northring Freeway Co., Ltd.	People's Republic of China	US$19,255,000	—	24.3	Development and management of Guangzhou City Northern Ring Road

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

The following is the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2006 together with notes thereto as extracted from the interim report of the Group for the year ended 30 June 2006.

Condensed Consolidated Interim Income Statement
For the six months ended 30 June 2006

		Unaudited	
		Six months ended 30 June	
	Note	**2006**	**2005**
		HK$'000	*HK$'000*
Turnover	4	211,362	204,006
Other gains		4,867	349
Amortisation/depreciation of interests in toll highways and bridges		(53,728)	(52,423)
Toll highways and bridges maintenance expenses	5	(37,743)	(39,195)
General and administrative expenses	5	(25,118)	(16,373)
Business tax		(9,637)	(10,171)
Operating profit		90,003	86,193
Bank interest income		3,672	870
Interest income on loans to associates		16,068	15,934
Finance costs		(9,183)	(5,034)
Share of profits less losses of associates		103,783	84,854
Share of profits of jointly controlled entities		30,489	20,066
Profit before income tax		234,832	202,883
Income tax expense	6	(19,128)	(16,587)
Profit for the period		215,704	186,296
Attributable to:			
Equity holders of the Company		198,804	168,645
Minority interests		16,900	17,651
		215,704	186,296
Earnings per share for profit attributable to the equity holders of the Company	7		
- Basic		HK17.82 cents	HK15.13 cents
- Diluted		HK17.82 cents	HK15.12 cents
Interim dividend	8	72,504	55,772

Condensed Consolidated Interim Balance Sheet

As at 30 June 2006

	Note	30 June 2006 Unaudited *HK$'000*	31 December 2005 Audited *HK$'000*
ASSETS			
Non-current assets			
Interests in toll highways and bridges	9	1,923,886	1,980,017
Leasehold land	9	709	718
Property, plant and equipment	9	23,098	23,541
Investment properties	9	8,210	8,210
Investments in jointly controlled entities		603,634	475,549
Investments in associates		1,664,473	1,686,542
Deferred income tax assets	13	403	417
Available-for-sale financial assets		65,803	65,925
		4,290,216	4,240,919
Current assets			
Trade receivables	10	8,792	13,428
Other receivables, deposits and prepayments		11,791	7,862
Bank balances and cash		344,523	368,883
		365,106	390,173
Total assets		4,655,322	4,631,092
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	111,544	111,544
Reserves		3,784,984	3,641,015
		3,896,528	3,752,559
Minority interests		215,769	245,111
Total equity		4,112,297	3,997,670

Condensed Consolidated Interim Balance Sheet (continued)

As at 30 June 2006

	Note	30 June 2006 Unaudited *HK$'000*	31 December 2005 Audited *HK$'000*
LIABILITIES			
Non-current liabilities			
Borrowings	12	424,418	421,864
Deferred income tax liabilities	13	5,740	5,985
		430,158	427,849
Current liabilities			
Due to			
A minority shareholder of subsidiaries		2,890	5,919
Holding companies		3,084	3,652
Account payables and accrued charges		46,793	38,750
Current income tax liabilities		12,023	13,021
Borrowings	12	48,077	144,231
		112,867	205,573
Total liabilities		543,025	633,422
Total equity and liabilities		4,655,322	4,631,092
Net current assets		252,239	184,600
Total assets less current liabilities		4,542,455	4,425,519

Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2006

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK$'000	*HK$'000*
Net cash generated from operating activities	126,583	126,533
Net cash generated from investing activities	44,529	34,990
Net cash used in financing activities	(195,692)	(106,482)
(Decrease)/increase in cash and cash equivalents	(24,580)	55,041
Cash and cash equivalents at 1 January	368,883	188,850
Effect of foreign exchange rate changes	220	(313)
Cash and cash equivalents at 30 June	344,523	243,578
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	344,523	243,578

Condensed Consolidated Interim Statement Of Changes In Equity

For the six months ended 30 June 2006

	(Unaudited)									
	Attributable to equity holders of the Company								Minority interests	Total
	Share capital	Share premium	Capital reserve	Capital contribution reserve	Exchange fluctuation reserve	Statutory reserves	Available-for-sale financial assets fair value reserve	Retained earnings		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	111,544	577,463	1,705,497	31,240	92,381	29,049	(36,088)	1,241,473	245,111	3,997,670
Currency translation differences	—	—	—	—	(6,873)	—	—	—	(3,399)	(10,272)
Fair value adjustment on loans from minority shareholders of subsidiaries	—	—	—	7,810	—	—	—	—	—	7,810
Net gain/(loss) recognised directly in equity	—	—	—	7,810	(6,873)	—	—	—	(3,399)	(2,462)
Profit for the period	—	—	—	—	—	—	—	198,804	16,900	215,704
Total recognised income/(loss) for the period	—	—	—	7,810	(6,873)	—	—	198,804	13,501	213,242
2005 dividend	—	—	—	—	—	—	—	(55,772)	(42,843)	(98,615)
At 30 June 2006	111,544	577,463	1,705,497	39,050	85,508	29,049	(36,088)	1,384,505	215,769	4,112,297

(Unaudited)

	Attributable to equity holders of the Company								Minority interests	Total
	Share capital	Share premium	Capital reserve	Capital contribution reserve	Exchange fluctuation reserve	Statutory reserves	Available-for-sale financial assets fair value reserve	Retained earnings		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	111,465	576,947	1,705,497	15,620	11,479	29,049	—	1,049,871	248,555	3,748,483
Currency transaction differences	—	—	—	—	1,515	—	—	—	—	1,515
Decrease in fair value of available-for-sale financial assets	—	—	—	—	—	—	(66,927)	—	—	(66,927)
Fair value adjustment on loans from minority shareholders of subsidiaries	—	—	—	7,810	—	—	—	—	—	7,810
Net gain/(loss) recognised directly in equity	—	—	—	7,810	1,515	—	(66,927)	—	—	(57,602)
Profit for the period	—	—	—	—	—	—	—	168,645	17,651	186,296
Total recognised income/(loss) for the period	—	—	—	7,810	1,515	—	(66,927)	168,645	17,651	128,694
Issue of shares	9	59	—	—	—	—	—	—	—	68
2004 dividend	—	—	—	—	—	—	—	(58,524)	(14,023)	(72,547)
At 30 June 2005	111,474	577,006	1,705,497	23,430	12,994	29,049	(66,927)	1,159,992	252,183	3,804,698

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

GZI Transport Limited ("the Company") and its subsidiaries (together "the Group") is principally engaged in the operation and management of toll highways and bridges in Mainland China.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information was approved for issue by the Board of Directors of the Company on 6 September 2006.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2006 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005. The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKAS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

These standards, amendments and interpretations do not have significant impacts to the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

Management do not expect HK(IFRIC)-Ints 7, 8 and 9 to be relevant to the Group. The Group has assessed the impact of HKFRS 7 and HKAS 1 (Amendment) and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by HKAS 1 (Amendment). The Group will apply HKFRS 7 and HKAS 1 (Amendment) for accounting periods beginning on or after 1 January 2007.

4 Turnover

Turnover recognised is toll revenue on highways and bridges.

No analysis of the Group's turnover and contribution to operating profit by activity and geographic area is presented as they were principally derived from the operations of the Group's toll highways and bridges projects in China.

Business segment information is not required as the revenue, results and assets of the toll operations represent more than 90% of the total revenue, results and assets of the Group respectively.

5 Expenses by nature

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

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
Amortisation of prepaid leasehold land	9	21
Depreciation of property, plant and equipment	1,167	1,257
Staff costs (including Directors' remuneration)		
- Wages and salaries	22,720	14,821
- Pension costs - defined contribution plans	1,197	863
- Social security costs	805	426
- Staff welfare	1,183	527
Net exchange loss	—	1,607

6 Income tax

(a) No provision for Hong Kong profits tax has been made in the financial statements as the Group has no income assessable to Hong Kong profits tax during the period (2005: Nil).

(b) China enterprise income tax is provided on the profits of the Group's investments in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law"). Under the China Tax Law, the Group's investments in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50% reduction in income tax for the next three to five years. The principal income tax rate is 18%. Certain of the Group's investments in China are qualified for the aforesaid tax holiday.

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

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
Current income tax		
- China enterprise income tax	19,359	17,387
Deferred income tax	(231)	(800)
	19,128	16,587

7 Earnings per share

Basic

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

	Six months ended 30 June	
	2006	**2005**
Profit attributable to equity holders of the Company (HK$'000)	198,804	168,645
Weighted average number of ordinary shares in issue ('000)	1,115,442	1,114,732
Basic earnings per share (HK cents)	17.82	15.13

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options outstanding during the period which are dilutive potential ordinary shares.

	Six months ended 30 June	
	2006	**2005**
Profit attributable to equity holders of the Company (HK$'000)	198,804	168,645
Weighted average number of ordinary shares in issue ('000)	1,115,442	1,114,732
Adjustments for share options ('000)	93	659
Weighted average number of ordinary shares for diluted earnings per share ('000)	1,115,535	1,115,391
Diluted earnings per share (HK cents)	17.82	15.12

8 Interim dividend

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
2006 interim, proposed of HK$0.065 (2005: HK$0.05) per share	72,504	55,772

9 Capital expenditures

	Interest in toll highways and bridges				
	Intangible operating rights	**Tangible infrastructure**	**Leasehold land**	**Property, plant and equipment**	**Investment properties**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Opening net book value at 1 January 2006	1,648,510	331,507	718	23,541	8,210
Additions	—	—	—	749	—
Disposals	—	—	—	(25)	—
Amortisation/deprecation charge	(47,185)	(6,543)	(9)	(1,167)	—
Exchange adjustments	(2,403)	—	—	—	—
Closing net book value at 30 June 2006	1,598,922	324,964	709	23,098	8,210
Opening net book value at 1 January 2005	1,703,684	336,336	2,124	26,408	4,500
Additions	—	—	—	272	—
Transfers	—	—	(1,376)	(1,034)	2,410
Amortisation/deprecation charge	(44,473)	(6,306)	(21)	(1,257)	—
Exchange adjustments	1,037	—	—	—	—
Closing net book value at 30 June 2005	1,660,248	330,030	727	24,389	6,910
Additions	—	—	—	28	—
Transfers	—	—	—	6	(6)
Revaluation surplus	—	—	—	—	1,306
Amortisation/deprecation charge	(48,817)	(6,455)	(9)	(1,140)	—
Exchange adjustments	37,079	7,932	—	258	—
Closing net book value at 31 December 2005	1,648,510	331,507	718	23,541	8,210

10 Trade receivables

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

11 Share capital

	Ordinary shares of HK$0.1 each	
	Number of shares	*HK$'000*
Authorised:		
At 1 January 2005, 31 December 2005 and 30 June 2006	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2005	1,114,649,530	111,465
Issued under employee share option scheme	792,000	79
At 31 December 2005 and 30 June 2006	1,115,441,530	111,544

Share options

On 25 June 2002, the Company adopted a new share option scheme, under which it may grant options to employees (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the number of shares in issue as at 25 June 2002. The exercise price is determined by the Board and must be at least the highest of (a) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited (the "Stock Exchange")'s daily quotation sheets on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. As at 30 June 2006, no such options have been granted to any person since its adoption.

As at 30 June 2006, there were no outstanding options granted under the old share option scheme to subscribe for shares of the Company.

Movements of share options are as follows:

	Number of share options
At 1 January 2005 (granted on 7 April 2000 at an exercise price of HK$0.752)	1,114,000
Exercised during the period	(92,000)
Lapsed during the period	(92,000)
At 30 June 2005	930,000
Exercised during the period	(700,000)
At 31 December 2005	230,000

Movements of share options are as follows:

	Number of share options
At 1 January 2006	230,000
Lapsed during the period	(230,000)
At 30 June 2006	—

12 Borrowings

	30 June 2006	**31 December 2005**
	HK$'000	*HK$'000*
Non-current		
Loans from minority shareholders of subsidiaries	424,418	421,864
Current		
Short-term bank borrowings	—	67,308
Current portion of long-term bank borrowings	48,077	76,923
	48,077	144,231
Total borrowings, unsecured and denominated in Renminbi ("RMB")	472,495	566,095

(a) The loans from minority shareholders of subsidiaries are not repayable within one year.

(b) The effective interest rate of bank borrowings at the balance sheet date was 5.184% (2005: 5.184%).

Except for an aggregate amount of HK$124,038,000 (2005: HK$120,561,000) which bears interest at the prevailing Bank of China RMB long term lending rates of 6.12% to 6.39% (2005: 6.12%) per annum, the loans from minority shareholders of subsidiaries are interest-free.

13 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using the applicable income tax rate.

Deferred income tax as at 30 June 2006 represents:

	30 June 2006 *HK$'000*	31 December 2005 *HK$'000*
Deferred income tax assets		
Hong Kong profits tax provided in respect of revaluation of investment properties	(403)	(417)
Deferred income tax liabilities		
China enterprise income tax provided in respect of accelerated depreciation	5,740	5,985
	5,337	5,568

14 Contingent liabilities and commitments

At 30 June 2006, the Group had financial commitments in respect of equity capital to be injected to a jointly controlled entity of approximately HK$100,962,000 (2005: HK$198,558,000) and future aggregate minimum lease payments/receipts under non-cancellable operating leases of premises as follows:

	30 June 2006 *HK$'000*	31 December 2005 *HK$'000*
Lease payments		
Not later than one year	101	202
Lease receipts		
Not later than one year	83	293
Later than one year and not later than five years	—	29
	83	322

15 Related party transactions

(a) *Related parties*

The Group is controlled by GZI Transport (Holdings) Limited, which owns approximately 67% of the Company's shares. The Company's Directors regard Guangzhou Investment Company Limited (incorporated in Hong Kong) to be the ultimate holding company.

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. The table set forth below summarised the names of related parties, with whom the Group had significant transaction during the period, and their of relationship with the Company as at 30 June 2006:

Significant related party	**Relationship with the Company**
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu")	A substantial shareholder of ultimate holding company (2005: ultimate holding company)
Guangzhou Investment Company Limited ("GZI")	Ultimate holding company (2005: an intermediate holding company)
Guangzhou Northern Second Ring Expressway Co., Ltd.	A jointly controlled entity of a subsidiary
Guangzhou Western Second Ring Expressway Co., Ltd	A jointly controlled entity of a subsidiary
Guangdong Humen Bridge Co., Ltd.	An associate of a subsidiary
Guangdong Qinglian Highway Development Co., Ltd.	An associate of a subsidiary
Guangdong Shantou Bay Bridge Co., Ltd.	An associate of a subsidiary
Guangzhou Northring Freeway Co., Ltd.	An associate of a subsidiary

(b) *Transactions with related parties*

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
Administrative service fees shared with GZI	650	650
Rental expenses paid to Yue Xiu	101	101

(c) *Key management compensation*

	Six months ended 30 June	
	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other short-term benefits	10,463	3,660

4. INDEBTEDNESS OF THE ENLARGED GROUP

(a) The Group

Borrowings

As at the close of business on 30 September 2006, being the latest practicable date for the purpose of this statement of indebtedness, the Group had outstanding borrowings of approximately HK$470,000,000 which comprised short-term bank borrowings of approximately HK$50,000,000 and loans from minority shareholders of subsidiaries of approximately HK$420,000,000.

Contingent Liabilities

As at 30 September 2006, the Group had pledged the income derived from its 24.3% effective interest in an associate to a bank in favour of a joint venture partner in this associate (the "Joint Venture Partner"), in respect of the repayment of a bank loan by the Joint Venture Partner amounting to RMB500,000,000 (approximately HK$486,000,000) and interest thereon (collectively referred to as "Relevant Loan").

A counter-indemnity has been provided by the Joint Venture Partner to the Group against all liabilities arising from such pledge. In addition, Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), the ultimate holding company of the Group, has issued an issued an indemnity to the Group under which any shortfall between the counter-indemnity given by the Joint Venture Partner and the Relevant Loan to the bank will be satisfied/paid by Yue Xiu if the counter-indemnity given by the Joint Venture Partner to the Group is insufficient to cover the Relevant Loan.

(b) GNSR Expressway Co., Ltd.

Borrowings

As at the close of business on 30 September 2006, being the latest practicable date for the purpose of this statement of indebtedness, GNSR Expressway Co., Ltd. had outstanding unsecured long-term bank borrowings of approximately RMB1,240,000,000 (approximately HK$1,227,700,000).

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Group and GNSR Expressway Co., Ltd. did not have any debt securities, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptance (other than normal trade bills) or similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities on 30 September 2006. For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 September 2006.

5. WORKING CAPITAL

The Group is currently in discussion with its bankers for a new secured term loan of up to HK$500,000,000 (the "Loan") to cover approximately 75.8% of the consideration for the acquisition. The offer of the Loan is subject to acceptable documentation and satisfaction of certain other conditions. Management is currently finalising the terms of the Loan with bankers and the Directors are confident that the Loan will be obtained on acceptable terms. The Group will use internal resources to fund the remaining 24.2% of the consideration.

After taking into consideration the financial resources available to the Enlarged Group, including internally generated funds and assuming the Loan is successfully negotiated, the Directors, after due and careful consideration, are of the opinion that, the Enlarged Group has sufficient working capital for its present requirements and for the period ending twelve months from the date of this circular in the absence of any unforeseen circumstances.

6. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, the date to which the latest published audited financial statements of the Group were made up.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

18 December 2006

The Directors
GZI Transport Limited

Dear Sirs,

We set out below our report on the financial information relating to 廣州市北二環高速公路有限公司 (for identification purpose in English, Guangzhou Northern Second Ring Expressway Co., Ltd.) ("GNSR Expressway Co., Ltd.") for each of the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006 (the "Relevant Periods") for inclusion in the circular of GZI Transport Limited (the "Company") dated 18 December 2006 (the "Circular") in connection with the acquisition of an additional 20% interest in GNSR Expressway Co., Ltd. by the Company.

GNSR Expressway Co., Ltd. is a sino-foreign joint venture company incorporated in the People's Republic of China (the "PRC") on 5 November 1996. GNSR Expressway Co., Ltd. is principally engaged in operation and management of a toll highway in Guangzhou, the PRC.

GNSR Expressway Co., Ltd. has adopted 31 December as its financial year end date. The statutory accounts of GNSR Expressway Co., Ltd. were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP"). The statutory accounts for the three years ended 31 December 2003, 2004 and 2005 were audited by Guangzhou Yangcheng Certified Public Accountants Co., Ltd., Certified Public Accountants in the PRC.

The financial information as set out in Sections 1 to 3 below (the "Financial Information") has been prepared based on the PRC GAAP Financial Statements after making such adjustments as are appropriate to comply with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of GNSR Expressway Co., Ltd., at the Relevant Periods, are responsible for preparing these financial statements which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company and GNSR Expressway Co., Ltd. are responsible for the Financial Information. It is our responsibility to form an independent opinion and a conclusion, based on our examination and review, on the Financial Information and to report our opinion and conclusion.

For the purpose of this report, we have examined the audited accounts or where appropriate, the unaudited management financial statements of GNSR Expressway Co., Ltd. for each of the three years ended 31 December 2003, 2004 and 2005 and six months ended 30 June 2006 (the "PRC GAAP Financial Statements") and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have reviewed the financial information for the six months ended 30 June 2005 in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of GNSR Expressway Co., Ltd.'s management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information for the six months ended 30 June 2005.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of GNSR Expressway Co., Ltd. as at 31 December 2003, 2004 and 2005 and 30 June 2006 and of the results and cash flows of GNSR Expressway Co., Ltd. for the periods then ended.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the financial information for the six months ended 30 June 2005.

1. FINANCIAL INFORMATION

i. Income statements

	Section 2 Note	**Year ended 31 December**			**Six months ended 30 June**	
		2003	**2004**	**2005**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Turnover	4	109,700	209,356	279,863	133,953	160,420
Other gains, net	5	394	666	4,646	2,943	4,223
Depreciation of tangible infrastructures of toll highway	11	(41,037)	(45,711)	(37,403)	(22,345)	(19,556)
Depreciation of property, plant and equipment	12	(5,314)	(899)	(3,736)	(1,868)	(1,794)
Staff costs	9	(10,848)	(15,611)	(17,242)	(7,747)	(10,063)
Toll highway maintenance expenses		(10,952)	(15,596)	(16,504)	(4,958)	(6,690)
Business tax		(5,529)	(10,790)	(10,906)	(6,397)	(4,957)
Other operating expenses		(3,149)	(2,686)	(5,616)	(2,769)	(2,291)
Operating profit	6	33,265	118,729	193,102	90,812	119,292
Interest income		261	444	131	56	56
Finance costs	7	(80,802)	(87,288)	(80,304)	(40,496)	(37,314)
(Loss)/profit before income tax		(47,276)	31,885	112,929	50,372	82,034
Income tax credit/(expense)	8	7,908	(6,370)	(20,093)	(9,733)	(14,011)
(Loss)/profit for the year/period		(39,368)	25,515	92,836	40,639	68,023

ii. Balance sheets

	Section 2 Note	At 31 December 2003	2004	2005	At 30 June 2006
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Tangible infrastructures of toll highway	11	2,446,804	2,407,199	2,369,796	2,350,240
Property, plant and equipment	12	18,544	20,128	16,637	14,843
Deferred income tax assets	17	22,413	16,043	—	—
		2,487,761	2,443,370	2,386,433	2,365,083
Current assets					
Trade receivables	13	—	—	1,916	2,539
Other receivables, deposits and prepayments	13	1,117	8,016	464	553
Bank balances and cash	14	52,111	11,609	12,041	12,298
		53,228	19,625	14,421	15,390
Total assets		2,540,989	2,462,995	2,400,854	2,380,473
EQUITY					
Capital and reserve attributable to equity holders of GNSR Expressway Co., Ltd.					
Registered capital	15	900,000	900,000	900,000	900,000
(Accumulated losses)/retained profits		(105,768)	(80,253)	12,583	80,606
Total equity		794,232	819,747	912,583	980,606
LIABILITIES					
Non-current liabilities					
Bank borrowings	16	1,090,000	1,000,000	1,039,000	1,170,000
Deferred tax liabilities	17	—	—	4,050	18,061
		1,090,000	1,000,000	1,043,050	1,188,061
Current liabilities					
Accounts payable and accrued charges	18	146,757	113,248	79,221	72,806
Current portion of bank borrowings	16	510,000	530,000	366,000	139,000
		656,757	643,248	445,221	211,806
Total liabilities		1,746,757	1,643,248	1,488,271	1,399,867
Total equity and liabilities		2,540,989	2,462,995	2,400,854	2,380,473
Net current liabilities		(603,529)	(623,623)	(430,800)	(196,416)
Total assets less current liabilities		1,884,232	1,819,747	1,955,633	2,168,667

iii. Cash flow statements

	Section 2 Notes	Year ended 31 December			Six months ended 30 June	
		2003	**2004**	**2005**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Operating activities						
Cash generated from operations	19	237,223	124,931	205,850	97,862	133,515
Net cash generated from operating activities		237,223	124,931	205,850	97,862	133,515
Investing activities						
Additions of tangible infrastructures of toll highway	11	(227,222)	(6,106)	—	—	—
Purchase of property, plant and equipment	12	(2,517)	(2,483)	(246)	(27)	(7)
Proceeds from disposal of property, plant and equipment		100	—	1	—	7
Interest received		261	444	131	56	56
Net cash (used in)/generated from investing activities		(229,378)	(8,145)	(114)	29	56
Financing activities						
New bank borrowings		120,000	440,000	405,000	140,000	270,000
Repayment of bank borrowings		(50,000)	(510,000)	(530,000)	(190,000)	(366,000)
Interest paid		(80,802)	(87,288)	(80,304)	(40,496)	(37,314)
Net cash used in financing activities		(10,802)	(157,288)	(205,304)	(90,496)	(133,314)
(Decrease)/increase in cash and cash equivalents		(2,957)	(40,502)	432	7,395	257
Cash and cash equivalents at beginning of the year/period		55,068	52,111	11,609	11,609	12,041
Cash and cash equivalents at end of the year/period		52,111	11,609	12,041	19,004	12,298
Analysis of the balances of cash and cash equivalents						
Bank balances and cash		52,111	11,609	12,041	19,004	12,298

iv. Statements of changes in equity

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
At beginning of the year/period	833,600	794,232	819,747	819,747	912,583
(Loss)/profit for the year/period	(39,368)	25,515	92,836	40,639	68,023
At end of the year/period	794,232	819,747	912,583	860,386	980,606

2. NOTES TO THE FINANCIAL INFORMATION

1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below.

(a) ***Basis of preparation***

The Financial Information of GNSR Expressway Co., Ltd. is the first set of financial statements of GNSR Expressway Co., Ltd. prepared in accordance with HKFRS and GNSR Expressway Co., Ltd. adopted HKFRS 1 "First-time Adoption of Hong Kong Financial Reporting Standards". The basis of accounting differs in certain material respects from that used in the preparation of GNSR Expressway Co., Ltd.'s statutory accounts, which have been prepared in accordance with PRC GAAP. Reconciliations and descriptions of the effect of the transition from PRC GAAP to HKFRS on GNSR Expressway Co., Ltd.'s income statements and balance sheets are given in note 21 of this section.

The Financial Information has been prepared in accordance with HKFRS issued by the HKICPA. It has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying GNSR Expressway Co., Ltd's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 3 of this section below. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during each of the Relevant Periods. Although these estimates are based on management's best knowledge, actual results ultimately may differ from those estimates.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the Relevant Periods and have not been early adopted:

- IFRIC/HK(IFRIC)-Int 7, "Applying the Restatement Approach under IFRS/HKFRS 29", effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for GNSR Expressway Co., Ltd.;

- IFRIC/HK(IFRIC)-Int 8, "Scope of IFRS/HKFRS 2", effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of IFRIC/HK(IFRIC)-Int 8 on GNSR Expressway Co., Ltd.'s operations;

- IFRIC/HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as GNSR Expressway Co., Ltd. already assess if embedded derivative should be separated using principles consistent with IFRIC/HK(IFRIC)-Int 9;

- HK(IFRIC)-Int 10, "Interim Financial Reporting and Impairment" effective for annual periods beginning on or after 1 November 2006. Management believes that this interpretation should not have a significant impact to GNSR Expressway Co., Ltd.; and

- HKFRS 7, "Financial instruments: Disclosures" and HKAS 1, "Amendments to capital disclosures", both effective for annual periods beginning on or after 1 January 2007. GNSR Expressway Co., Ltd. has assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures. GNSR Expressway Co., Ltd. will apply HKFRS 7 and the amendment to HKAS 1 for annual periods beginning on or after 1 January 2007.

(b) ***Tangible infrastructures of toll highway***

Tangible infrastructures of toll highway are stated at cost less accumulated depreciation and impairment losses.

Major costs incurred in restoring tangible infrastructures of toll highway to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to GNSR Expressway Co., Ltd..

Depreciation of tangible infrastructures of toll highway is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period of 30 years over the projected total traffic volume throughout the life of the asset. GNSR Expressway Co., Ltd. reviews regularly the projected total traffic volume throughout the life of the asset, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

GNSR Expressway Co., Ltd. has been granted by the relevant local government authorities the rights to operate the toll highway for period of 30 years. According to the relevant governments' approval documents and the relevant regulations, GNSR Expressway Co., Ltd. is responsible for the construction of the toll highway and the acquisition of the related facilities and equipment and it is also responsible for the operations and management, maintenance and overhaul of the toll highway during the approved operating periods. The toll fees collected during the operating periods is attributable to GNSR Expressway Co., Ltd. The relevant toll highway assets are required to be returned to the local government authorities when the operating rights periods expire without any payments to be made to GNSR Expressway Co., Ltd. According to the relevant regulations, these operating rights are not renewable and GNSR Expressway Co., Ltd. does not have any termination options.

(c) ***Property, plant and equipment***

(i) *Depreciation*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs, including related borrowing costs, of bringing the asset to its present working condition and location for its intended use.

Property, plant and equipment are depreciated at rates sufficient to write off their costs over their estimated useful lives to GNSR Expressway Co., Ltd. on a straight-line basis. The principal annual rates used for this purpose are as follows:

Plant and machinery	10%
Furniture, fixtures and equipment	10 to 20%
Motor vehicles	19%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(ii) *Gain or loss on disposal of property, plant and equipment*

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(iii) *Cost of restoring and improving property, plant and equipment*

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to GNSR Expressway Co., Ltd..

(d) ***Impairment of non-financial assets***

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(e) ***Receivables***

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(f) ***Cash and cash equivalents***

Cash and cash equivalents include cash in hand and deposits held at call with banks.

(g) ***Borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statements over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless GNSR Expressway Co., Ltd. has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(h) ***Deferred income tax***

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(i) ***Revenue recognition***

(i) Toll revenue is recognised on a receipt basis.

(ii) Interest income is recognised on a time-proportion basis using the effective interest method.

(iii) Operating lease rental income is recognised on a straight-line basis over the period of the lease.

(j) ***Borrowing costs***

Interest and related costs on borrowings directly incurred to finance the construction and acquisition of an asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are charged to the income statement in the period in which they are incurred.

(k) ***Retirement benefit costs***

GNSR Expressway Co., Ltd's contributions to the defined contribution retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of GNSR Expressway Co., Ltd. in an independently administered fund.

(l) ***Translation of foreign currencies***

(i) *Functional and presentation currency*

Items included in the Financial Information of GNSR Expressway Co., Ltd. are measured using the currency of the primary economic environment in which GNSR Expressway Co., Ltd. operates (the "functional currency"). The Financial Information is presented in Renminbi, which is GNSR Expressway Co., Ltd's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2 Financial risk management

2.1 ***Financial risk factors***

GNSR Expressway Co., Ltd's activities expose it to a variety of financial risks: liquidity risk and cash flow and fair value interest-rate risk. GNSR Expressway Co., Ltd.'s overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on GNSR Expressway Co., Ltd.'s financial performance. GNSR Expressway Co., Ltd. regularly monitors its exposure and currently that it is considers not necessary to hedge any of these financial risks.

(a) *Liquidity risk*

Due to the capital intensive nature of GNSR Expressway Co., Ltd.'s business, GNSR Expressway Co., Ltd. ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

(b) *Cash flow and fair value interest rate risk*

As GNSR Expressway Co., Ltd. has no significant interest-bearing assets, GNSR Expressway Co., Ltd's income and operating cash flows are substantially independent of changes in market interest rates.

GNSR Expressway Co., Ltd's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose GNSR Expressway Co., Ltd. to cash flow interest-rate risk. GNSR Expressway Co., Ltd. has not hedged its cash flow interest rate risk.

2.2 ***Fair value estimation***

The nominal values less estimated credit adjustments of accounts receivable and accounts payable approximate their fair values. The fair values of financial assets and financial liabilities for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rate that is available to GNSR Expressway Co., Ltd. for similar financial instruments.

3 Critical accounting estimates and assumptions

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

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

(a) ***Depreciation on tangible infrastructures of toll highway***

Depreciation of tangible infrastructures of toll highway is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the asset.

GNSR Expressway Co., Ltd. reviews regularly the projected total traffic volume throughout the life of the asset, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

In 2005, independent professional traffic studies were performed and the estimated average annual traffic growth rate for the remaining operating period that has been projected for the toll highway is around 4%.

(b) ***Deferred income tax***

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

4 Turnover

GNSR Expressway Co., Ltd. is principally engaged in the operation and management of a toll highway in China. Turnover recognised is as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Toll revenue	109,700	209,356	279,863	133,953	160,420

5 Other gains, net

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Rental income	—	—	4,300	2,800	4,200
Others	394	666	346	143	23
	394	666	4,646	2,943	4,223

6 Operating profit

The following item has been included in arriving at operating profit:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Net exchange (gain)/loss	(13)	(316)	62	(3)	31

7 Finance cost

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interest expense on bank borrowings	80,802	87,288	80,304	40,496	37,314

8 Income tax

(a) No provision for Hong Kong profits tax has been made in the Financial Information as GNSR Expressway Co., Ltd. has no assessable income to Hong Kong profits tax during the years/periods.

(b) PRC enterprise income tax is provided on the profits of GNSR Expressway Co., Ltd. in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law"). Under the China Tax Law, GNSR Expressway Co., Ltd. is entitled to an income tax holiday for two years from its first profit making year followed by a 50% reduction in income tax for the next three years. The principal income tax rate is 18%. The directors estimated that GNSR Expressway Co., Ltd's first cumulative profit making year will be 2007.

(c) The amounts of income tax (credited)/charged to the income statements represent:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Deferred income tax (credit)/expense (note 17)	(7,908)	6,370	20,093	9,733	14,011

The taxation on GNSR Expressway Co., Ltd.'s (loss)/profit before income tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
(Loss)/profit before income tax	(47,276)	31,885	112,929	50,372	82,034
Calculated at a tax rate of 18%	(8,510)	5,739	20,327	9,067	14,766
Other temporary differences	602	631	(234)	666	(755)
Income tax (credit)/expense	(7,908)	6,370	20,093	9,733	14,011

9 Staff costs

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Wages and salaries	7,949	12,530	13,570	6,305	8,249
Contributions to retirement plan	1,845	2,127	2,622	1,053	1,331
Staff welfare	1,054	954	1,050	389	483
	10,848	15,611	17,242	7,747	10,063

GNSR Expressway Co., Ltd. is required to participate in defined contribution retirement plan organised by the respective provincial or municipal People's Government in China, and make monthly contributions to the retirement plans equivalent to 20% of the monthly salaries of the employees.

10 Directors' emoluments

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Wages and salaries	—	—	199	—	190
Contributions to retirement plan	—	—	17	—	26
	—	—	216	—	216

11 Tangible infrastructures of toll highway

	Year ended 31 December			Six months ended 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period				
Cost	2,295,781	2,523,003	2,529,109	2,529,109
Accumulated depreciation	(35,162)	(76,199)	(121,910)	(159,313)
Net book amount	2,260,619	2,446,804	2,407,199	2,369,796
Year/period ended				
Opening net book amount	2,260,619	2,446,804	2,407,199	2,369,796
Additions	227,222	6,106	—	—
Depreciation	(41,037)	(45,711)	(37,403)	(19,556)
Closing net book amount	2,446,804	2,407,199	2,369,796	2,350,240
At end of the year/period				
Cost	2,523,003	2,529,109	2,529,109	2,529,109
Accumulated depreciation	(76,199)	(121,910)	(159,313)	(178,869)
Net book amount	2,446,804	2,407,199	2,369,796	2,350,240

12 Property, plant and equipment

	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2003				
Cost	22,045	2,263	5,263	29,571
Accumulated depreciation	(5,952)	(413)	(1,765)	(8,130)
Net book amount	16,093	1,850	3,498	21,441
Year ended 31 December 2003				
Opening net book amount	16,093	1,850	3,498	21,441
Additions	—	289	2,228	2,517
Disposals	—	—	(100)	(100)
Depreciation	(984)	(1,134)	(3,196)	(5,314)
Closing net book amount	15,109	1,005	2,430	18,544
At 31 December 2003				
Cost	22,045	2,552	7,341	31,938
Accumulated depreciation	(6,936)	(1,547)	(4,911)	(13,394)
Net book amount	15,109	1,005	2,430	18,544
Year ended 31 December 2004				
Opening net book amount	15,109	1,005	2,430	18,544
Additions	2,089	283	111	2,483
Depreciation	(304)	(117)	(478)	(899)
Closing net book amount	16,894	1,171	2,063	20,128
At 31 December 2004				
Cost	24,134	2,835	7,452	34,421
Accumulated depreciation	(7,240)	(1,664)	(5,389)	(14,293)
Net book amount	16,894	1,171	2,063	20,128

	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2005				
Opening net book amount	16,894	1,171	2,063	20,128
Additions	—	138	108	246
Disposals	—	—	(1)	(1)
Depreciation	(2,413)	(400)	(923)	(3,736)
Closing net book amount	14,481	909	1,247	16,637
At 31 December 2005				
Cost	24,134	2,973	7,559	34,666
Accumulated depreciation	(9,653)	(2,064)	(6,312)	(18,029)
Net book amount	14,481	909	1,247	16,637
Six months ended 30 June 2006				
Opening net book amount	14,481	909	1,247	16,637
Additions	—	7	—	7
Disposals	—	(7)	—	(7)
Depreciation	(1,208)	(208)	(378)	(1,794)
Closing net book amount	13,273	701	869	14,843
At 30 June 2006				
Cost	24,134	2,725	7,559	34,418
Accumulated depreciation	(10,861)	(2,024)	(6,690)	(19,575)
Net book amount	13,273	701	869	14,843

13 Trade and other receivables, deposits and prepayments

Trade receivables are toll revenues collected by other parties on behalf of GNSR Expressway Co., Ltd. The ageing of the balance is within 30 days.

Trade and other receivables, deposits and prepayments are denominated in RMB and their carrying values approximate their fair values.

14 Bank balances and cash

	At 31 December			At 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks and in hand	52,111	11,609	12,041	12,298

Bank balances and cash are denominated in the following currencies:

	At 31 December			At 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Renminbi	49,360	8,867	9,353	9,629
Hong Kong dollar	783	2,712	2,658	2,640
United States dollar	1,710	30	30	29
Euro dollar	258	—	—	—
	52,111	11,609	12,041	12,298

The conversion of the Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Chinese government.

15 Registered capital

	Year ended 31 December			Six months ended 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning and end of the year/period	900,000	900,000	900,000	900,000

16 Bank borrowings

	At 31 December			At 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Long-term bank borrowings	1,090,000	1,000,000	1,039,000	1,170,000
Current				
Current portion of long-term bank borrowings	510,000	530,000	366,000	139,000
Total borrowings, denominated in Renminbi	1,600,000	1,530,000	1,405,000	1,309,000

(a) The maturity of bank borrowings is as follows:

	At 31 December			At 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	510,000	530,000	366,000	139,000
In the second year	540,000	410,000	—	—
In the third to fifth year	410,000	—	—	—
After the fifth year	140,000	590,000	1,039,000	1,170,000
	1,600,000	1,530,000	1,405,000	1,309,000

(b) The effective interest rates of bank borrowings at 31 December 2003, 2004 and 2005 and 30 June 2006 were 5.36%, 5.47%, 5.51% and 5.51% respectively.

(c) The carrying amounts of long-term bank borrowings approximate their fair values.

17 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using the applicable income tax rate.

	At 31 December			At 30 June
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	(39,686)	(50,349)	(42,273)	(34,117)
Deferred tax liabilities	17,273	34,306	46,323	52,178
Net deferred tax (assets)/liabilities	(22,413)	(16,043)	4,050	18,061

The gross movement on the deferred income tax account is as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
At beginning of the year/period	(14,505)	(22,413)	(16,043)	(16,043)	4,050
(Credited)/charged in the income statements (note 8)	(7,908)	6,370	20,093	9,733	14,011
At end of the year/period	(22,413)	(16,043)	4,050	(6,310)	18,061

The detailed movement in deferred income tax assets and liabilities during the year/period is as follows:

	Deferred tax assets	**Deferred tax liabilities**	
	Tax losses	**Accelerated depreciation**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2003	(22,672)	8,167	(14,505)
Recognised in the income statement	(17,014)	9,106	(7,908)
At 31 December 2003	(39,686)	17,273	(22,413)
Recognised in the income statement	(10,663)	17,033	6,370
At 31 December 2004	(50,349)	34,306	(16,043)
Recognised in the income statement	5,872	3,861	9,733
At 30 June 2005	(44,477)	38,167	(6,310)
Recognised in the income statement	2,204	8,156	10,360
At 31 December 2005	(42,273)	46,323	4,050
Recognised in the income statement	8,156	5,855	14,011
At 30 June 2006	(34,117)	52,178	18,061

18 Accounts payable and accrued charges

Accounts payable and accrued charges are denominated in Renminbi and their carrying values approximate their fair values.

19 Note to the cash flow statements

Reconciliation of (loss)/profit before income tax to cash generated from operations

	Year ended 31 December			Six months ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
(Loss)/profit before income tax	(47,276)	31,885	112,929	50,372	82,034
Interest income	(261)	(444)	(131)	(56)	(56)
Interest expense	80,802	87,288	80,304	40,496	37,314
Depreciation of tangible infrastructures of toll highway	41,037	45,711	37,403	22,345	19,556
Depreciation of property, plant and equipment	5,314	899	3,736	1,868	1,794
Operating profit before working capital changes	79,616	165,339	234,241	115,025	140,642
Increase in trade receivables	—	—	(1,916)	(2,689)	(623)
Decrease/(increase) in other receivables, deposits and prepayments	33,779	(6,899)	7,552	(6,411)	(89)
Increase/(decrease) in accounts payable and accrued charges	123,828	(33,509)	(34,027)	(8,063)	(6,415)
Cash generated from operations	237,223	124,931	205,850	97,862	133,515

20 Related party transactions

(a) ***Related parties***

GNSR Expressway Co., Ltd. is a sino-foreign joint venture company incorporated in the PRC, which is owned as to 40% by GZI Transport Limited ("GZI Transport"), as to 30% by Guangzhou Highways Development Company ("GHDC") and as to 30% by independent third parties. GNSR Expressway Co., Ltd. is principally engaged in operation and management of a toll highway in Guangzhou, the PRC.

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(b) ***Key management compensation***

Key management represents the directors of GNSR Expressway Co., Ltd.. The aggregate amounts of emoluments payable to directors of GNSR Expressway Co., Ltd. for the years ended 31 December 2003, 2004 and 2005 and 30 June 2005 and 2006 were disclosed in note 10 to the Financial Information.

(c) ***Transactions with state-controlled enterprises***

One of the shareholders of GNSR Expressway Co., Ltd. is GHDC, which is controlled by the Chinese government. GNSR Expressway Co., Ltd. operates and manages a toll highway and thus, is likely to have extensive transactions with the vehicles and employees of state controlled entities while such employees are on corporate business as well as key management personnel and their close family members. These transactions are carried out on normal commercial terms that are consistently applied to all users and are made on a cash basis. Due to the vast volume and the pervasiveness of these transactions, the management is unable to determine the aggregate amount of the transactions for disclosure. Management believes that meaningful information relative to related party disclosures has been adequately disclosed.

At all balance sheet dates presented, all bank deposits and bank borrowings were with state-controlled banks. Accordingly, all bank deposits interest income was received from and all bank borrowings interest expenses were paid to state-controlled banks throughout the Relevant Periods.

21 Reconciliation between HKFRS Financial Information and PRC GAAP Financial Statements

(a) ***Reconciliation of income statements***

		Year ended 31 December 2003		
	Notes	**PRC GAAP Financial Statements**	**Effect of transition to HKFRS**	**HKFRS Financial Information**
		RMB'000	*RMB'000*	*RMB'000*
Turnover		109,700	—	109,700
Other gains, net	iii	1,838	(1,444)	394
Toll highway maintenance expenses and depreciation	i	(96,984)	44,995	(51,989)
Depreciation of property, plant and equipment		(5,314)	—	(5,314)
Staff costs		(10,848)	—	(10,848)
Business tax		(5,529)	—	(5,529)
Other operating expenses	iii	(3,034)	(115)	(3,149)
Operating profit		(10,171)		33,265
Interest income	iii	—	261	261
Finance costs	iii	(80,535)	(267)	(80,802)
Loss before income tax		(90,706)		(47,276)
Income tax credit	ii	—	7,908	7,908
Loss for the year		(90,706)		(39,368)

	Notes	Year ended 31 December 2004 PRC GAAP Financial Statements *RMB'000*	Effect of transition to HKFRS *RMB'000*	HKFRS Financial Information *RMB'000*
Turnover		209,356	—	209,356
Other gains, net	iii	1,875	(1,209)	666
Toll highway maintenance expenses and depreciation	i	(120,666)	59,359	(61,307)
Depreciation of property, plant and equipment		(899)	—	(899)
Staff costs		(15,611)	—	(15,611)
Business tax	iii	(10,660)	(130)	(10,790)
Other operating expenses	iii	(3,615)	929	(2,686)
Operating profit		59,780		118,729
Interest income	iii	—	444	444
Finance costs	iii	(81,781)	(5,507)	(87,288)
(Loss)/profit before income tax		(22,001)		31,885
Income tax expense	ii	—	(6,370)	(6,370)
(Loss)/profit for the year		(22,001)		25,515

	Notes	Year ended 31 December 2005 PRC GAAP Financial Statements *RMB'000*	Effect of transition to HKFRS *RMB'000*	HKFRS Financial Information *RMB'000*
Turnover		279,863	—	279,863
Other gains, net	iii	1,850	2,796	4,646
Toll highway maintenance expenses and depreciation	i	(118,531)	64,624	(53,907)
Depreciation of property, plant and equipment		(3,736)	—	(3,736)
Staff costs		(17,242)	—	(17,242)
Business tax	iii	(10,654)	(252)	(10,906)
Other operating expenses	iii	(5,783)	167	(5,616)
Operating profit		125,767		193,102
Interest income	iii	—	131	131
Finance costs	iii	(80,256)	(48)	(80,304)
Profit before income tax		45,511		112,929
Income tax expense	ii	—	(20,093)	(20,093)
Profit for the year		45,511		92,836

		Six months ended 30 June 2005		
	Notes	**PRC GAAP Financial Statements**	**Effect of transition to HKFRS**	**HKFRS Financial Information**
		RMB'000	*RMB'000*	*RMB'000*
Turnover		133,953	—	133,953
Other gains, net		2,943	—	2,943
Toll highway maintenance expenses and depreciation	i	(57,042)	29,739	(27,303)
Depreciation of property, plant and equipment		(1,868)	—	(1,868)
Staff costs		(7,747)	—	(7,747)
Business tax		(6,397)	—	(6,397)
Other operating expenses		(2,769)	—	(2,769)
Operating profit		61,073		90,812
Interest income		56	—	56
Finance costs		(40,496)	—	(40,496)
Profit before income tax		20,633		50,372
Income tax expense	ii	—	(9,733)	(9,733)
Profit for the year		20,633		40,639

		Six months ended 30 June 2006		
	Notes	**PRC GAAP Financial Statements**	**Effect of transition to HKFRS**	**HKFRS Financial Information**
		RMB'000	*RMB'000*	*RMB'000*
Turnover		160,420	—	160,420
Other gains, net		4,223	—	4,223
Toll highway maintenance expenses and depreciation	i	(58,772)	32,526	(26,246)
Depreciation of property, plant and equipment		(1,794)	—	(1,794)
Staff costs		(10,063)	—	(10,063)
Business tax		(4,957)	—	(4,957)
Other operating expenses		(2,291)	—	(2,291)
Operating profit		86,766		119,292
Interest income		56	—	56
Finance costs		(37,314)	—	(37,314)
Profit before income tax		49,508		82,034
Income tax expense	ii	—	(14,011)	(14,011)
Profit for the year		49,508		68,023

(b) ***Reconciliation of balance sheets***

		At 1 January 2003		
	Notes	**PRC GAAP Financial Statements**	**Effect of transition to HKFRS**	**HKFRS Financial Information**
		RMB'000	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Tangible infrastructures of toll highway	i	2,207,765	52,854	2,260,619
Property, plant and equipment		21,441	—	21,441
Deferred income tax assets	ii	—	14,505	14,505
		2,229,206		2,296,565
Current assets				
Other receivables, deposits and prepayments	iii	36,104	(1,208)	34,896
Bank balances and cash		55,068	—	55,068
		91,172		89,964
Total assets		2,320,378		2,386,529
EQUITY				
Capital and reserve attributable to equity holders of GNSR Expressway Co., Ltd.				
Registered capital		900,000	—	900,000
Accumulated losses		(125,955)	59,555	(66,400)
Total equity		774,045		833,600
LIABILITIES				
Non-current liabilities				
Bank borrowings		1,480,000	—	1,480,000
Current liabilities				
Accounts payable and accrued charges	iii	16,333	6,596	22,929
Current portion of bank borrowings		50,000	—	50,000
		66,333		72,929
Total liabilities		1,546,333		1,552,929
Total equity and liabilities		2,320,378		2,386,529
Net current assets		24,839		17,035
Total assets less current liabilities		2,254,045		2,313,600

		At 31 December 2003		
	Notes	**PRC GAAP Financial Statements**	**Effect of transition to HKFRS**	**HKFRS Financial Information**
		RMB'000	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Tangible infrastructures of toll highway	i	2,347,027	99,777	2,446,804
Property, plant and equipment		18,544	—	18,544
Deferred income tax assets	ii	—	22,413	22,413
		2,365,571		2,487,761
Current assets				
Other receivables, deposits and prepayments	iii	4,109	(2,992)	1,117
Bank balances and cash		52,111	—	52,111
		56,220		53,228
Total assets		2,421,791		2,540,989
EQUITY				
Capital and reserve attributable to equity holders of GNSR Expressway Co., Ltd.				
Registered capital		900,000	—	900,000
Accumulated losses		(216,848)	111,080	(105,768)
Total equity		683,152		794,232
LIABILITIES				
Non-current liabilities				
Bank borrowings		1,090,000	—	1,090,000
Current liabilities				
Accounts payable and accrued charges	iii	138,639	8,118	146,757
Current portion of bank borrowings		510,000	—	510,000
		648,639		656,757
Total liabilities		1,738,639		1,746,757
Total equity and liabilities		2,421,791		2,540,989
Net current liabilities		(592,419)		(603,529)
Total assets less current liabilities		1,773,152		1,884,232

	Notes	At 31 December 2004 PRC GAAP Financial Statements *RMB'000*	Effect of transition to HKFRS *RMB'000*	HKFRS Financial Information *RMB'000*
ASSETS				
Non-current assets				
Tangible infrastructures of toll highway	i	2,224,060	183,139	2,407,199
Property, plant and equipment		20,128	—	20,128
Deferred income tax assets	ii	—	16,043	16,043
		2,244,188		2,443,370
Current assets				
Other receivables, deposits and prepayments	iii	2,031	5,985	8,016
Bank balances and cash		11,609	—	11,609
		13,640		19,625
Total assets		2,257,828		2,462,995
EQUITY				
Capital and reserve attributable to equity holders of GNSR Expressway Co., Ltd.				
Registered capital		900,000	—	900,000
Accumulated losses		(276,601)	196,348	(80,253)
Total equity		623,399		819,747
LIABILITIES				
Non-current liabilities				
Bank borrowings		1,000,000	—	1,000,000
Current liabilities				
Accounts payable and accrued charges	iii	104,429	8,819	113,248
Current portion of bank borrowings		530,000	—	530,000
		634,429		643,248
Total liabilities		1,634,429		1,643,248
Total equity and liabilities		2,257,828		2,462,995
Net current liabilities		(620,789)		(623,623)
Total assets less current liabilities		1,623,399		1,819,747

		At 31 December 2005		
	Notes	**PRC GAAP Financial Statements**	**Effect of transition to HKFRS**	**HKFRS Financial Information**
		RMB'000	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Tangible infrastructures of toll highway	i	2,124,436	245,360	2,369,796
Property, plant and equipment		16,637	—	16,637
		2,141,073		2,386,433
Current assets				
Trade receivables		1,916	—	1,916
Other receivables, deposits and prepayments	iii	5,693	(5,229)	464
Bank balances and cash		12,041	—	12,041
		19,650		14,421
Total assets		2,160,723		2,400,854
EQUITY				
Capital and reserve attributable to equity holders of GNSR Expressway Co., Ltd.				
Registered capital		900,000	—	900,000
(Accumulated losses)/retained profits		(231,090)	243,673	12,583
Total equity		668,910		912,583
LIABILITIES				
Non-current liabilities				
Bank borrowings		1,039,000	—	1,039,000
Deferred income tax liabilities	ii	—	4,050	4,050
		1,039,000		1,043,050
Current liabilities				
Accounts payable and accrued charges	iii	86,813	(7,592)	79,221
Current portion of bank borrowings		366,000	—	366,000
		452,813		445,221
Total liabilities		1,491,813		1,488,271
Total equity and liabilities		2,160,723		2,400,854
Net current liabilities		(433,163)		(430,800)
Total assets less current liabilities		1,707,910		1,955,633

		At 30 June 2006		
	Notes	**PRC GAAP Financial Statements** *RMB'000*	**Effect of transition to HKFRS** *RMB'000*	**HKFRS Financial Information** *RMB'000*
ASSETS				
Non-current assets				
Tangible infrastructures of toll highway	i	2,060,365	289,875	2,350,240
Property, plant and equipment		14,843	—	14,843
		2,075,208		2,365,083
Current assets				
Trade receivables		2,539	—	2,539
Other receivables, deposits and prepayments		553	—	553
Bank balances and cash		12,298	—	12,298
		15,390		15,390
Total assets		2,090,598		2,380,473
EQUITY				
Capital and reserve attributable to equity holders of GNSR Expressway Co., Ltd.				
Registered capital		900,000	—	900,000
(Accumulated losses)/retained profits		(191,208)	271,814	80,606
Total equity		708,792		980,606
LIABILITIES				
Non-current liabilities				
Bank borrowings		1,170,000	—	1,170,000
Deferred income tax liabilities	ii	—	18,061	18,061
		1,170,000		1,188,061
Current liabilities				
Accounts payable and accrued charges		72,806	—	72,806
Current portion of bank borrowings		139,000	—	139,000
		211,806		211,806
Total liabilities		1,381,806		1,399,867
Total equity and liabilities		2,090,598		2,380,473
Net current liabilities		(196,416)		(196,416)
Total assets less current liabilities		1,878,792		2,168,667

Notes:

(i) These represent adjustments on depreciation of tangible infrastructures of toll highway under HKFRS.

(ii) These represent recognition of deferred income taxes arising from accelerated depreciation of tangible infrastructures of toll highway and tax losses under HKFRS.

(iii) These represent other adjustments on PRC GAAP Financial Statements to conform with HKFRS.

3. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by GNSR Expressway Co., Ltd. in respect of any period subsequent to 30 June 2006. No dividend has been declared, made or paid by GNSR Expressway Co., Ltd. in respect of any period subsequent to 30 June 2006.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(a) Unaudited pro forma statement of the assets and liabilities of the Enlarged Group

The following is an illustrative and pro forma statement of assets and liabilities of the Enlarged Group which has been prepared based on the unaudited condensed consolidated balance sheet of the Group as set out in the published interim report for the six months ended 30 June 2006 after making pro forma adjustments as set out in note 2 below. This unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to illustrate the effects of the Acquisition, as if the Acquisition had taken place on 30 June 2006. It has been presented in a manner consistent with both the format and accounting policies adopted by the Group. It has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 June 2006 or at any future date.

	Unadjusted statement of assets and liabilities of the Group as at 30 June 2006	**Pro forma adjustments**				**Pro forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2(i))*	*(Note 2(ii))*	*(Note 2(iii))*	*(Note 2(iv))*	
Non-current assets						
Interests in toll highways and bridges	1,923,886	—	—	2,326,970	2,362,074	6,612,930
Leasehold land	709	—	—	—	—	709
Property, plant and equipment	23,098	—	—	14,696	—	37,794
Investment properties	8,210	—	—	—	—	8,210
Goodwill	—	—	—	—	78,045	78,045
Investments in jointly controlled entities	603,634	(368,057)	—	—	—	235,577
Investments in associates	1,664,473	—	—	—	—	1,664,473
Deferred income tax assets	403	—	—	—	—	403
Available-for-sale financial assets	65,803	—	—	—	—	65,803
	4,290,216					8,703,944
Current assets						
Trade receivables	8,792	—	—	2,515	—	11,307
Other receivables, deposits and prepayments	11,791	—	—	548	—	12,339
Bank balances and cash	344,523	—	(159,604)	12,175	—	197,094
	365,106					220,740
Total assets	4,655,322					8,924,684

	Unadjusted statement of assets and liabilities of the Group as at 30 June 2006	Pro forma adjustments				Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2(i))*	*(Note 2(ii))*	*(Note 2(iii))*	*(Note 2(iv))*	
Non-current liabilities						
Borrowings	424,418	—	—	1,158,416	—	1,582,834
Deferred income tax liabilities	5,740	—	—	17,882	425,173	448,795
	430,158					2,031,629
Current liabilities						
Due to						
A minority shareholder of subsidiaries	2,890	—	—	—	—	2,890
Holding companies	3,084	—	—	—	—	3,084
Accounts payable and accrued charges	46,793	—	—	72,085	—	118,878
Current income tax liabilities	12,023	—	—	—	—	12,023
Borrowings	48,077	—	500,000	137,624	—	685,701
	112,867					822,576
Total liabilities	543,025					2,854,205
Net assets	4,112,297					6,070,479

Notes to the unaudited pro forma statement of assets and liabilities of the Enlarged Group:

1 The unadjusted statement of assets and liabilities of the Group is extracted from the unaudited condensed consolidated balance sheet of the Group as at 30 June 2006 set out in the published interim report for the six months ended 30 June 2006.

2 The adjustments represent the accounting treatment for the Acquisition using the purchase method of accounting, which is in accordance with the Group's accounting policies and HKFRS 3 issued by the Hong Kong Institute of Certified Public Accountants. Details are as follows:

i. derecognition of the Group's investment in GNSR Expressway Co., Ltd. as jointly controlled entity;

ii. payment of the cash consideration of HK$659,603,960 as set out in the Equity Transfer Agreement. It is assumed that the payment of the consideration is financed by a new secured term loan up to HK$500,000,000 and the remaining balance to be settled by the Group's internal resources. The Group has already obtained a letter of intent dated 7 November 2006 from one of its principal bankers for granting of the loan. As the maturity of the loan is yet to be confirmed by the bank, the loan is classified as short-term for the purpose of this pro forma statement;

iii. recognition of 100% assets and liabilities of GNSR Expressway Co., Ltd. as at 30 June 2006 as extracted from the accountants' report of GNSR Expressway Co., Ltd. as set out in Appendix II of this circular;

iv. recognition of fair value adjustment and corresponding deferred tax liabilities to GNSR Expressway Co., Ltd.'s net identifiable assets and goodwill. The fair value adjustment represents the difference between the business valuation of RMB3,366,300,000 (equivalent to HK$3,332,970,000) as shown in the business valuation report in Appendix IV of this circular and the net asset value of GNSR Expressway Co., Ltd. amounting to RMB980,606,000 (equivalent to HK$970,897,000), attributable to the interests in toll highways and bridges owned by GNSR Expressways Co., Ltd.. The deferred tax liabilities of HK$425,173,000 are calculated based on the temporary difference arising between the fair value of the assets and liabilities recognised in the Acquisition and the corresponding tax base, and the standard enterprise income tax rate of 18% applicable to GNSR Expressway Co., Ltd.. The goodwill of HK$78,045,000 represents the excess of the purchase consideration over the aggregate of the fair value of the net assets of GNSR Expressway Co., Ltd. attributable to the 20% interest acquired including the deferred tax liabilities recognised as aforesaid.

3 For the purpose of this pro forma statement of assets and liabilities, the balances stated in Renminbi ("RMB") have been translated to Hong Kong dollars ("HK$") at an exchange rate of HK$1 = RMB1.01.

4 No adjustments have been made to reflect any results or transactions of the Group and GNSR Expressway Co., Ltd. entered into subsequent to 30 June 2006.

5 The Company is in the course of assessing the fair value of assets and liabilities of GNSR Expressway Co., Ltd. The final amounts of the fair value of the assets and liabilities of GNSR Expressway Co., Ltd., corresponding deferred tax liabilities and goodwill will be different from those amounts as presented above.

(b) **Report from accountants on the unaudited pro forma financial information of the Enlarged Group**

The following is the text of a report from the accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group for the purpose of incorporation in this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

REPORT FROM ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF GZI TRANSPORT LIMITED

We report on the unaudited pro forma statement of assets and liabilities of GZI Transport Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 118 to 120 under the headings of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix III to the Company's circular dated 18 December 2006 (the "Circular") in connection with the acquisition of an additional 20% interest in 廣州市北二環高速公路有限公司 (for identification purpose in English, Guangzhou Northern Second Ring Expressway Co., Ltd.) (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 118 to 120 of the Circular.

Respective responsibilities of the directors of the Company and accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted statement of assets and liabilities of the Group as at 30 June 2006 with the unaudited condensed consolidated balance sheet of the Group as at 30 June 2006, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2006 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 18 December 2006

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

2703 Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

14 November 2006

The Board of Directors
Guangzhou Investment Company Limited
GZI Transport Limited

Dear Sirs,

In accordance with the instructions from GZI Transport Limited ("Company"), we have completed the appraisal of the fair value of a 100% equity interest in the business enterprise of Guangzhou Northern Second Ring Expressway Co., Ltd. ("GNSR Expressway Co., Ltd."), a sino-foreign joint venture company incorporated in the People's Republic of China (the "PRC") and limited to the development, operation and the management of the Guangzhou North Second Ring Expressway (the "GNSR Expressway") in Guangzhou, Guangdong Province. This letter identifies the property appraised, describes the basis of valuation, investigation and analysis, assumptions, limiting conditions and submits our findings in this report.

We confirm that we have made relevant enquiries and obtained such information as we consider necessary for the purpose of providing our opinion of the fair value of the GNSR Expressway Co., Ltd. as at 16 October 2006 (the "Valuation Date"). We understand that this appraisal will be used as a reference for your possible acquisition of a 20% equity interest in GNSR Expressway Co., Ltd. which is currently owned by 廣州發展基建投資有限公司 (Guangzhou Development Infrastructure Investments Co., Ltd.). Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purposes.

INTRODUCTION

The Company is a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board operated by The Stock Exchange of Hong Kong Limited. The Company and its group companies (the "Group") are principally engaged in investment in, and development, operation and management of toll highways, expressways and bridges mainly in Guangdong Province.

GNSR Expressway Co., Ltd. is a sino-foreign joint venture company incorporated in the PRC with business license for a period of 36 years commencing on the date of 5 November 1996, which is owned as to 40% by Bentfield and is principally engaged in development, operation and management of GNSR Expressway, being the only asset of GNSR Expressway Co., Ltd. as at the

Valuation Date. GNSR Expressway is a six-lane 42.4 km expressway with nine toll stations. The construction of GNSR Expressway was completed in late 2001 and formally commenced tolling operation in January 2002 with a business operation period of 30 years. GNSR Expressway provides connection to 11 provincial, national highways and expressways to the north of Guangzhou which includes the connection to Guanghui Expressway, Airport Expressway and Jing Zhu Expressway.

DEFINITION AND BASIS OF VALUATION

Business enterprise is defined for this appraisal as the total invested capital, net of the value of debt but including shareholders' loan, and equivalent to shareholders' equity plus shareholders' loan without regard to the effects of control premium or lack of marketability, if any.

We have appraised the business enterprise on the basis of fair value. Fair value is defined as "the estimated amount at which an asset should exchange on the valuation date between a willing buyer and a willing seller on an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Trade-related Business Assets and Business Enterprises (First Edition 2004) published by the Hong Kong Institute of Surveyors and the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum which are the generally accepted valuation standards followed by relevant professional practitioners in Hong Kong. These standards contain the detailed guidelines on the basis and valuation approaches in valuing assets used in the operation of a trade or business and business enterprises.

INVESTIGATION

Our investigation mainly included the review and analysis of relevant financial information and discussion with management of the Company and GNSR Expressway Co., Ltd. in relation to the history and nature of the business, operation and prospects of GNSR Expressway Co., Ltd., review of GNSR Expressway Co., Ltd.'s projected financial information from 2006 to 2031 and other documents, and a traffic and revenue forecast study (the "Traffic Forecast Report") together with an operation and maintenance cost study (the "O&M Report") for GNSR Expressway conducted by THI Asia, dated 14 November 2006, details of which are set out in the respective Appendices of the circular of the Company. The findings of the Traffic Forecast Report covers two future forecast scenarios, being "Optimistic" and "Conservative" scenarios, with regard to traffic and revenue streams of GNSR Expressway from 2006 to 2031, and the findings of the O&M Report forecast the operation as well as repair and maintenance expenses associated with the ongoing operation of GNSR Expressway for the period stated above. For the purpose of this valuation, we have incorporated and used the "Average" scenario (being the average of Optimistic and Conservative scenarios) in arriving at our opinion of value.

For the purpose of this appraisal, we have also reviewed past and projected financial data of GNSR Expressway Co., Ltd. and traffic data of the GNSR Expressway as well as other relevant records and documents. We have interviewed and discussed with the management of the Company and GNSR Expressway Co., Ltd. in respect of GNSR Expressway. We have assumed the accuracy of all provided information and have not performed audit of the said information and relied to a very considerable extent on such information in arriving at our opinion of value.

Before arriving at our opinion of value, we have considered the following principal factors:

— the nature of the business and the history of the enterprise from its inception;

— the financial condition of the business and its book value;

— the economic outlook in general and the specific economic and competitive elements affecting each segment of the business;

— projected operating results of GNSR Expressway Co., Ltd.;

— traffic volume and revenue projection of GNSR Expressway conducted by THI Asia in the Traffic Forecast Report;

— operation as well as repair and maintenance expenses projection of GNSR Expressway conducted by the THI Asia in the O&M Report;

— operation, toll system and maintenance cost information provided by GNSR Expressway Co., Ltd.;

— market-derived investment returns of entities engaged in a similar line of business; and

— the financial and business risks of the enterprise and projected results.

ASSUMPTIONS

Owing to the changing environment in which the GNSR Expressway Co., Ltd. operates, a number of assumptions need to be established in order to sufficiently support our concluded value of the business enterprise. The major assumptions adopted in this appraisal are:

— there will be no major changes in the existing political, legal, and economic conditions in the PRC in which GNSR Expressway Co., Ltd. persist its business operation;

— there will be no major changes in the current taxation law in the PRC, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

— interest rates will not differ materially from those presently prevailing;

— traffic growth and toll revenue of the GNSR Expressway will conform to the level as forecasted in the Traffic Forecast Report;

— operation as well as repair and maintenance expenses of GNSR Expressway will conform to the level as forecasted in the O&M Report;

— all relevant legal approvals and business certificates or licenses to operate the business enterprise of GNSR Expressway Co., Ltd. should have been formally obtained; and

— GNSR Expressway Co., Ltd. will retain competent management, key personnel, and technical staff to support its ongoing operation and development.

VALUATION METHODOLOGY

We have considered three generally accepted valuation methodologies in valuing the 100% equity interest in GNSR Expressway Co., Ltd. They are the market approach, cost approach and income approach. Regarding the market approach, due to the inherent and unique characteristics of GNSR Expressway and the location it is situated, market transactions of toll road projects in different locations can vary significantly in consideration of various physical, market, economic and fiscal factors. Therefore, we consider that the market approach is not appropriate to value GNSR Expressway Co., Ltd. Furthermore, we consider that the cost approach cannot reflect the fair value of GNSR Expressway Co., Ltd. in market sense as this approach will not consider the future development, operation and growth potential of GNSR Expressway Co., Ltd. In view of the above, we determine that the income approach with the application of discounted economic income method to discount future cash flows is the most appropriate method in valuing GNSR Expressway Co., Ltd.

The value of business enterprise has been developed through the application of discounted economic income method to discount future cash flows derived from the business back to present value.

In this method, value depends on the present worth of future economic benefits to be derived from ownership of equity and shareholders' loan. Thus, an indication of value was developed by discounting future free cash flows available for distribution to the shareholders to their present worth at the market-derived rate of return through the Capital Asset Pricing Model method (the "CAPM") with consideration of a number of factors including the current market condition and the underlying risks inherent in the subject business, such as uncertainty risk, liquidity risk, etc. These risk factors have been considered in determining the appropriate discount rate for the valuation.

Under CAPM, an investor requires excess returns to compensate for any risk that is correlated to the risk in the return from the stock market as a whole, but requires no excess return for other risks. Risks that are correlated with the return from the stock market are referred to as systematic; other risks are referred to as non-systematic. According to the CAPM, the cost of equity is equal to the return on risk-free securities, plus the average comparative company's systematic risk (beta), multiplied by the market risk premium, adjusted for increments for risk differentials of the business enterprise being valued versus the average comparative company, which include risk adjustment for size in relation to the comparative companies and risk adjustments for other risk factors in relation to the comparative companies.

In this valuation and based on the aforesaid CAPM and our analysis in relevant research, we have applied a risk free rate of 3.92%, being the yield of 10-year Hong Kong Exchange Fund Notes, a risk premium of 11.3%, being the equity risk premium as quoted by Ibbotson Associates and a nominal beta of 0.73, being the average beta for the PRC toll road operating companies listed in the Stock Exchange of Hong Kong including Jiangsu Expressway Company Limited, Yue Da Holdings Limited, Shenzhen Expressway Company Limited, Anhui Expressway Company Limited, Wah Nam International Holdings Limited, Sichuan Expressway Company Limited and Zhejiang Expressway Co., Ltd. In addition, we have considered 3.5% company specific risk premium associated with GNSR Expressway Co., Ltd. and the Traffic Forecast Report. We have derived a discount rate of 12.8% as at the Valuation Date.

To test for the reasonableness of the discount rate of 12.8% to the market, we have made reference to the discount rates used by other comparable expressway companies which are listed on the Stock Exchange and had acquired their expressways during the period between 2004 and 2006. The following table is a summary of our findings:

Transaction date	**Transaction**	**Discount rate**
April 2004	Widening of Jiangsu Section of Shanghai-Nanjing Expressway by Jiangsu Expressway Company Limited	11.7
April 2004	Acquisition of the operating rights of and widening of Jiangsu Section of Nanjing-Shanghai Class 2 Highway by Jiangsu Expressway Company Limited	11.7
February 2005	Acquisition of 56.3% interests in Qinglian Highways by Shenzhen Expressway Company Limited	17
March 2005	Acquisition of 100% interests in Wuhuang Expressway by Shenzhen Expressway Company Limited	14
March 2005	Acquisition of 49% interests in Gaojie Expressway by Anhui Expressway Company Limited	10
February 2006	Further acquisition of 20.1% interests in Qinglian Highways by Shenzhen Expressway Company Limited	17

The discount rates of the comparable transactions ranges from 10% to 17%. In other words, the 12.8% discount rate applied in valuing GNSR Expressway Co., Ltd. is in the mid range. With reference to the 15% discount rate used in the business valuation report contained in the Company's circular dated 20 January 2006 in relation to the Group's disposal of 6% interest in GNSR Expressway Co., Ltd. and taken into considerations of new market conditions such as the strong financial performance, upward trend of the traffic volume forecast and higher development costs and risks associated with the construction of new toll expressways as described in the paragraph headed "Reasons for and benefits of the Proposed Acquisition", we are of the opinion that a 12.8% discount rate is appropriate for the risk attributable to the valuation of GNSR Expressway Co., Ltd. as at the Valuation Date.

In addition, a sensitivity analysis based on discount rates ranging from 12% to 14% and with reference to the scenarios stated in the Traffic Forecast Report has been prepared as below:

Scenarios	**Discount Rate Results** *(RMB' million)*		
	12%	12.8%	14%
Optimistic	4,040.4	3,672.9	3,197.9
Average	3,700.3	3,366.3	2,934.1
Conservative	3,360.1	3,059.7	2,670.4

LIMITING CONDITIONS

No structural survey has been made and we are therefore unable to report as to whether GNSR Expressway is or is not free of any structural defects. No tests were carried out on any of the services. No on-site inspection was carried out to verify the level of condition and performance for which the GNSR Expressway was designed and built as well as the GNSR Expressway Co., Ltd.'s computer traffic control system in order to assess the reliability of the relevant traffic data provided by GNSR Expressway Co., Ltd. No on-site measurement was carried out to verify the correctness of the length of the expressway. We have assumed that the length of the GNSR Expressway shown on the relevant legal and other documents provided to us is correct.

We have not investigated the title to or any liabilities against the GNSR Expressway.

This appraisal reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

OPINION OF VALUE

Based on the aforesaid investigation, analysis and appraisal method employed, it is our opinion that as at 16 October 2006, the fair value of the 100% equity interest in GNSR Expressway Co., Ltd. is reasonably stated by the amount of RENMINBI THREE BILLION THREE HUNDRED AND SIXTY-SIX MILLION AND THREE HUNDRED THOUSAND ONLY (RMB3,366,300,000).

The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the Group or the value reported.

Yours faithfully,
For and on behalf of
Greater China Appraisal Limited

K. K. Ip
Managing Director

Samuel Y.C. Chan
Assistant Vice President
Business Valuation

Notes:

Mr. K.K. Ip is a Chartered Valuation Surveyor, a Registered Professional Surveyor (General Practice) and a Registered Business Valuer under the Hong Kong Business Valuation Forum, has substantial experience in valuing businesses including toll roads of the PRC since 1992.

Mr. Samuel Y.C. Chan, BBA, MBA and is a member pursuing the Accredited Valuation Analyst (AVA) designation of National Association of Certified Valuation Analysts, has substantial experience in valuing businesses including toll roads of the PRC since 2004.

We have also completed the appraisal of the fair value of a 100% equity interest in the business enterprise of Guangzhou Northern Second Ring Expressway Co., Ltd. dated 20 January 2006 (the "Previous Report") with an opinion of value of RMB1,106 million.

For analysis purpose only, had we used 14.4% the equity risk premium of the return of Heng Seng Index from our Previous Report instead of 11.3% quoted by Ibbotson Associates in the present valuation, discount rate for this business valuation would have increased by 2.26% (0.73 * (14.4-11.3%)) in 2006. In other words, the discount rate would have remained the same at 15.0%. However, having had regard to the current market conditions (including, amongst other factors, risk free rate, market risk premium and the average beta for the PRC toll road operating companies listed in the Stock Exchange of Hong Kong) and the strong performance track record of the GNSR Expressway Co., Ltd. supported by a phenomenal growth in the first 9 months of 2006, the acquisition of an additional 20% equity interest in the GNSR Expressway Co., Ltd. warrants a lower discount rate to reflect the lower investment risk. Furthermore, based on our professional judgment and specifically taking into account the strong growth performance by GNSR Expressway Co., Ltd., particularly in the first 9 months of 2006, we could have reduced the specific company specific risk premium from 3.5% used in the previous valuation by 1.75-2.00% in the present valuation to adjust for the reduction of company specific risk premium in 2006. However, in arriving at the present valuation, we took comfort by keeping the company specific risk premium at the same 3.5% level. The decrease of discount rate from 15.0% to 12.8% represents the above market conditions and taking into consideration of the reduction of business risk.

The change of the fair values between the Previous Report and the present report represents an amount of RMB2,260.3 million which is mainly a result of the difference between the respective traffic volume and toll revenue forecasted by the respective independent traffic consultants. We have performed a sensitivity analysis for analysis purposes only. By substituting only the revenue forecast provided by THI Asia in our present valuation to our previous valuation, with all other variables remaining unchanged, we noted the increase in forecasted toll revenue contributed to a fair value increase of approximately RMB1,312 million, representing a 119% increase over the previous valuation. The changes of the discount rate from 15.0% to 12.8% as a result of the reduction of risk free rate, equity risk premium and beta, together with the variation of respective operation and maintenance expenses forecasted by the respective traffic consultants, approximately one year timing difference with effect on the time value of money, a reduction in loan balance of GNSR Expressway Co., Ltd. from RMB1,405 million as at the date of the Previous Report to RMB1,246 million as at 16 October 2006, tax break periods and other factors including the current market conditions and current operation of GNSR Expressway Co., Ltd. contribute to partial increase of the valuation of approximately RMB948.3 million.

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14 November 2006

The Directors
Guangzhou Investment Company Limited
GZI Transport Limited

Dear Sirs,

Traffic and Revenue Forecast Study for Guangzhou Northern Second Ring Expressway

In accordance with your instructions and for GZI Transport Limited (the "Company"), THI Asia Consultants Limited (the Consultant or THI) has conducted an independent traffic and revenue study (the "Study") of Guangzhou Northern Second Ring ("GNSR") Expressway located in the northern Guangzhou area. This report summarizes the results and findings based on the technical analyses conducted. We confirm that the future traffic and revenue are projected in an independent and professional manner.

In conducting the Study, we have based our analyses on site investigation, interviews with the toll road operators, reviews of available traffic data, feasibility reports and other relevant information. In utilizing the given information from the Company, we have sought confirmation from the management of the toll road that no material factors have been omitted. We concluded that sufficient and reliable information has been provided for conclusive review and comprehensive analysis.

The results of our analysis are presented in the report of "Guangzhou Northern Second Ring Expressway — Traffic and Revenue Study". A brief summary of our study approaches and findings is presented below:

E1. INTRODUCTION

This report summarizes the results and findings based on the technical analyses conducted. We confirm that future traffic and revenue for the remainder of the concession period (2006 to 2031) for GNSR Expressway are projected in an independent and professional manner.

In conducting the Study, we have based our analyses on site investigation, interviews with local authorities/toll road operator, and reviews of available traffic data, feasibility reports, Origin-Destination ("O-D") surveys and other relevant information. In utilizing the given information from the Company, we have sought confirmation from the management of the toll roads that no material factors have been omitted. We concluded that sufficient and reliable information has been provided for conclusive review and comprehensive analysis.

This is a summary of the "Guangzhou Northern Second Ring Expressway — Traffic and Revenue Study" prepared by THI. The Consultant conducted an independent traffic and revenue forecast of GNSR Expressway which is summarized in the table below:

Summary of General Project Description

Highway Length (approximately)	Highway Classification	Highway Configuration	Highway Access Control	Highway Design Speed
42.4 km	Expressway	6-lane	Controlled Access	100 km/hr

E2. OBJECTIVES AND SCOPE OF SERVICES

The technical objective of the Study is to provide the Company with an independent study on future traffic and revenue projections. The scope of work includes data inventory and collection, traffic analysis and future traffic and revenue projections. Major activities include:

- Review available planning and feasibility reports related to the traffic corridors of the study expressway;
- Collect and review socio-economic data of the study region;
- Collect and analyze traffic and revenue data;
- Conduct additional traffic surveys and counts where applicable;
- Interview toll road operators and local planning department officials;
- Formulate travel demand forecast methodology;
- Analyze possible impact of competing roads in the traffic corridors under study; and
- Prepare traffic and revenue forecasts.

E3. TRAFFIC FORECASTING METHODOLOGY

The traffic forecasts are based on traditional travel demand forecast methodologies widely adopted for toll road studies and have been applied to similar toll roads in the People's Republic of China ("PRC"). Relevant information collected and accumulated by THI in other projects in Pearl River Delta area ("PRD") as well as other Guangdong areas in PRC have also been incorporated in this study. The traffic forecasting methodology for the Study consists of the following stages:

a) Data Inventory and Review — The key objective for this technical stage is to obtain existing available information and organize them for the next stage of work. Typical information to be inventoried includes historic highway network data, O-D data, toll road traffic and revenue data, existing and future socio-economic forecasts of the relevant region, and previous analyses and reports.

b) Define Technical Approach — The goal is to develop the most appropriate technical methodology to be used for study purposes. The determination of the types of method depends on the availability and quality of the data as well as the overall project programme.

c) Travel Demand Forecasting — Based on the information and findings from previous stages, this stage defines and analyzes the existing traffic patterns and forecasts the future travel demand based on the appropriate key traffic variables that include:

- Economic indicators and growth in travel demand;
- Physical conditions of the road and its carrying capacity;
- Vehicle classifications and percentage distribution; and
- O-D patterns by class of vehicle.

To consider the uncertainty of various external factors in the future, the traffic forecasts are presented under two scenarios: the Conservative Scenario and the Optimistic Scenario.

E4. PRINCIPAL MODEL/ANALYTICAL ASSUMPTIONS

The general assumptions defined in the Study are as follows:

a) The use of "Gross Domestic Product" ("GDP") statistics as the prime indicator to determine future traffic growth of the highway under study. Past studies conducted in the study region and in other areas of PRC have indicated that growth in GDP is more compatible and correlated with the passenger and goods vehicles travels than any other factors or available parameters. Because the majority of the anticipated future travel will be associated with the movement of passenger and goods in the PRD region, GDP growth will be used as the key parameter for future forecasts.

b) O-D patterns identified from the available database are applicable to the subject analysis;

c) The most current traffic composition of existing traffic flow is assumed to be applicable to the forecasts;

d) Variations between existing and future travel behaviors, system patterns and trip making decisions are insignificant;

e) Future economic growth trends in the study region should be consistent with existing regional economic policies, specifically the 11th Five-Year Plan, the provincial development master plan and local governmental policies. The adopted conservative annual economic growths are given in the table below;

Annual GDP Growth (%) Assumptions (Conservative)

Area	2006-2010	2010-2015	2015-2020	2020-2025	2025-2030	2030-2035
Shenzhen	14.0	11.2	9.5	8.1	6.8	6.2
Dongguan	17.6	14.1	12.0	10.2	8.6	7.8
Guangzhou	11.9	9.5	8.1	6.8	5.8	5.2
Foshan	10.7	8.6	7.3	6.2	5.2	4.8
Zhongshan	15.8	14.4	12.4	10.5	8.9	8.0
Zhuhai	12.5	11.9	10.2	8.6	7.3	6.6
Jiangmen	10.2	10.0	8.5	7.2	6.2	5.5
Zhaoqing	6.8	5.5	4.7	4.0	3.3	3.0
Huizhou	8.6	6.8	5.8	4.9	4.2	3.8
Guangdong	10.0	8.0	6.7	5.7	4.8	4.4

The GDP growth assumptions are made on the basis of the historical trend of respective municipality and Guangdong Province. Taking into consideration of the expectations given in the 11th Five year plan of respective municipality, the growths for the period of 2006-2010 are therefore assumed to be 50% to 70% of the growths in 2001-2005 and discounted by 25% for every 5 years. The optimistic growth expects higher developments in the region and is formed by adding 2% to 3% to the conservative scenario

f) Technical parameters associated with the determination of facility capacity are within the practical range;

g) Technical data obtained and used for the analysis is accurate and reliable, and therefore is a good representation of the typical average condition;

h) Based on the Highway Capacity Manual published by the Department of Transportation of Transportation Research Board of the United States of America and professional judgment, the estimated facility-based sectional capacity for the highways under study is 130,000 vehicles per day. This Sectional Capacities are defined as the maximum number of vehicles that can be accommodated by highway sections of facilities per day.

i) Major new highway links are planned or under construction in the vicinity of the study corridors. The major new links included in the study area are:

- Guangzhou Western Second Ring Expressway (2007); this dual-3 Carriageway is part of the PRD Second Ring Road Expressway System connecting GNSR Expressway with Foshan in the west.

- Guangzhou Eastern Second Ring Expressway (2008); this is also part of the Second Ring Road system connect southern Guangzhou with GNSR Expressway.

- Huanan Expressway Phase III (2008); this section of expressway is dual-3 carriageway with a total length of about 11 kms south of GNSR Expressway and will be parallel to the section of Taihe to Longshan interchanges of GNSR Expressway. From our transport model result, this expressway would divert about 8,400 vehicles from GNSR in year 2008.

Other new links include the developments in Huadu Networks and the new links in the northern Guangzhou Network.

j) Future year traffic demand for Conservative and Optimistic Scenarios are formed by applying the assumed GDP growths to the traffic demand elasticity indices and adjusted by area. The resultant annual growths for Conservative Scenario are given in tables below.

Study Area Annual Passenger Vehicle Traffic Growth (%) (Conservative)

Area	2006-2010	2010-2015	2015-2020	2020-2025	2025-2030	2030-2035
Shenzhen	7.1	5.7	4.8	4.2	3.5	3.1
Dongguan	9.0	7.2	6.2	5.2	4.5	4.0
Guangzhou	6.1	4.8	4.2	3.5	2.9	2.7
Foshan	5.5	4.4	3.7	3.1	2.7	2.5
Zhongshan	8.1	7.4	6.3	5.3	4.6	4.1
Zhuhai	6.4	6.1	5.2	4.4	3.7	3.4
Jiangmen	5.2	5.1	4.4	3.7	3.1	2.9
Zhaoqing	3.5	2.9	2.4	2.0	1.7	1.5
Huizhou	4.4	3.5	2.9	2.6	2.2	1.9
Guangdong	5.1	4.1	3.4	2.9	2.5	2.3

Study Area Annual Goods Vehicle Traffic Growth (%) (Conservative)

Area	2006-2010	2010-2015	2015-2020	2020-2025	2025-2030	2030-2035
Shenzhen	8.5	6.7	5.7	4.8	4.2	3.7
Dongguan	10.6	8.6	7.2	6.2	5.2	4.8
Guangzhou	7.2	5.8	4.8	4.2	3.5	3.1
Foshan	6.5	5.2	4.4	3.7	3.1	2.9
Zhongshan	9.5	8.7	7.4	6.4	5.4	4.8
Zhuhai	7.6	7.2	6.2	5.2	4.5	4.0
Jiangmen	6.2	6.1	5.1	4.4	3.7	3.3
Zhaoqing	4.2	3.3	2.9	2.4	2.0	1.8
Huizhou	5.1	4.2	3.5	2.9	2.6	2.3
Guangdong	6.0	4.8	4.1	3.5	2.9	2.7

k) Non-toll vehicles are also considered in this study. Non-toll vehicles include officially toll exempted vehicles such as government vehicles and toll road company cars. The proportion of non-toll vehicles is derived from the actual traffic flows.

E5. SUMMARY OF TRAFFIC PROJECTIONS

Vehicle Classification (Class 1 to Class 5 and Non-Toll) are defined as below:

Vehicle Class	Definition
Class 1	Passenger cars/vans and motorcycles (2-axle with 2-4 wheels)
Class 2	Light vans/light and small goods vehicles (2-axle with 4 wheels)
Class 3	Small, medium and large passengers vehicles/medium goods vehicles (2-axle with 6 wheels)
Class 4	Extra large passenger vehicles/large goods vehicles/20 ft container truck (3-axle with 6-10 wheels)
Class 5	Double deck passenger vehicles/heavy goods vehicles/heavy track & trailer/40 ft container truck (>3-axle with >10 wheels)
Non Toll	Official toll exemption

GNSR Expressway Historical Averaged Daily Traffic Flow and Growth

Year	Traffic Flow (Vehicles)	Growth (%)
2002	7103	—
2003	13234	86.3
2004	32698	147.1
2005	46119	41.1
2006	56845	23.3

Note: 2006 data is the averaged of the first 9 months, this is adjusted to the annual average daily traffic flow by using the seasonal factors.

Projected Daily Traffic (in mixed vehicles) - **Conservative Scenario**

Year	Class 1	Class 2	Class 3	Class 4	Class 5	Nontoll	Total
2006	28567	3937	13892	2319	4604	2402	55721
2007	33803	4726	16183	2725	5419	2839	65695
2008	33697	4504	16995	2859	5956	3136	67147
2009	36322	4857	18323	3080	6421	3384	72387
2010	39155	5236	19752	3320	6922	3648	78033
2011	41467	5549	20915	3513	7334	3859	82637
2012	43910	5880	22146	3719	7769	4089	87513
2013	46499	6229	23451	3938	8229	4330	92676
2014	49236	6598	24835	4170	8716	4590	98145
2015	52147	6986	26303	4410	9230	4858	103934
2020	66900	8969	33745	5629	11827	6213	133283
2025	83430	11168	42080	6990	14716	7712	166096
2030	97202	13004	49017	8136	17145	8982	193486
2031	100023	13386	50437	8370	17641	9241	199098

Projected Daily Traffic (in mixed vehicles) - **Optimistic Scenario**

Year	Class 1	Class 2	Class 3	Class 4	Class 5	Nontoll	Total
2006	28838	3974	14024	2341	4648	2425	56250
2007	34755	4857	16413	2771	5523	2900	67219
2008	34688	4646	17304	2924	6132	3227	68921
2009	38050	5098	18984	3206	6725	3539	75602
2010	41741	5593	20825	3517	7377	3882	82935
2011	44712	5985	22307	3764	7900	4156	88824
2012	47878	6418	23883	4035	8464	4451	95129
2013	51278	6875	25578	4322	9065	4766	101884
2014	54920	7362	27397	4628	9708	5102	109117
2015	58824	7879	29348	4955	10397	5461	116864
2020	80256	10739	40036	6741	14164	7427	159363
2025	105437	14085	52590	8833	18593	9732	209270
2030	123778	16520	61734	10354	21822	11419	245628
2031	123778	16520	61734	10354	21822	11419	245628

E6. TOLL RATE STRUCTURE

For expressways with closed system ("Closed System"), the toll is calculated by the toll rate times toll multipliers for different vehicle class times traveling distance. The toll multipliers are 1.0, 1.5, 2, 3 and 4 for vehicle class 1 to class 5. The existing toll rates are RMB 0.60, 0.90, 1.20, 1.80 and 2.40 per km for vehicle classes 1 to 5 travel on dual-3 carriageway.

With reference to the expected economic growth and the development in the region, we have adopted future toll rate increase of 10% at every five-year interval, starting from year 2010 for highways in Guangdong region. This increment represents an increase of about 1.92% per annum and is reasonable when compared to the average economic growth of Guangzhou, Dongguan, Shenzhen and Foshan of more than 10% per annum.

E7. ESTIMATION OF REVENUE

A summary of the revenue estimations for GNSR Expressway under study is presented under two scenarios in the following tables.

Projected Annual Revenue (RMB million) - **Conservative Scenario**

Year	Class 1	Class 2	Class 3	Class 4	Class 5	Total
2006	118.3	21.4	116.0	26.9	66.2	348.8
2007	139.5	25.4	135.6	31.8	78.4	410.8
2008	146.8	26.0	146.9	33.6	86.8	439.9
2009	158.2	28.0	158.3	36.2	93.5	474.3
2010	183.1	32.8	186.4	42.5	110.5	555.3
2011	193.9	34.8	197.4	45.0	117.0	588.2
2012	205.4	36.9	209.1	47.6	124.0	622.9
2013	217.5	39.0	221.4	50.5	131.4	659.8
2014	230.3	41.3	234.5	53.4	139.1	698.5
2015	266.3	47.7	272.2	62.2	162.0	810.4
2020	370.5	66.6	383.8	87.3	228.4	1136.6
2025	503.8	90.7	524.7	119.2	313.1	1551.5
2030	638.3	115.3	668.7	152.2	400.5	1975.1
2031	656.8	118.7	688.2	156.7	412.3	2032.6

Projected Annual Revenue (RMB million) - **Optimistic Scenario**

Year	Class 1	Class 2	Class 3	Class 4	Class 5	Total
2006	119.5	21.5	117.1	27.0	66.8	351.9
2007	143.6	26.1	138.1	32.5	80.3	420.6
2008	151.6	26.8	150.3	34.7	89.8	453.3
2009	166.3	29.4	164.9	38.0	98.5	497.2
2010	195.9	35.0	197.6	45.4	118.2	592.2
2011	209.9	37.6	211.6	48.7	126.7	634.5
2012	224.8	40.3	226.7	52.2	135.6	679.5
2013	240.7	43.1	242.8	55.9	145.2	727.7
2014	257.8	46.1	260.1	59.8	155.5	779.4
2015	301.7	53.8	305.2	70.5	183.0	914.3
2020	446.6	79.8	457.8	105.5	274.4	1364.1
2025	639.8	114.5	659.5	151.9	396.9	1962.7
2030	816.9	146.5	847.2	195.5	511.4	2517.5
2031	816.9	146.5	847.2	195.5	511.4	2517.5

E8. CONCLUSION

The Consultant concluded that the traffic forecasts developed by the above methodology and on the above assumptions are consistent with common professional practice and meet the objectives of the agreed scope of work with the Company. Full details of the Study and data are presented in the "Guangzhou Northern Second Ring Expressway — Traffic and Revenue Study".

Yours sincerely,
For and on behalf of
THI Asia Consultants Limited

Richard Yau
Executive Director

Jessica Liang
Project Manager

Notes:

Mr. Richard Yau, BSc., MSc., is a member of Chartered Institute of Transport and has substantial experience in transport planning and traffic studies since 1982.

Ms. Jessica Liang, BE, ME, MSc., is a member of the Amercian Society of Civil Engineers, has substantial working experience in traffic related studies since 1988.

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14 November 2006

The Directors
Guangzhou Investment Company Limited
GZI Transport Limited

Dear Sirs,

Operation & Maintenance (O&M) Study for Guangzhou Northern Second Ring Expressway

In accordance with your instructions and for GZI Transport Limited (also referred to as "GZI" or the "Company"), THI Asia Consultants Limited (also referred to as "THI" or the "Consultant") has conducted an independent assessment on the operation and maintenance (O&M) study (the "Study") of the Guangzhou Northern Second Ring (GNSR) Expressway located in the northern Guangzhou area in Guangdong Province, the People's Republic of China ("PRC"). This report summarizes the results and findings based on the technical analyses conducted. We confirm that the future operation and maintenance for the GNSR Expressway are projected in an independent and professional manner.

In conducting the Study, we have based our analyses on brief visual assessment on selected portions and elements of the toll road; meetings with management of toll road operator and site staff available at the time of the site visits; reviews of available feasibility reports and other relevant information. In utilizing the given information provided by the Company, we have sought confirmation from the management of the toll road that no material factors have been omitted. We concluded that sufficient and reliable information has been provided for conclusive review and comprehensive analysis.

The results of our analysis are presented in the "Guangzhou Northern Second Ring Expressway — Operation & Maintenance (O&M) Study". A brief summary of our study approaches and findings is presented below:

E1. INTRODUCTION

This operation and maintenance assessment consists of:

- Evaluation of the road conditions;
- Review and comment on the existing Operation and Maintenance (O&M) Program, with respect to their adequacy and efficiency (cost); and
- Estimation of the future operation and maintenance costs for the remainder of the concession period of the subject facility.

In accordance with the study objectives, scope and schedule, THI conducted a site visit on 25 October 2006 to perform: (a) brief visual assessment on selected portions and elements of GNSR Expressway; and (b) meetings with the toll road operator (Guangzhou Northern Second Ring Expressway Company Limited) and site staff available at the time of the site visits.

Please note that the scope of this study, however, is not to conduct a detailed inspection or a rigorous engineering analysis of the expressway, but rather, to provide a general overview of the project. The report is intended to give a review on the existing conditions of the expressway and the maintenance aspects in order that the risk, attributable cost and financial viability of the project can be assessed.

E2. PROJECT DESCRIPTION

Guangzhou Northern Second Ring Expressway — The study toll road total length of the alignments is approximate of 42.4 Km and design speed of 100kph, it consists of 6 lanes (Dual-3 Carriageway) with width of 3.75m per lane and a central median reversed area and emergency parking lane in both directions. The entire GNSR Expressway was open to traffic at end of year 2001. There are 9 toll plazas and interchanges on the study toll road. The expressway runs from Longshan interchange in the west to Shuili, Yayao, Banghu, Beicun, Shihu, Taihe, Changping and Huocun interchange in the east. GNSR Expressway connects with major expressways, such as Huanan Expressway II, Guangshen Expressway, Guangqing Expressway, Jingzhu Expressway, Guanghui Expressway, NH107, NH105, and NH106.

E3. TECHNICAL FINDINGS AND RECOMMENDATIONS

In general, the design of GNSR Expressway including geometry, pavements, embankment and drainage systems and highway structures has followed the PRC highway standards published by the Ministry of Communications as well as the local practices. The designs appear to be compatible with normally acceptable PRC engineering design standards.

Through auditing of the repair works implementation and on-site inspection of the repair results, it was found that the daily repair works met the design requirements. Overall design scheme deemed reasonable and its implementation was appropriate. The conditions after repair were found to be satisfactory.

After repair, basically the major elements causing deterioration were eradicated. As such, it shall be beneficial to the future maintenance and management. The scope of the repair works is as follows:

Pavement Damage

The pavement conditions of the GNSR are good. Minor uneven riding surfaces at the intersections of bridges abutment and roadway were noticed on the study toll road. This does not affect the normal operation of the expressway, but frequent inspections should be carried out to monitor the rate of deterioration. The GNSR is relatively new; both of the concrete and bituminous road surfaces are in good conditions.

Drainage

Gravity drainage system is used for the study expressway. Rainfall in the study areas are reportedly low, few drainage channels have been designed. This is consistent with the local practice. No drainage problems have been observed. The drainage systems were designed in line with the PRC standard and are currently operating well.

Expansion Joints

Expansion joints along the expressway are in good conditions with no major defects found. A few of expansion joints are being replaced. The replacement works have been carried out as a part of the maintenance programme. Routine inspection and regular cleaning are necessary to maintain the integrity of the element and monitor the rate of deterioration so that serious defects can be quickly rectified to ensure the long-term integrity of the bridge structure.

Bridge Vibration

Bridges are generally in good conditions with no major defects found during the site visit; most of the bridges are pre-cast pre-stressed T-Beam or pre-cast pre-stressed hollow slab superstructure. The beams and slabs of the bridges inspected from under deck appear to be in good condition.

At the long-span section of bridges at GNSR, light vibrations of the bridge deck were experienced with passing heavy loaded traffic. No abnormal sound of the bearings was heard. The vibration could be caused by the deflection of the structure. Regular monitoring of the long span bridges is recommended to ensure the structural integrity of the structures. The routine inspection is necessary to monitor the rate of deterioration so that serious defects can be quickly rectified to ensure the long-term integrity of the bridge structure.

Bridge Substructure

No major damage has been found on the substructure of the structures inspected. Plan for restoration has been formed as part of the maintenance programme. Since many bridges have navigational channels underneath, collision protections have been provided. It is recommended that extra large bridge should be equipped with settlement monitoring points to ensure the overall stability of the structure.

Miscellaneous Defects

Other miscellaneous defects such as settlement of the central median, buckled non-motorway pavement, cracks at the bridge abutments and embankment stone pitching were observed. These defects are caused by the previous settlement of the roadway embankment. Although these defects do not affect the operation of the highway, their condition should be monitored so that further settlement and deterioration can be detected.

Minor defects such as cracks and damaged concrete railing and concrete median, spall due to low concrete cover were also observed during our site inspection. Defects should be repaired as part of the routine maintenance programme.

Road Furniture

Some minor defects were observed on the roadside facilities along the study expressway. There were some damages on the roadside reflector, property fences, and median paving bricks. Wear and tear of some road marking was also observed. These minor damages should be repaired as part of the maintenance programme.

Tunnel

The general condition of embankment is good to fair with some minor cracks. The expansion joint was in good condition.

E4. OPERATION AND MAINTENANCE (O&M) COSTS

The total annual O&M costs include costs for minor repair/maintenance as well as medium and major repairs. Minor repairs and maintenance refers to the upkeep/preventative actions and minor repairing for normal operation of the expressway to be maintained. Medium to major repairs are defined as the required periodical repairs in order to reinstate the original conditions of the highway after long term wear and tear.

The purpose of this study is to review the existing O&M program and to form the basis in determining future maintenance needs in terms of costs and effort. Emphasis has been placed on major engineering elements and facility structures with the goal of matching the facility needs with the O&M program.

THI has reviewed and evaluated the estimated maintenance costs and the maintenance schedule of the study roads. We concluded that the costs per km for the minor and maintenance fee is reasonable based on the conditions of the expressway and the anticipated level of traffic.

According to the our investigation and the existing O&M programmes we have reviewed, Guangzhou Northern Second Ring Expressway Company Limited has established its own O&M management teams which have set up O&M programmes and issued O&M manual.

Operation and Maintenance Costs

This project mainly considers the maintenance of the pavement, road furniture, tunnel and bridges.

For pavement maintenance costs, the estimation has to consider both the existing condition of the expressway and the traffic volume. The growth rate of pavement maintenance costs will be estimated in different stages. For the first 5 years, the growth rate of maintenance costs is 3%; for the next 6 to 10 years, it would be 4%; for the following 11 to 16 years, it would be 5%; and the rest would rise to 6%.

For the first large-scale pavement maintenance works, the cost estimation has to include a large scale repaving works in year 2008.

For pavement marking, the cost has to include the repainting of the pavement marking for every 3 years.

For safety facilities, the growth rate of maintenance cost for safety facilities along the expressway is assumed 3% per year. It is also considered to repair and replace the facilities for 3 years during the second period of large-scale pavement maintenance.

Along the expressway, the major replacement works are considered and planned to take place in year 2008, and will be required in later years of 2015, 2022 and 2028.

The maintenance costs for Guangzhou Northern Second Ring Expressway are given in Table below.

Operation and Maintenance costs for the concession period (RMB million)

2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
13.3	13.7	84.4	13.4	12.9	12.5	13.0	12.5	14.0	103.8
2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
13.7	14.3	14.6	13.1	14.4	14.8	127.7	14.5	15.1	15.4
2026	**2027**	**2028**	**2029**	**2030**	**2031**				
13.8	15.3	152.4	17.2	17.4	20.8				

Notes: All costs estimated refer to the current price in PRC.

Management Costs

The management costs include salaries, staff costs and office administration costs. In view of GNSR Expressway Company has be operated from year 2001, the whole operation setup is well established and there will be no new toll plaza to be built in foreseeable future, the management costs are therefore estimated on the basis of past and existing cost involved.

Management cost for year 2005 was RMB26.3 million and the cost for 2006 would be RMB29.6 million (first six months of 2006 was RMB14.8 million). An annual increase of 5% is assumed for the period from year 2006 to 2010 and 3% increase from year 2011. The future costs estimations are given in table below:

Management costs for the concession period (RMB million)

2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
29.6	31.1	32.6	34.3	36.0	37.1	38.2	39.3	40.5	41.7
2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
43.0	44.2	45.6	46.9	48.4	49.8	51.3	52.8	54.4	56.1
2026	**2027**	**2028**	**2029**	**2030**	**2031**				
57.7	59.5	61.3	63.1	65.0	66.0				

Notes: All costs estimated refer to the current price in PRC.

E5. CONCLUSION

The Consultant concluded that the assessment on the operation and maintenance are consistent with common professional practice and meets the objectives of the agreed scope of work with the Company. Full details of the Study and data are presented in the "Guangzhou Northern Second Ring Expressway — Operation & Maintenance (O&M) Study".

Yours sincerely,
For and on behalf of
THI Asia Consultants Limited

Richard Yau
Executive Director

Jessica Liang
Project Manager

Notes:

Mr. Richard Yau, BSc., MSc., is a member of Chartered Institute of Transport and has substantial experience in transport planning and traffic studies since 1982.

Ms. Jessica Liang, BE, ME, MSc., is a member of the Amercian Society of Civil Engineers, has substantial working experience in traffic related studies since 1988.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

REPORT FROM ACCOUNTANTS ON DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF GUANGZHOU NORTHERN SECOND RING EXPRESSWAY CO., LTD. TO THE DIRECTORS OF GUANGZHOU INVESTMENT COMPANY LIMITED AND GZI TRANSPORT LIMITED

We report on the calculations of the discounted future estimated cash flows on which the business valuation (the "Valuation") dated 14 November 2006 prepared by Greater China Appraisal Limited in respect of the fair value of the 100% equity interests in 廣州市北二環高速公路有限公司 (for identification purpose in English, Guangzhou Northern Second Ring Expressway Co., Ltd. ("GNSR Expressway Co., Ltd.")) is based. The Valuation is set out in Appendix IV of the circular of GZI Transport Limited ("GZT") and Appendix I of the circular of Guangzhou Investment Company Limited ("GZI") both dated 18 December 2006 in connection with the acquisition of an additional 20% equity interest in GNSR Expressway Co., Ltd. by GZT.

Respective responsibilities of the directors of GZT and accountants

The directors of GZT are responsible for the preparation of the discounted future estimated cash flows for the Valuation which is regarded as a profit forecast under rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to report, as required by rule 14.62(2) of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based. The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated cash flows depend on future events and on a number of bases and assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Consequently, we have not reviewed, considered or conducted any work on the appropriateness and validity of the bases and assumptions and express no opinion on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows, and thus the Valuation, are based.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to the procedures under Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants. We examined the discounted future estimated cash flows. Our work has been undertaken solely to assist the directors of GZT in evaluating whether the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled. We accept no responsibility to any other person in respect of, arising out of or in connection with our work. Our work does not constitute any valuation of GNSR Expressway Co., Ltd.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of GZT as set out in Appendix IV of the circular of GZT and Appendix I of the circular of GZI.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 18 December 2006

DBS

14 November 2006

The Board of Directors
Guangzhou Investment Company Limited
GZI Transport Limitcd

Dear Sirs,

We refer to the business valuation report issued by Greater China ("Greater China"), a firm of professional valuers engaged by GZI Transport Limited (the "Company") for the purpose of carrying out an independent business valuation (the "Business Valuation") on the entire equity interest in 廣州市北二環高速公路有限公司 (for identification purpose in English, Guangzhou Northern Second Ring Expressway Co., Ltd.) ("GNSR Expressway") as at 16 October 2006.

We note that the fair value appraised under the Business Valuation is based on the future cash flows of GNSR Expressway and under Rule 14.61 of the Listing Rules, any valuation of assets (other than land and buildings) or businesses acquired by a listed issuer based on discounted cash flows or projections of profits, earnings or cash flows will be regarded as a profit forecast. Accordingly, the Business Valuation is regarded as a profit forecast under the Listing Rules.

We have made enquiries and discussed both with the management of the Company and with Greater China in respect of the underlying bases and assumptions upon which the Business Valuation was based. We are of the opinion that the fair value of GNSR Expressway as appraised by Greater China under the Business Valuation has been made by them after due and careful enquiry with the directors of the Company.

Yours faithfully,
For and on behalf of
DBS ASIA CAPITAL LIMITED

George Hongchoy	**Jason Wong**
Managing Director	*Managing Director*

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF DIRECTOR'S INTERESTS IN THE COMPANY

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executives (if any) of the Company had, or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

(a) Long Positions in the issued ordinary shares of the Company and its associated corporations

Name of Director	Interest in the Company or its associated corporations	Capacity in holding interest	Approximate % of shareholding in the total issued shares	Number of shares
Liang Ningguang	GZI	Beneficial owner	0.01	400,000

(b) Long Positions in the underlying shares of equity derivatives of the Company and its associated corporations

Name of Director	Interest in the Company or its associated corporations	Capacity in holding interest	Date of grant *(Note)*	Exercise price per share *HK$*	Number of outstanding share options
Ou Bingchang	GZI	Beneficial owner	02/06/2003	0.5400	9,000,000
Liang Ningguang	GZI	Beneficial owner	02/06/2003	0.5400	7,000,000
Liang Yi	GZI	Beneficial owner	02/06/2003	0.5400	7,000,000

Note: The share options are exercisable from 2 June 2003 to 1 June 2013, of which a maximum of up to (i) 30%; and (ii) 60% (inclusive of any options exercised under (i)) thereof are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the date of the grant, respectively.

As at the Latest Practicable Date, none of the Directors nor the chief executive of the Company (if any) or the experts named in paragraph 4(a) below in this circular had any interest or indirect interests in any assets which have since 31 December 2005 (being the date to which the latest published audited accounts of the Group were made up to) been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors or their respective associates had any competing interest with the Group.

3. DISCLOSEABLE INTERESTS OF SHAREHOLDERS AND OTHER PERSONS

(a) Save as disclosed below, as at the Latest Practicable Date, so far as is known to any Director or chief executive (if any) of the Company, no person (not being a Director or the chief executive (if any) of the Company nor any member of the Group) had, or was deemed to have an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Name of shareholder	**Capacity in holding interest**	**Long/short position**	**Approximate % of shareholding in the total issued Shares**	**Number of Shares held**
Yue Xiu Enterprises (Holdings) Limited *(Note 1)*	Beneficial owner and interest of controlled corporations	Long position	70.46	785,932,076
GZI *(Note 2)*	Beneficial owner and interest of controlled corporations	Long position	67.25	750,134,000
First Dynamic Limited *(Note 3)*	Interest of controlled corporations	Long position	67.24	750,000,000
Round Table Holdings Limited *(Note 4)*	Interest of controlled corporations	Long position	67.24	750,000,000
GZI Transport (Holdings) Limited *(Note 5)*	Interest of controlled corporations	Long position	67.24	750,000,000
Housemaster Holdings Limited	Beneficial owner	Long position	32.95	367,500,000
Power Head Limited	Beneficial owner	Long position	14.12	157,500,000
Delta Force Holdings Limited	Beneficial owner	Long position	10.09	112,500,000
Lawson Enterprises Limited	Beneficial owner	Long position	10.09	112,500,000
Cheah Cheng Hye *(Note 6)*	Interest of controlled corporations	Long position	12.63	140,976,000
Value Partners Limited	Investment Manager	Long position	12.63	140,976,000

Notes:

1. Yu Xiu Enterprises (Holdings) Limited has a direct holding of 5,769 Shares and is deemed by the SFO to be interested in 785,926,307 Shares as a result of its indirect holding of such Shares through its subsidiaries.

2. GZI has a direct holding of 134,000 Shares and is deemed by the SFO to be interested in 750,000,000 Shares as a result of its indirect holding of such Shares through its wholly-owned subsidiary, Round Table Holdings Limited.

3. First Dynamic Limited is deemed by the SFO to be interested in 750,000,000 Shares as a result of its indirect holding of such Shares through its controlled corporation, GZI Transport (Holdings) Limited.

4. Round Table Holdings Limited is deemed by the SFO to be interested in 750,000,000 Shares as a result of its indirect holding of such Shares through its subsidiary, GZI Transport (Holdings) Limited.

5. GZI Transport (Holdings) Limited is deemed by the SFO to be interested in 750,000,000 Shares as a result of its indirect holding of such Shares through its wholly-owned subsidiaries, Housemaster Holdings Limited, Power Head Limited, Delta Force Holdings Limited, and Lawson Enterprises Limited.

6. Cheah Cheng Hye is deemed by the SFO to be interested in 140,976,000 Shares as a result of his indirect holding of such Shares through his controlled corporation, Value Partners Limited.

(b) Save as disclosed below, as at the Latest Practicable Date, so far as is known to any Director or chief executive (if any) of the Company, no person (other than members of the Group) directly or indirectly is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the members of the Enlarged Group (other than the Company).

Name of subsidiaries	**Name of substantial shareholder**	**Approximate % of interest held**
Guangzhou Nanxin Highways Development Company Limited	GHDC	20
Guangzhou Taihe Highways Development Company Limited	GHDC	20
Guangzhou Tailong Highways Development Company Limited	GHDC	49
Guangzhou Weian Highways Development Company Limited	GHDC	20
Guangzhou Xinguang Highways Development Company Limited	GHDC	45
Hunan Yue Tung Highway and Bridge Development Company Limited	中國湘潭湘橋發展股份有限公司	10
Yan Tung Investment Limited	Festoon Enterprises Limited	16.67
GNSR Expressway Co., Ltd. [1]	GHDC	30
	廣東省公路建設公司	10

Note:

1. The Company's equity holding in GNSR Expressway Co., Ltd. will be increased from 40% to 60%, and the latter will become a subsidiary of the Company, upon completion of the Acquisition.

4. EXPERTS

(a) The following are the qualifications of the experts who have provided their opinion or advice, which are contained in this circular:

Name	Qualification
DBS	Licensed corporation to engage in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Greater China	an independent professional business valuer
THI Asia	an independent professional traffic consultant

(b) As at the Latest Practicable Date, DBS, PricewaterhouseCoopers, Greater China and THI Asia had no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) DBS, PricewaterhouseCoopers, Greater China and THI Asia have not withdrawn their respective written consents to the issue of this circular with the inclusion therein of their respective reports / letters and reference to their respective names in the form and context in which they appear.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered or was proposing to enter into any service contract with the Company or any other member of the Group, which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL CONTRACTS

The particulars of all material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the issue of this circular are set out as follows:

(a) Sale and purchase agreement dated 29 December 2005 entered into between Bentfield and GHDC in respect of the disposal of a 6% equity interest in GNSR Expressway Co., Ltd.; and

(b) the Acceptance Notice and the Equity Transfer Agreement for the Acquisition.

7. MISCELLANEOUS

(a) As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, being the date to which the latest published audited accounts of the Group were made up to.

(b) As at the Latest Practicable Date, the Directors are not aware of any litigation, arbitration or claim of material importance pending or threatened against any member of the Enlarged Group.

(c) The Company Secretary of the Company is Mr. Yu Tat Fung, solicitor of the High Court of Hong Kong.

(d) The qualified accountant of the Company is Ms. Chan Kam Ting, Sharon, *FCCA, FCPA*.

(e) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the principal place of business of the Company at 25th Floor, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong up to and including 2 January 2007:

(a) the bye-laws of the Company;

(b) the contracts set out under the paragraph headed “Material Contracts” in this Appendix;

(c) the audited consolidated accounts of the Group for the year ended 31 December 2005 and the unaudited condensed consolidated interim accounts of the Group for the six months ended 30 June 2006;

(d) the accountants’ report on GNSR Expressway Co., Ltd. from PricewaterhouseCoopers, the text of which is set out in Appendix II to this circular, and the related statement of adjustments;

(e) the report on pro forma financial information from PricewaterhouseCoopers, the text of which is set out in Appendix III to this circular;

(f) the Valuation Report from Greater China, the text of which is set out in Appendix IV to this circular;

(g) the Traffic Study Report from THI Asia, the text of which is set out in Appendix V to this circular;

(h) the operation and maintenance study report from THI Asia, the text of which is set out in Appendix VI to this circular;

(i) the report on Discounted Future Estimated Cash Flows in connection with the Business Valuation of GNSR Expressway Co., Ltd. from PricewaterhouseCoopers, the text of which is set out in Appendix VII of this circular;

(j) the comfort letter of DBS on the profit forecast relating to the business valuation of GNSR Expressway Co., Ltd., the text of which is set out in Appendix VIII of this circular;

(k) the written consents of DBS, PricewaterhouseCoopers, Greater China and THI Asia respectively referred to in paragraph headed "Experts" in this Appendix; and

(l) a copy of the circular issued by the Company dated 20 January 2006 in relation to a connected transaction.