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

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越秀交通有限公司
GZI Transport Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1052)

CONNECTED TRANSACTION

**Independent Financial Adviser to
the Independent Board Committee and the Shareholders of
GZI Transport Limited**



Yu Ming Investment Management Limited

A letter from the board of GZI Transport Limited is set out on pages 4 to 10 of this circular.

A letter from the independent board committee of GZI Transport Limited is set out on page 11 of this circular. A letter from Yu Ming Investment Management Limited, the independent financial adviser to the independent board committee and shareholders of GZI Transport Limited, is set out on pages 12 to 18 of this circular.

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Bentfield”	means Bentfield Limited, an international business company incorporated in the British Virgin Islands with limited liability and an indirect wholly owned subsidiary of the Company
“Board”	the board of directors of the Company
“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 Stock Exchange
“China Traffic Institute”	means “中交第一公路勘察設計研究院” (for identification purposes, in English, The First Highway Survey and Design Institute of China), a PRC qualified professional traffic consultant
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the directors of the Company
“Disposal”	the transaction contemplated in the Sale and Purchase Agreement
“Disposal Asset”	a six per cent interest in GNSR Expressway Co to be disposed of by Bentfield under the Sale and Purchase Agreement
“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 and a substantial shareholder of five subsidiaries and a connected person of the Company
“GNSR Expressway Co”	means “廣州市北二環高速公路有限公司” (for identification purposes, in English, Guangzhou Northern Second Ring Expressway Co., Ltd.), a sino-foreign joint venture company incorporated in the PRC, which is owned as to 46 per cent by Bentfield, as to 24 per cent by GHDC and as to 30 per cent by independent third parties
“Group”	the Company and its subsidiaries

DEFINITIONS

“Guangzhou Nanxin”	means Guangzhou Nanxin Highways Development Company Limited, a cooperative joint venture established in the PRC, the interest of which is held as to 80 per cent by Superfield Limited, an indirect wholly owned subsidiary of the Company, and as to 20 per cent by GHDC
“Guangzhou Taihe”	means Guangzhou Taihe Highways Development Company Limited, a cooperative joint venture established in the PRC, the interest of which is held as to 80 per cent by Ickleton Limited, an indirect wholly owned subsidiary of the Company, and as to 20 per cent by GHDC
“Guangzhou Tailong”	means Guangzhou Tailong Highways Development Company Limited, a cooperative joint venture established in the PRC, the interest of which is held as to 51 per cent by Fortune Success Group Ltd., an indirect wholly owned subsidiary of the Company, and as to 49 per cent by GHDC
“Guangzhou Weian”	means Guangzhou Weian Highways Development Company Limited, a cooperative joint venture established in the PRC, the interest of which is held as to 80 per cent by Teckstar Limited, an indirect wholly owned subsidiary of the Company, and as to 20 per cent by GHDC
“Guangzhou Xinguang”	means Guangzhou Xinguang Highways Development Company Limited, a cooperative joint venture established in the PRC, the interest of which is held as to 55 per cent by Top Global Holdings Ltd., an indirect wholly owned subsidiary of the Company, and as to 45 per cent by GHDC
“Guangzhou Investment”	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 Stock Exchange and on the stock exchange operated by Singapore Exchange Securities Trading Limited
“Hong Kong”	means The Hong Kong Special Administrative Region of the PRC
“independent third parties”	a party and its ultimate beneficial owner are third parties which are independent of the Company and connected persons of the Company
“Independent Board Committee”	means an independent committee of the Board appointed to advise the Shareholders in respect of the Sale and Purchase Agreement, comprising the independent non-executive directors of the Company

DEFINITIONS

“Latest Practicable Date”	18 January 2006, being the latest practicable date prior to the publication of this circular for ascertaining certain information
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“per cent”	means percentage
“PRC”	means the People’s Republic of China
“Sale and Purchase Agreement”	the sale and purchase agreement dated 29 December 2005 entered into between Bentfield and GHDC in respect of the disposal of the Disposal Asset for a consideration of RMB66,100,000
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified for the time being
“Share(s)”	shares of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	shareholders of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it in section 2 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Yu Ming”	Yu Ming Investment Management Limited, a deemed licensed corporation eligible to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Shareholders
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

An exchange rate of HK\$ 1.00 = RMB 1.04 is used in this circular.

LETTER FROM THE BOARD



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
CHEN Guangsong
LIANG Ningguang
LIANG Yi
DU Xinrang
HE Zili
ZHANG Siyuan
TAN Yuande
HE Baiqing
ZHANG Huping

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

Non-Executive Directors:

POON Jing

Independent Non-Executive Directors:

FUNG Ka Pun
LAU Hon Chuen Ambrose
CHEUNG Doi Shu

20 January 2006

To Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

INTRODUCTION

Reference is made to the joint announcement dated 29 December 2005 jointly issued by Guangzhou Investment and the Company, in which the Directors announced that on 29 December 2005, Bentfield, an indirect wholly owned subsidiary of the Company, entered into the Sale and Purchase Agreement with GHDC, pursuant to which, Bentfield agreed to sell and GHDC agreed to purchase a six per cent interest in GNSR Expressway Co for a total consideration of RMB66,100,000 (equivalent to approximately HK\$63,557,692) in cash. The only asset of GNSR Expressway Co is the entire interests in Guangzhou Northern Second Ring Expressway.

LETTER FROM THE BOARD

The Independent Board Committee has been appointed to advise the Shareholders, and Yu Ming has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders.

The purpose of this circular is to provide the Shareholders with further details of the Sale and Purchase Agreement and to set out the opinion of the Independent Board Committee and the letter of advice from Yu Ming to the Independent Board Committee and the Shareholders.

SALE AND PURCHASE AGREEMENT

Date

29 December 2005

Parties

Vendor: Bentfield, an indirect wholly owned subsidiary of the Company, the principal business of which is the holding of a 46 per cent interest in GNSR Expressway Co

Purchaser: GHDC, a PRC state-owned enterprise, the principal business of which is the holding of interests in, and the development of, toll highways, expressways and bridges mainly in Guangdong Province, the PRC. GHDC holds a 24 per cent interest in GNSR Expressway Co

The Disposal

Pursuant to the Sale and Purchase Agreement, Bentfield agreed to sell and GHDC agreed to purchase the Disposal Asset. There is no restriction on any subsequent sale of the Disposal Asset.

The composition of the board of directors and the management of GNSR Expressway Co are not expected to change as a result of the Disposal.

Consideration

The consideration for the Disposal, which has been arrived at after arm's length negotiations between Bentfield and GHDC with reference to the adjusted unaudited net asset value of GNSR Expressway Co as at 31 October 2005, is RMB66,100,000 (equivalent to approximately HK\$63,557,692) which represents a premium of approximately 28 per cent to the net asset value of the Disposal Asset of approximately HK\$49,524,000 as at 31 October 2005, and is acceptable to both Bentfield and GHDC. The Directors believe that the consideration for the Disposal is fair and reasonable. The consideration will be settled by GHDC in cash within 10 days after the completion of the conditions precedent as stipulated in the Sale and Purchase Agreement.

LETTER FROM THE BOARD

Disputes Resolution

In the event of any dispute between the two contracting parties concerning the terms and conditions of the Sale and Purchase Agreement, China International Economic and Trade Arbitration Commission will be appointed as the arbitrator, the decision of which shall be deemed final and legally binding on both contracting parties.

Conditions precedent

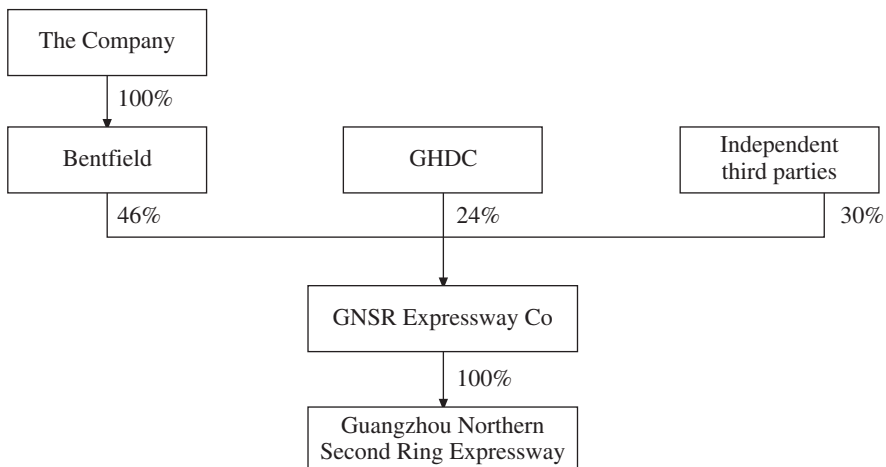
The Disposal is conditional on the completion of the following unless with the written waiver from both contracting parties:

- (a) the delivery of the Sale and Purchase Agreement duly executed by the authorized representatives of the contracting parties;
- (b) approval of the Sale and Purchase Agreement by the respective board of directors of the contracting parties;
- (c) approval of the Sale and Purchase Agreement by the Shareholders by way of an ordinary resolution; and
- (d) approval of the Disposal by the Department of Foreign Trade and Economic Cooperation of Guangdong Province in the PRC.

Shareholding structures before and after completion of the Disposal

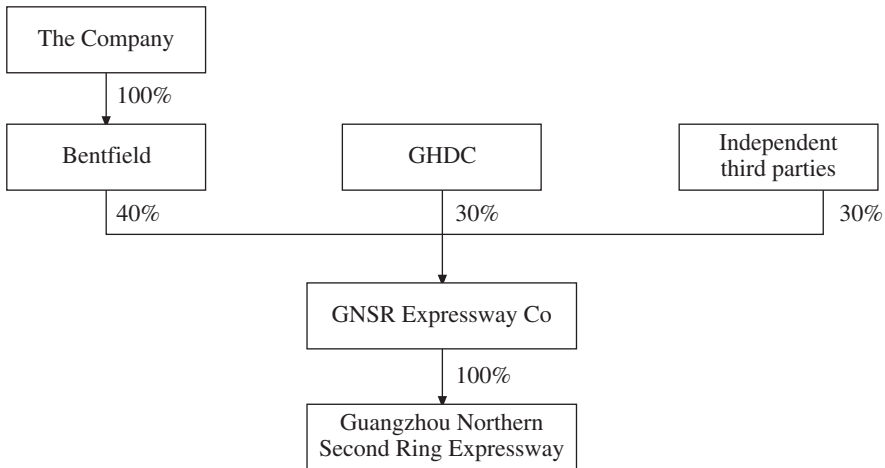
The following charts depict the shareholding structures of GNSR Expressway Co before and after completion of the Disposal:

(i) *Before the Disposal*



LETTER FROM THE BOARD

(ii) *After completion of the Disposal*



INFORMATION ON GNSR EXPRESSWAY CO

GNSR Expressway Co is a sino-foreign joint venture company incorporated in the PRC, which is owned as to 46 per cent by Bentfield, as to 24 per cent by GHDC and as to 30 per cent by independent third parties. Subsequent to the completion of the Sale and Purchase Agreement, GNSR Expressway Co will be owned as to 40 per cent by Bentfield; as to 30 per cent by GHDC; and as to 30 per cent by independent third parties. Dividends of GNSR Expressway Co are shared among shareholders in proportion to their respective equity interests.

As at the date of this circular, the only asset of GNSR Expressway Co is Guangzhou Northern Second Ring Expressway. The adjusted book value (which is adjusted from the PRC generally accepted accounting principles to Hong Kong generally accepted accounting principles) of GNSR Expressway Co was HK\$730,830,000 as at 31 December 2004, according to the latest annual report of the Company.

Pursuant to Rule 14A.59(17) of the Listing Rules, a business valuation report in respect of the entire equity interest in GNSR Expressway Co was prepared as set out in Appendix I of this circular. Based on the valuation report, the fair market value of the entire equity interest in GNSR Expressway Co as at 30 November 2005 is RMB1,106,000,000 (equivalent to approximately HK\$1,063,461,538), based on which the Disposal Asset is valued at RMB66,360,000⁽¹⁾ (equivalent to approximately HK\$63,807,692). The valuation of the Disposal Asset is based on discounted cash flow which is also regarded as a profit forecast pursuant to Rule 14.61 of the Listing Rules. The accounting policies and calculations for discounted cash flow is examined and reported on by CCIF CPA Limited, the reporting accountant, details of which is set out in Appendix IV of this circular. Yu Ming, the independent financial adviser also report on such forecast, details of which is set out in Appendix V of this circular.

⁽¹⁾ RMB1,106,000,000 times 6%.

LETTER FROM THE BOARD

Based on the extract of the adjusted financial information as disclosed in the 2004 annual report and unaudited management accounts for the ten months ended 31 October 2005 of the Company, the turnover, net profit before and after taxation and extraordinary items of GNSR Expressway Co for the two financial years ended 31 December 2003 and 2004 and for the ten months ended 31 October 2005, all prepared in accordance with the Hong Kong generally accepted accounting principles are as follows:

	For the financial year		For the ten
	ended 31 December		months ended
	2003	2004	31 October
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>
Turnover	97,813	186,447	210,790
Profit/(loss) before taxation and extraordinary items	(44,390)	29,939	85,573
Profit/(loss) after taxation and extraordinary items	(57,167)	22,337	79,011
Long term assets	2,314,881	2,279,181	2,286,588
Current assets	49,979	18,426	35,083
Current liabilities	(137,800)	(106,336)	(105,252)
Long term liabilities	(1,518,566)	(1,460,441)	(1,391,017)
Shareholders' fund	708,494	730,830	825,402
46 per cent share of net assets	325,907	336,182	379,685
Goodwill	4,714	4,551	4,551
46 per cent share of carrying value	330,621	340,733	384,236
Value attributable to the 6 per cent interest:			
Profit/(loss) before taxation and extraordinary items	(2,663)	1,796	5,134
Profit/(loss) after taxation and extraordinary items	(3,430)	1,340	4,741
Net assets	42,510	43,850	49,524

Note: The accounting method applied by the Company to account for the investment in GNSR Expressway Co is equity accounting method which will remain unchanged upon completion of the Disposal.

INFORMATION ON GUANGZHOU NORTHERN SECOND RING EXPRESSWAY

Guangzhou Northern Second Ring Expressway is a six-lane 42.4 km expressway with nine toll stations. It provides connection to 11 provincial, national highways and expressways to the north of Guangzhou City. Guangzhou Northern Second Ring Expressway was completed and commenced toll collection in January 2002.

LETTER FROM THE BOARD

REASONS FOR THE DISPOSAL

The Group is principally engaged in the investment in and development, operation and management of toll highways, expressways and bridges mainly in Guangdong Province. To alleviate the situation associated with non-controlling equity interests in a joint venture company where the Company may not be able to exercise control over the policies and decisions in respect of the operations and management of such joint venture company, the Company intends to adjust its investment strategy in projects where less than a 50 per cent equity interest is held or expects that no controlling interest could reasonably be obtained, to either reduce the current equity interest level to 40 per cent or to limit the future acquisition to not more than 40 per cent equity interest level. However, each project will be evaluated on a case-by-case basis. Where applicable, the Company will also strive to be the single largest shareholder in such projects.

The Disposal would constitute the initial implementation by the Company of its new investment strategy.

FINANCIAL EFFECTS ARISING FROM THE DISPOSAL

Upon completion of the Disposal, an estimated gain on disposal (before deduction of relevant expenses) of approximately HK\$13,439,961 will accrue to the Company, the breakdown of which is as follows:

	<i>HK\$</i>
Consideration receivable	63,557,692
Decrease in carrying value (including goodwill) as at 31 October 2005 from the disposal of the Disposal Asset	<u>(50,117,731)</u>
Gain on the Disposal before deduction of relevant expenses	<u><u>13,439,961</u></u>

The Directors intend to apply the net proceeds from the Disposal for the investment in Guangzhou Western Second Ring Expressway which is currently under construction, and for other toll expressway investment opportunities as they might arise.

The Directors (including the respective independent non-executive Directors) believe that the terms of the Sale and Purchase Agreement are fair and reasonable as far as the Shareholders are concerned, and the Sale and Purchase Agreement is in the interests of the Shareholders and the Company taken as a whole.

CONNECTED TRANSACTION

GHDC is a connected person of the Company because GHDC is a substantial shareholder holding 20 per cent, 49 per cent, 20 per cent, 45 per cent and 20 per cent interests in five subsidiaries of the

LETTER FROM THE BOARD

Company (namely Guangzhou Taihe, Guangzhou Tailong, Guangzhou Weian, Guangzhou Xinguang and Guangzhou Nanxin respectively). The entering into the Sale and Purchase Agreements between Bentfield and GHDC therefore constitutes a connected transaction of the Company under Rule 14A.13(1)(a) of the Listing Rules.

Based on the applicable size tests set forth in Rule 14.07 of the Listing Rules, the entering into the Sale and Purchase Agreement between Bentfield and GHDC constitutes a connected transaction for the Company which requires the independent Shareholders' approval under Rule 14A.17 of the Listing Rules.

The Directors confirm that other than those interests in the five subsidiaries of the Company, GHDC is not a connected person of the Company by virtue of any other connection with the Company. Therefore, no Shareholder is required to abstain from voting if the Company was to convene a general meeting for the approval of the Sale and Purchase Agreement in accordance with the Listing Rules.

The Company has obtained a written confirmation under Rule 14A.43 of the Listing Rules from Guangzhou Investment which, as at the Latest Practicable Date, controls 750,134,000 Shares, representing approximately 67.25 per cent of the issued share capital of the Company giving the right to attend and vote at the general meeting to approve the Sale and Purchase Agreement if one was to be held. Accordingly, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver of its obligation to convene a general meeting pursuant to Rule 14A.43 of the Listing Rules on the basis that an independent shareholders' approval has been obtained by way of the written approval by the independent Shareholders.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee and the letter from Yu Ming as set out in this circular. The Independent Board Committee considers that the terms of the Sale and Purchase Agreement are fair and reasonable so far as the interests of the Shareholders are concerned and that the entering into the Sale and Purchase Agreement is in the interests of the Shareholders and the Company taken as a whole.

Yours faithfully,
For and on behalf of the Board
GZI TRANSPORT LIMITED
OU Bingchang
Chairman



越 秀 交 通 有 限 公 司
GZI Transport Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1052)

20 January 2006

To Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

We refer to the circular dated 20 January 2006 to the Shareholders (the “Circular”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context of this letter otherwise requires.

The Independent Board Committee has been appointed by the Board to consider and advise the Shareholders on the terms and conditions of the Sale and Purchase Agreement, details of which are set out in the letter from the Board contained in the Circular. Yu Ming has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in this respect.

Under the Listing Rules, the entering of the Sale and Purchase Agreement constitutes a connected transaction of the Company. We wish to draw your attention to the letter from Yu Ming, which contains its advice to us in respect of the terms and conditions of the Sale and Purchase Agreement as set out on pages 12 to 18 of the Circular. We have discussed that letter and the advice contained therein with Yu Ming.

Having considered, among other things, the factors and reasons considered by, and the advice of, Yu Ming, as stated in the aforementioned letter in respect of entering into Sale and Purchase Agreement, we are of the opinion, and concur with the views of Yu Ming, that the terms of the Sale and Purchase Agreement are fair and reasonable as far as the Shareholders are concerned and the Sale and Purchase Agreement is in the interests of the Shareholders and the Company taken as a whole.

Yours faithfully,

FUNG Ka Pun LAU Hon Chuen Ambrose CHEUNG Doi Shu
Independent Board Committee of GZI Transport Limited

LETTER FROM YU MING

The following is the text of the letter of advice to the Independent Board Committee and the Shareholders from Yu Ming Investment Management Limited regarding the Sale and Purchase Agreement for the purpose of incorporation in this circular:



YU MING INVESTMENT MANAGEMENT LIMITED
禹銘投資管理有限公司

20 January 2006

To the Independent Board Committee and the Shareholders

GZI Transport Limited
25th Floor
Yue Xiu Building
160 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

CONNECTED TRANSACTION

INTRODUCTION

We have been appointed to advise you in respect of the Sale and Purchase Agreement, details of which are set out in this circular, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in this circular unless the context otherwise requires.

The Board announced on 29 December 2005 that Bentfield, an indirect wholly owned subsidiary of the Company, entered into the Sale and Purchase Agreement with GHDC, pursuant to which, Bentfield agreed to sell and GHDC agreed to purchase a 6 per cent. interest in GNSR Expressway Co, whose only asset is the entire interests in Guangzhou Northern Second Ring Expressway, for a total consideration of RMB66,100,000 in cash. As GHDC is a substantial shareholder of five subsidiaries of the Company, the entering of the Sale and Purchase Agreement constitutes a connected transaction for the Company.

Pursuant to Rule 13.39(6)(b) of the Listing Rules, we have been appointed as an independent financial adviser to make recommendations to the Independent Board Committee and the Shareholders as to whether the terms and conditions of the Sales and Purchase Agreement are fair and reasonable and whether the Sale and Purchase Agreement is in the interests of the Shareholders and the Company as a whole.

LETTER FROM YU MING

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in this circular and the information, opinions and representations provided to us by the Company. We have assumed that all statements, information, opinions and representations contained or referred to in this circular and all information, opinions and representations which have been provided by the Directors for which they are solely responsible are, to the best of their knowledge, true and accurate at the time they were made and continue to be so on the date of this letter.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and the representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations, the omission of which would make any statement in this circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors, nor have we conducted an independent investigation into the business and affairs of the Company, GNSR Expressway Co. and their respective group companies.

PRINCIPAL FACTORS AND REASONS

In arriving at our opinion on the terms of the Sale and Purchase Agreement, we have taken into consideration the following factors and reasons:

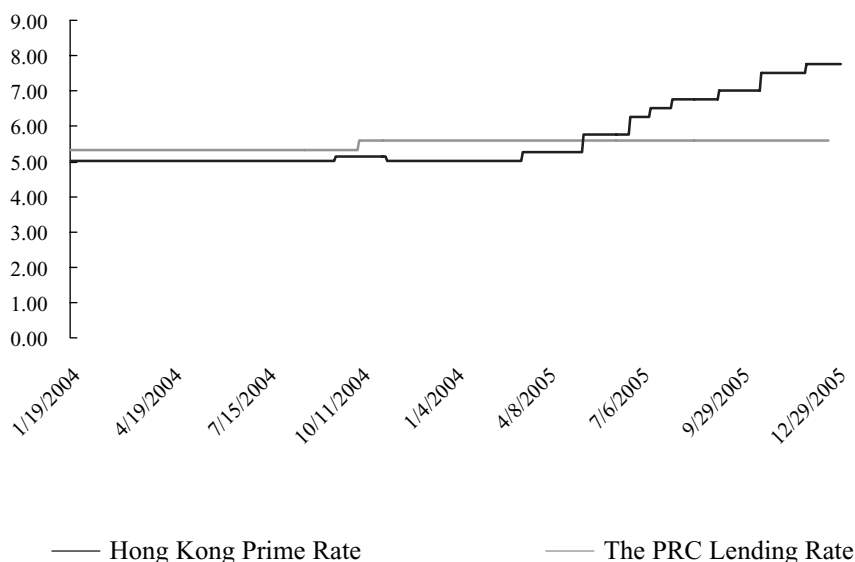
Reasons for and benefits of the Disposal

Listed on the Stock Exchange since January 1997, the Company is principally engaged in investment in, and development, operation and management of toll highways, expressways and bridges mainly in the Guangdong Province, the PRC. As disclosed in the announcement dated 24 May 2005, the Company has committed RMB350,000,000 to the construction of Guangzhou Western Second Ring Expressway which commenced construction on 16 September 2004. As at 30 June 2005, the Company had contributed a total of RMB143,500,000 with the remaining balance of RMB206,500,000 to be settled either by internal resources or bank borrowings either in Hong Kong (the Company's head office and principal place of business) or the PRC (where the Group's investments are located).

The Hong Kong Prime Rate, representing the cost of borrowing in the Hong Kong market, and the PRC Lending Rate, representing the cost of borrowing in the PRC are on an upward trend, increasing from 5 per cent. to 7.75 per cent. and 5.31 per cent. to 5.58 per cent. respectively over the past 24 months ended on the Latest Practicable Date. 24-month period is chosen because it gives a reasonable period of time to demonstrate the trend of the movement of interest rates. In addition, the credit tightening policy of the PRC central government policy makes borrowing much more difficult. Therefore, it is not in the best interest for the Company to fund the construction of Guangzhou Western Second Ring Expressway through additional debt financing in the current rising borrowing cost environment.

LETTER FROM YU MING

The following chart depicts the Hong Kong Prime Rate and the PRC Lending Rate in the past 24 months:



Source: Bloomberg

The Company has been reducing its debt as its treasury strategy since 2003. According to audited 2004 annual report and unaudited 2005 interim report of the Company, the total bank loans of the Company substantially dropped from HK\$345,539,000 as at 31st December 2003 to HK\$146,479,000 as at 30 June 2005, representing a 57.61 per cent. decrease, resulting in a better liquidity position of the Company. Therefore, the decision of not committing further bank borrowings to finance the construction of Guangzhou Western Second Ring Expressway or other toll expressway investment opportunities they might arise is in line with the current treasury strategy of the Company.

According to the Company's unaudited 2005 interim report, the bank balances and current bank loans of the Group as at 30 June 2005 were of HK\$243,578,000 and HK\$71,362,000 respectively. The available cash balance after netting off the current bank loans of approximately HK\$172,216,000 is not sufficient to settle the remaining financial commitment in Guangzhou Western Second Ring Expressway. Therefore, the Disposal would enable the Group to partially finance the construction of the Guangzhou Western Second Ring Expressway so as to reduce the necessary amount of bank borrowings and avoid a very tight cash position.

Based on the above, we are of the view that the Disposal creates an additional source of funding to finance the construction of Guangzhou Western Second Ring Expressway or new toll expressway investment opportunities. In view of the current high borrowing cost, we are of the view that the Disposal is fair and reasonable and in the interests of the Shareholders and the Company as a whole.

Basis of consideration

The consideration of the Disposal is RMB66,100,000 in cash. The net asset value of the Disposal Asset as at 31 October 2005 and fair market value of the Disposal Asset as at 30 November 2005 were

LETTER FROM YU MING

approximately HK\$49,524,120 (equivalent to approximately RMB51,505,085) and RMB66,360,000⁽¹⁾ respectively. The consideration represents a 28.34 per cent. premium to the net asset value and is approximately equivalent to the fair market value of the Disposal Asset respectively.

Cash flow projections

In assessing the reasonableness of the consideration of the Disposal, we have discussed the valuation model (the discounted cash flow method) used in determining the fair market value of GNSR Expressway Co, with Greater China Appraisal Limited, the independent business valuer. The valuation method discounts projected future cash flows by a discount rate to reflect all business risks. In view of the fact that the economic benefits of ownership of GNSR Expressway Co are derived from the revenue it will earn, we are of the view that discounted cash flow model is an appropriate method to arrive at the valuation of GNSR Expressway Co.

The discount rate adopted by the independent business valuer to derive the fair market value of GNSR Expressway Co. is 15 per cent. Details of the valuation report are set out in Appendix I to this circular. We have made reference to the discount rates adopted by all expressway companies which are listed on the Stock Exchange and had either acquired or disposed of their respective expressways in 2004 and 2005. 2004 and 2005 are chosen because two-year period right before the date of the Sale and Purchase Agreement gives a reasonable sample size as reference.

The following table is a summary of our findings:

Transaction date	Transaction	Toll operation date	Discount rate
9 March 2005	Acquisition of a 49 per cent. interest in Gaojie Expressway by Anhui Expressway Co. Ltd.	October 1999	10 per cent.
22 March 2005	Acquisition of a 100 per cent. interest in Wuhuang Expressway by Shenzhen Expressway Co. Ltd.	September 1997	14 per cent.
2 April 2004	Widening of Huning Expressway by Jiangsu Expressway	September 1996	10.7 to 11.7 per cent.
15 April 2004	Transfer of operating rights of Nanjing-Shanghai Class 2 Highway by Jiangsu Expressway	June 1997	10.7 to 11.7 per cent.
29 December 2005	Disposal of a 6 per cent. interest in Guangzhou Northern Second Ring Expressway by the Company	January 2002	15 per cent.

The discount rates adopted by the above comparables range from 10 per cent. to 14 per cent. and the discount rate adopted by the Company to value the GNSR Expressway Co is 15 per cent. which is higher than and is close to the upper range of the comparables.

(1) The fair value of the GNSR Expressway Co. as at 30 November 2005 was RMB1,106,000,000, details of which are set out in the Appendix I of this circular. The fair market value of the Disposal Asset as at 30 November 2005 is calculated as RMB1,106,000,000 times 6%.

LETTER FROM YU MING

The high discount rate adopted to value the GNSR Expressway Co can be justified by (i) higher current risk-free rate and (ii) higher risk associated with its shorter operating history. The discount rate is calculated as follows:

$$\text{Discount rate} = \text{risk-free rate} + \text{beta} (\text{overall market return rate} - \text{risk-free rate})$$

Overall market return rate can be inferred from Hang Seng Index which is the prominent indicator measuring Hong Kong Stock Market's performance. Beta refers to the correlation between expressway industry return and the market return.

According to Hong Kong Monetary Authority official website, 10-year period Exchange Fund rate increased from 4.374 per cent. as at 31 December 2003 to 4.463 per cent. as at 30 November 2005, being the date of valuation of the Disposal Asset. Higher recent risk free rate attributes to higher discount rate adopted to value GNSR Expressway Co.

As toll operation history of the Guangzhou Northern Second Ring Expressway is about 4 years, which is relatively short when compared to the average of 7.25 years from the date of transaction for the comparable companies, stability of income stream from the toll operation is more likely to expose to market fluctuations, and a premium is added to the discount rate to reflect such risk.

The yield of the 10-year Exchange Fund note is adopted as the risk-free rate. Given the normal yield curve of the Exchange Fund notes and that the maturity of the 10-year Exchange Fund note is longest among all Exchange Fund notes and closest to the operating right of the Guangzhou Northern Second Ring Expressway, we consider it is reasonable to use the yield of the 10-year Exchange Fund note as the risk free rate. After taking into consideration the current increasing prevailing market interest rate and the short operation history of GNSR Expressway Co, we conclude that a higher risk free rate and a higher discount rate of 15 per cent. adopted to value the GNSR Expressway Co can be justified and is fair and reasonable and in the interests of the Shareholders and the Company as a whole.

Price-to-book ratio

We have made reference to six companies involving substantial investment in expressways in the PRC and currently listed on the Stock Exchange which are considered to be comparable to the Company, and examined the price-to-book ratio of these selected comparables as at the Latest Practicable Date in order to assess the fairness and reasonableness of the consideration from the Disposal.

LETTER FROM YU MING

The table below is a summary of our findings:

Stock code	Company	Price-to-book ratios (times)
0170	Sichuan Expressway Co. Ltd.	0.58
0177	Jiangsu Expressway Co. Ltd.	1.82
0548	Shenzhen Expressway Co. Ltd.	0.99
1098	Road King Infrastructure Ltd.	0.67
0995	Anhui Expressway Co. Ltd.	1.26
0737	Hopewell Highway Infrastructure Ltd.	1.60
	Average	1.15
	The Disposal Asset	1.28

Source: Bloomberg

Note: The above samples were generated from Bloomberg under the search category of “Public Thoroughfares” for companies listed on the Stock Exchange. Only companies with more than 90 per cent. of turnover generated from expressway toll operations in the PRC in the latest financial statements are included in the sample to ensure that the samples were comparable to the business of the Company.

Zhejiang Expressway Co. Ltd, Wah Nam International Holdings Ltd. and Yue Da Holdings Ltd. are excluded as their profit and market capitalization are substantially lower or higher than that of the Company and therefore, they are not considered to be comparable to the Company. If these outliers are included, the average price-to-book ratio of the comparables is approximately 1.26 times.

Price-to-book ratio is computed based on the closing price of the relevant shares as at the Latest Practicable Date and book value per share as at the latest published financial statements.

The price-to-book ratio of the Disposal Asset is computed based on the consideration of Disposal of RMB66,100,000 and the unaudited net asset value of GNSR Expressway Co of HK\$825,402,000 as at 31 October 2005.

The price-to-book ratios of the above comparables range from approximately 0.58 times to 1.82 times with an average of approximately 1.15 times. The price-to-book ratio of the Disposal Asset is above the average and within the range of the comparables. In view of the relatively high price-to-book ratio of the Disposal Asset, we are of the view that the Disposal is in the interests of the Shareholders and the Company as a whole.

LETTER FROM YU MING

Effects of the Disposal on the Company

In this section, the financial impact of the Disposal is analysed based on the assumption that the Disposal had been completed on 30 June 2005.

(i) *Effect on net asset value*

Since the carrying value of the Disposal Asset as at 31 October 2005 was approximately HK\$50,117,731 (equivalent to approximately RMB52,122,440) and the consideration receivable from the Disposal will be approximately HK\$63,557,692 (equivalent approximately to RMB66,100,000), the Company will record a gain of approximately HK\$13,439,961 (which is subject to audit) from the Disposal which will be reflected in the retained earnings of the Group and increase the consolidated net asset value of the Company by the same amount. In this regard, we believe that the Shareholders will benefit from the enhancement in the net asset per Share resulting from the Disposal.

(ii) *Effect on gearing*

As HK\$13,439,961 gain from the Disposal will be recorded on the net asset value of the Company and no bank borrowings and guarantees are involved in the Sale and Purchase Agreement, we are of the view that subsequent to the Disposal, the gearing ratio (being the total banking borrowings divided by the net asset value) of the Company will be improved.

(iii) *Effect on working capital*

As the consideration of the Disposal of RMB66,100,000 is payable in cash, we are of the view that subsequent to the Disposal, the working capital of the Company will be improved due to better cash position.

RECOMMENDATION

Having considered the principal factors and reasons as set out above, we are of the opinion that the terms and conditions of the Sale and Purchase Agreement are fair and reasonable and the Sale and Purchase Agreement is in the interests of the Shareholders and the Company as a whole.

Yours faithfully,
For and on behalf of
YU MING INVESTMENT MANAGEMENT LIMITED
Warren Lee
Director

The following is the text of a letter from Greater China Appraisal Limited regarding the business valuation of the entire equity interest in GNSR Expressway Co for the purpose of incorporation in this circular:

GREATER CHINA APPRAISAL LIMITED

漢華評值有限公司

20 January 2006

2703 Shui On Centre
6-8 Harbour Road
Wanchai
Hong KongThe Board of Directors
GZI Transport Limited
25th Floor
Yue Xiu Building
160 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with the instructions from GZI Transport Limited (“GZT”), 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.”), 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 Northern Second Ring Expressway (the “GNSR Expressway”) in Guangzhou City of 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 carried out on-site inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the fair value of the GNSR Expressway as at 30 November 2005 (the “valuation date”). We understand that this appraisal will be used as a reference for your disposal of 6% equity interest in GNSR Expressway Co. which is owned as to 46% by Bentfield Limited (“Bentfield”), an indirect wholly owned subsidiary of GZT. Our analysis was conducted for this purpose only and this report should be used for no other purposes.

INTRODUCTION

GZT 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. GZT 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. 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 46% by Bentfield and is principally engaged in development, operation and management of GNSR Expressway which is the only asset of GNSR Expressway Co. 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 to collect toll 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 City 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”.

INVESTIGATION

Our investigation mainly included an on-site inspection of the GNSR Expressway on 12 December 2005, review and analysis of relevant financial information and discussion with management of the GZT and GNSR Expressway Co. in relation to the history and nature of the business, operation and prospects of the GNSR Expressway Co., review of the GNSR Expressway Co.’s projected financial information from 2005 to 2031 and other documents, and a traffic forecast report (the “Traffic Forecast Report”) together with an operation and maintenance expenses report (the “R&M Report”) for Guangzhou North Second Ring Expressway conducted by 中交第一公路勘察設計研究院 (for identification purpose, in English, the China Traffic Institute) dated 20 January 2006, details of which are set out in the Appendix II and Appendix III respectively of this circular. The findings of Traffic Forecast Report cover three future forecast scenarios regarding traffic and revenue stream of GNSR Expressway from 2005 to 2031 which are the “Optimistic”, “Base” and “Conservative” scenarios and the findings of R&M Report forecast the operation as well as repair and maintenance expenses associated with the ongoing operation of GNSR Expressway from 2005 to 2031. In this valuation, we have incorporated the “Base” scenario in the Traffic Forecast Report and the expenses forecast stated in the R&M Report in arriving at our opinion of value.

For the purposes of this appraisal, we have also reviewed past and projected financial data of the GNSR Expressway Co. and traffic data of the GNSR Expressway as well as other relevant records and documents. We have also interviewed and discussed with the management of the GZT and GNSR Expressway Co. in respect of the GNSR Expressway. We have assumed all their accuracy 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 the GNSR Expressway Co.;
- traffic volume and revenue projection of the GNSR Expressway conducted by the China Traffic Institute in the Traffic Forecast Report;
- operation as well as repair and maintenance expenses projection of the GNSR Expressway conducted by the China Traffic Institute in the R&M Report;
- operation, toll system and maintenance cost information provided by the GNSR Expressway Co.;
- market-derived investment returns of entities engaged in a similar line of business; and
- the financial and business risk of the enterprise and the projected results.

ASSUMPTIONS

Owing to the changing environment in which the GNSR Expressway Co. is operating, a number of assumptions have 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 the GNSR Expressway Co. carries on its business;
- 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 R&M Report;
- all relevant legal approvals and business certificates or licenses to operate the business enterprise of GNSR Expressway Co. should have been formally obtained; and
- GNSR Expressway Co. will retain competent management, key personnel, and technical staff to support its ongoing operation and development.

VALUATION METHODOLOGY

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 nonsystematic. 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 4.48%, being the yield of exchange fund notes in Hong Kong; a risk premium of 14.42%, being the difference between Hang Seng index return and the indicated risk free rate and a nominal beta of 0.747, being the average beta for the PRC toll road operating companies listed in Hong Kong. In addition, we have considered as significant the non-liquidity of the proposed disposable equity interest of and business risk associated with GNSR Expressway Co. and we have incorporated an additional risk premium of 3% which is incorporated in the risk premium of 14.42%.

We are of the opinion that a 15% discount rate is appropriate for the risk attributable to the valuation of GNSR Expressway Co. as at the valuation date. However, a sensitivity analysis based on discount rates ranging from 14% to 16% and with reference to the scenarios stated in the Traffic Forecast Report was prepared as below:

Scenarios	Discount Rate Results		
	<i>(RMB' million)</i>		
	14%	15%	16%
Optimistic	1,270	1,128	1,005
Base	1,246	1,106	984
Conservative	1,199	1,063	945

LIMITING CONDITIONS

No structural survey has been made and we are therefore unable to report as to whether the 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.'s computer traffic control system in order to assess the reliability of the relevant traffic data provided by the GNSR Expressway Co. 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 30 November 2005, the fair value of the 100% equity interest in GNSR Expressway Co. is reasonably stated by the amount of RENMINBI ONE BILLION ONE HUNDRED AND SIX MILLION ONLY (RMB1,106,000,000).

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
BLE, LLD
MRICS, MHKIS, RPS
Managing Director

Samuel Y.C. Chan
BBA, MBA
Manager

The following is the text of a letter from the China Traffic Institute regarding traffic forecast for Guangzhou Northern Second Ring Expressway for the purpose of incorporation in this circular:

20 January 2006

The First Highway
Survey and Design Institute of China
63 Keji Second Road
West District
High Technology Industrial
Development Region
Xian
Shaanxi
the PRC

The Directors
GZI Transport Limited
25th Floor, Yue Xiu Building
160 Lockhart Road
Wanchai,
Hong Kong

Dear Sirs,

GZI TRANSPORT LIMITED TRAFFIC FORECAST STUDY

The First Highway Survey and Design Institute of China (the “Consultant”) has been appointed by GZI Transport Limited (“GZI”) to conduct an independent study of the traffic forecast (the “Study”) in respect of the Guangzhou Northern Second Ring Expressway (the “GNSR Expressway”).

The methodology and findings of the Study by the Consultant are summarized as follows:

1. INTRODUCTION

The GNSR Expressway is part of the Pearl River Delta Circular Route, and an integral part of the expressway network in the Guangdong Province. It is also an important hub connecting major state highways in the northern part of the Guangzhou City, playing a significant role in easing traffic in the Guangzhou City.

The construction of the GNSR Expressway commenced in November 1998, and it was completed and commenced operation at late 2001 and January 2002 respectively. In the west side, it starts from the Julong Village of Longshan Town, Guangzhou City and is connected with the Guangqing Expressway and ends in the east at the Zhenhuo Village, Luogang on the east side. It is connected with the Guangshen Expressway. The GNSR Expressway is mainly located within the Baiyun District of the

Guangzhou City, via towns such as Longshan, Jianggao, Banghu, Renhe, Longgui, Taihe and Luogang as well as the Kemulang Village in the Tianhe District, the Provincial Longdong Forestry Centre and the Huangbo Orchard, and crosses over the Guangqing Expressway, the Guangshen Expressway, State Highways 105, 106, 107, 324, Provincial Highway 1902 and the New Airport Expressway, the Jingzhu Expressway, the Guanghui Expressway and the northern section of the Huanan Expressway. It has a total length of 42.4 km and is a two-way six-lane expressway, with a designed traffic speed of 80 km per day and a designed traffic volume of 123,681 vehicles per 24 hours. See Chart 1 for the highway network.



Chart 1 Diagram of the GNSR Expressway network

2. OBJECTIVE AND SCOPE OF SERVICE

The Study aims to make a forecast on the traffic volume of the GNSR Expressway. Unless otherwise specified, traffic volume stated below refers to the average daily traffic volume. The major contents of the Study are as follows:

- 1) To collect information related to the affected area of the GNSR Expressway;
- 2) To collect social and economic information on the related affected areas;
- 3) To collect traffic and origin-destination (“OD”) information about the GNSR Expressway;
- 4) To establish the relationship between traffic volume and social and economic development; to construct a traffic volume forecast model; and to make adjustments based on the latest surveys on traffic volume;
- 5) To make a forecast on the traffic volume of the GNSR Expressway; and to make an analysis of the impact of the related expressways on its traffic volume;
- 6) To prepare base, optimistic and conservative traffic volume forecasts for each year;
- 7) To prepare a forecast report on traffic volume and toll revenue which comprises methodology, conditions and assumptions.

3. TRAFFIC VOLUME FORECAST

3.1 Methodology of forecast

The methodology applied in the study of the traffic volume forecast is an internationally recognized general forecasting procedure as shown in Chart 2 — Forecast method flow chart:

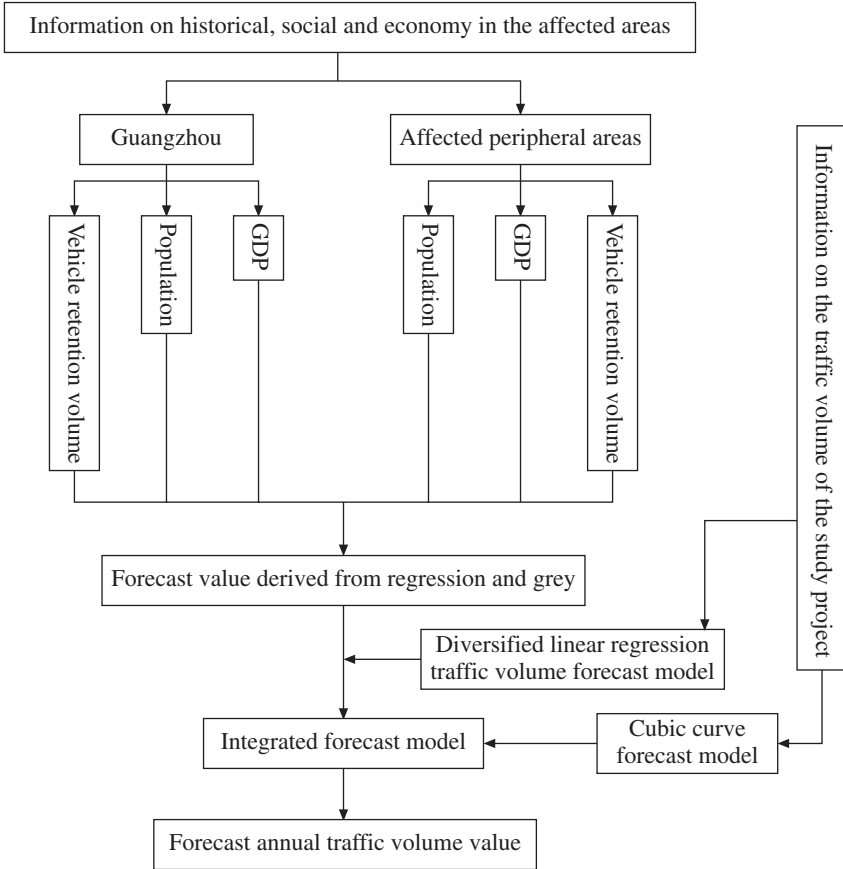


Chart 2 Forecast method flow chart

3.2 Forecast on the affecting factors

There are a vast number of complicated factors affecting the traffic volume, which in general include population, natural resources, social resources, local conditions and various regulatory factors. The Study first started with an analysis of such benchmarks as population, land area, GDP, financial income, total industrial and agricultural outputs and vehicle retention volume, which were analyzed together with their correlation with the traffic volume and their major components. Based on this, it was finally identified that the major affecting factors were population, GDP and vehicle retention volume of the Guangzhou City over the years as well as population, GDP and vehicle retention volume of surrounding areas.

3.3 Selection of model

From the correlation analysis, it was concluded that the traffic volume was highly correlated with time (year). Therefore, the linear regression method was adopted for making a regressive forecast on the benchmarks. Considering the precision of the grey forecasting model, the GM (1, 1) model was also adopted for making a forecast. When making forecasts on population, GDP and vehicle retention volume, the Study made a forecast on the benchmarks on a weighted average basis by consolidating the above two methods.

4. FINDINGS OF THE FORECAST ON TRAFFIC VOLUME AND TOLL RATES

4.1 Forecast on multiple linear regression

A multiple linear regression forecast was made based on known historical information, population, GDP and vehicle retention volume of the Guangzhou City as well as population, GDP and vehicle retention volume of surrounding areas, and average daily traffic volume (total daily average of all stations). See Formula 1 for the forecast model:

Multiple linear regression model:

$$y = -167,969 + 0.0111 X x_1 + 0.000171 X x_2 + 0.0076544 X x_3 \\ + 0.028336 X x_4 + 0.0005135 X x_5 + 0.0116 X x_6 \text{ — Formula 1}$$

In which x_1 — Population of Guangzhou

x_2 — GDP of Guangzhou

x_3 — Vehicle retention volume of Guangzhou

x_4 — Average population of surrounding areas

x_5 — Average GDP of surrounding areas

x_6 — Average vehicle retention volume of surrounding areas

y — Average daily traffic volume

4.2 Cubic curve forecast

Because of its short operating history, the GNSR Expressway is still in the burgeoning and growing stage of its life cycle, with rapid changes in the growth of its traffic volume. Nevertheless, the growth will gradually become steady at a time when maturity is attained following a period of time. Therefore, the Cubic curve was also applied in the Study to make a forecast on the traffic volume. Based on time (year) as the varying factor, its forecast model is shown in Formula 2:

Cubic curve forecast:

$$y = -9,916 + 18,281 X (x-2001) - 1,779 X (x-2001)^2 + 67 X (x-2001)^3 \text{ — Formula 2}$$

In which x — Year

y — Average daily traffic volume

4.3 Overall consideration

With rapid economic development, the GNSR Expressway will see further growth in its traffic volume in the future. It is anticipated that the average annual growth for the period between 2005 and 2010 will be approximately 7.24%, and the average annual growth for the period between 2011 and 2015 will be approximately 6.72%. After 2018, with the traffic volume approaching its designed capacity of 123,681 vehicles/day, beyond which, the traffic will become increasingly congested. Despite so, the expressway can handle up to 140,000 vehicles per day, but at the expense of longer traffic time as a result of congestion. As a result, part of the traffic will gradually divert to other highways, and the growth of traffic volume will gradually slow down.

Based on the features and precision of the model, the weighted sum of the multiple linear regression forecast value and the Cubic curve forecast value was chosen as the final forecast value through a comparison of and an analysis of the forecast findings of the two methods. Through overall consideration on various factors, as well as the selection of various weighted values, the forecast values of the optimistic, the conservative and the base scenarios were derived. Meanwhile, based on the forecast traffic volume, the growth rate of the traffic volume can be calculated. The formula for the calculation of the growth rate of the traffic volume is shown in Formula 3. For forecast values of average daily traffic volume, see Table 2. For growth rates, see Table 3.

$$\alpha = n\sqrt{\alpha_t/\alpha_{t+n}} \text{ — Formula 3}$$

In which: α — growth rate of traffic volume

α_t — traffic volume in the t year

α_{t+n} — traffic volume in the t+n year

Forecast values of average daily traffic volume

Table 1

Year	Base	Optimistic	Conservative
2005	45,304	45,587	45,032
2006	47,251	47,487	46,994
2007	50,222	50,490	50,018
2008	55,335	55,594	55,058
2009	60,368	61,084	59,548
2010	63,541	64,320	62,852
2011	66,197	66,931	65,639
2012	69,107	70,373	67,755
2013	73,601	74,665	71,237
2014	79,204	80,483	76,362
2015	86,257	87,598	83,278
2016	91,501	92,793	88,629
2017	96,992	98,339	93,999
2018	102,714	104,164	99,491
2019	108,363	109,998	104,729
2020	113,781	115,740	109,427
2021	119,357	121,231	115,193
2022	121,744	123,736	117,317
2023	124,179	126,085	119,943
2024	126,041	127,897	121,917
2025	127,932	129,948	123,452
2026	129,851	132,085	124,887
2027	131,799	133,851	127,240
2028	133,776	135,870	129,123
2029	135,782	137,916	131,041
2030	137,819	139,899	133,197
2031	139,886	141,943	135,315

Forecast values of the growth rates of average daily traffic volume

Table 2

Year	2005-2010	2011-2015	2016-2031
Annual growth rate	7.24%	6.72%	2.95%

4.4 Forecast on vehicle model structure

The GNSR Expressway is mainly used as the passage for the inbound and outbound vehicles. With the development of logistics, the structure of freight forwarding has shifted to large- sized trucks such as containers. The number of vehicles under Category 5 will increase, while that of medium-to-small-sized trucks will drop slightly. Meanwhile, considering the increase in the number of self-owned private cars in the future, there will be a slight increase in this category of vehicles. For the forecast values of the forecast annual vehicle model structure, see Table 3:

Vehicle model structure table

Table 3

Vehicle type	Vehicle Class 1	Vehicle Class 2	Vehicle Class 3	Vehicle Class 4	Vehicle Class 5
2006-2010	52%	9.5%	29%	4%	5.5%
2011-2031	53%	8%	27%	5%	7%

4.5 Forecast on toll revenue

In April 2005, the Guangdong Department of Communications and the Pricing Bureau jointly reset the standard for vehicle classification and toll road coefficients.

The standard for vehicle classification and toll road coefficients of Expressways in Guangdong Province

Table 4

Standard for vehicle classification					Major vehicle types	Toll road coefficients
Class	Number of axles	Number of tires	Front height (meters)	Axle length (meters)		
1	2	2-4	<1.3	<3.2	Sedans, jeeps, taxis	1
2	2	4	≥1.3	≥3.2	Vans, small trucks, light trucks, small private cars	1.5
3	2	6	≥1.3	≥3.2	Large passenger cars, medium private cars, medium trucks	2
4	3	6-10	≥1.3	≥3.2	Large trucks, large trailers, 20-foot container truck	3
5	>3	>10	≥1.3	≥3.2	Heavy trucks, heavy trailers, 40-foot container truck	3.5

The level of toll rates for some sections of the GNSR Expressway have been reduced. Because of an increase in the number of small-sized vehicles, the average toll rates for the GNSR Expressway have dropped since its operation four years ago. However, given changes in the composition of the vehicles in the future, a slight increase in the proportion of heavy vehicles and an increase in the average transportation distance, the average toll rates will rebound in the long run. It is anticipated that the future average toll rates will approximately remain at RMB17 per vehicle. For the results of the forecast on toll rates in future years, see Table 5.

Forecast on toll rates (RMB'000)

Table 5

Year	Base	Optimistic	Conservative
2005	280,160	281,910	278,480
2006	291,470	292,920	289,880
2007	309,790	311,450	308,540
2008	341,330	342,930	339,630
2009	374,580	379,030	369,500
2010	394,270	399,100	390,000
2011	410,750	415,310	407,290
2012	428,810	436,670	420,420
2013	456,690	463,290	442,030
2014	491,460	499,400	473,830
2015	535,220	543,540	516,740
2016	574,450	582,560	556,410
2017	608,910	617,370	590,120
2018	644,840	653,940	624,600
2019	680,300	690,570	657,490
2020	714,320	726,620	686,980
2021	749,320	761,090	723,180
2022	764,310	776,810	736,520
2023	779,590	791,560	753,000
2024	791,290	802,940	765,390
2025	803,160	815,810	775,030
2026	819,940	834,050	788,600
2027	832,240	845,200	803,450
2028	844,730	857,950	815,340
2029	857,400	870,870	827,460
2030	870,260	883,390	841,070
2031	883,310	896,300	854,450

5. CONCLUSION

The forecast on the traffic volume of the GNSR Expressway was made by applying the regression and Cubic curve forecast techniques to the historical data on the traffic and economy of the GNSR Expressway. For the major forecast results for each special year, see Table 6.

Results of the major forecasts

Table 6

Contents	2005	2010	2015	2020	2025	2031
Annual daily average traffic volume (vehicles)	45,304	63,541	86,257	113,781	127,932	139,886
Toll revenues (RMB'000)	280,160	394,270	535,220	714,320	803,160	883,310

On behalf of

The First Highway Survey and Design Institute of China

Legal person representative: Huoming

The following is the text of a letter from the Beijing Traffic Institute regarding the operation and maintenance cost estimation for Guangzhou Northern Second Ring Expressway for the purpose of incorporation in this circular:

20 January 2006

The First Highway
Survey and Design Institute of China
63 Keji Second Road
West District
High Technology Industrial
Development Region
Xian
Shaanxi
the PRC

The Directors
GZI Transport Limited
25th Floor, Yue Xiu Building
160 Lockhart Road
Wanchai, Hong Kong

Dear Sirs,

**GZI TRANSPORT LIMITED
OPERATION AND MAINTENANCE EXPENSES ESTIMATION STUDY**

The First Highway Survey and Design Institute of China (the “Consultant”) has been appointed by GZI Transport Limited (“GZI”) to conduct an independent study on the forecast about the operation and maintenance expenses (the “Study”) in respect of the Guangzhou Northern Second Ring Expressway (the “GNSR Expressway”).

The methodology and findings of the Study are summarized as follows:

1. INTRODUCTION

The GNSR Expressway is part of the Pearl River Delta Circular Route and an integral part of the expressway network in the Guangdong Province. It is also the important hub connecting major state highways in the northern part of the Guangzhou City, playing a significant role in easing traffic in the Guangzhou City.

The construction of the GNSR Expressway commenced in November 1998, and it was completed and commenced operation in late 2001 and January 2002 respectively. On the west side, it starts from the Julong Village of Longshan Town, Guangzhou City, and is connected with the Guangqing Expressway and ends at the Zhenhuo Village, Luogang on the east side. It is connected with the Guangshen Expressway. The GNSR Expressway is mainly located within the Baiyun District

of the Guangzhou City, via towns such as Longshan, Jianggao, Banghu, Renhe, Longgui, Taihe and Luogang as well as the Kemulang Village in the Tianhe District, the Provincial Longdong Forestry Centre and the Huangbo Orchard, and crosses over the Guangqing Expressway, the Guangshen Expressway, State Highways 105, 106, 107, 324, Provincial Highway 1902 and the New Airport Expressway, the Jingzhu Expressway, the Guanghui Expressway, and the northern section of the Huanan Expressway. It has a total length of 42.4 km and is a two-way six-lane expressway, with a designed traffic speed of 80 km per hour.

2. OBJECTIVE AND SCOPE OF SERVICE

The major scope of the Study undertaken by the Consultant includes:

- 1) To make an assessment of the present operation procedures and the method of maintenance based on the visits and observations by experienced experts in November 2005;
- 2) To understand the current conditions of the GNSR Expressway and the maintenance and management records;
- 3) To discuss the possible factors which may affect the future maintenance expenses;
- 4) To estimate the operation and maintenance expenses of the GNSR Expressway from 2005 to 2031.

3. BASES OF THE REPORT

- 1) Meetings and interviews with the senior management and operating staff of the Guangzhou Northern Second Ring Expressway Co., Ltd. (“GNSR Expressway Company”);
- 2) Inspections of the existing maintenance measures adopted by GNSR Expressway Company;
- 3) Inspections of the expenditure records provided by GNSR Expressway Company;
- 4) On-site inspection in November 2005;
- 5) GNSR Expressway traffic volume forecast report provided by GNSR Expressway Company;

- 6) Report on the maintenance work of the GNSR Expressway (2005) provided by GNSR Expressway Company;
- 7) “《高速公路養護質量評檢辦法(試行)》(for identification purpose, in English, (Measures (Trial) on the evaluation and inspection of the maintenance quality of expressways”) issued by the Ministry of Communications, the PRC.

The scope of duties performed by the Consultant did not include technical inspections of the construction standards, regulations and quality of the GNSR Expressway. Therefore, the Study assumed that the design and construction of the GNSR Expressway complied with the national standards, and had been approved and recognized by the relevant authorities in the PRC. Under normal and periodic maintenance, the designed life of the GNSR Expressway can be attained as far as the structures and the usage of the expressway were concerned.

4. CURRENT CONDITION OF THE EXPRESSWAY

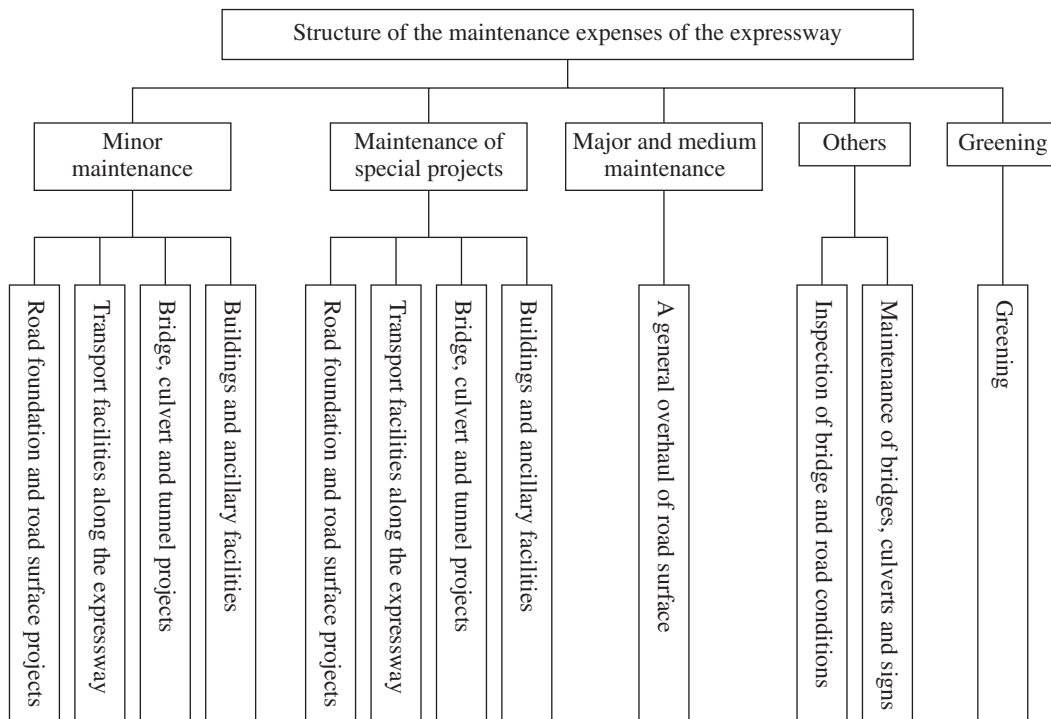
The overall construction quality and current condition of the GNSR Expressway are good. The road foundation is stable. The bridge and culvert structures are in good technical conditions. The transport safety facilities along the expressway have been well maintained, with beautiful green scenery.

- 1) PQI (index for the quality of road surface maintenance) is 85.9, reflecting such quality is well above the acceptable level.
- 2) Save for some portions of the Shuili Section and the Luogang soft foundation section in the Development Region which experienced extensive subsidence due to the impact of the soft road foundation, other sections of the GNSR Expressway have been well maintained. The overall SCI (index for road foundation maintenance conditions) score was 94 points reflecting such conditions is acceptable.
- 3) Fractures and leakages have been found on the rock wallings of the Tianluyuan Tunnel and the Muqiang Tunnel.
- 4) There are water damages to various road sections.

5. METHOD OF FORECAST

5.1 Composition of maintenance expenses

The maintenance expenses of the GNSR Expressway comprised mainly of five components, as shown in the following table.



5.2 Analysis of the maintenance expenses

By comparing the maintenance expenses over the years since the operation commencement of the GNSR Expressway, it can be seen that maintenance expenses have been on an upward trend in past years with a relatively high growth rate. The initial maintenance expenses were not high due to good road surface quality and small traffic volume in the earlier stages of the operation the GNSR Expressway. Therefore, the axle load has caused only limited damages to the road surface. With increasing traffic volume over time, the road surface conditions are expected to deteriorate, thereby leading to a significant increase in the maintenance expenses.

Because of satisfactory current road surface conditions and regular maintenance, no major or medium maintenance has been carried out for the GNSR Expressway since its inception of operation. Therefore, no major or medium maintenance expenses were incurred so far.

5.3 Procedure of forecast

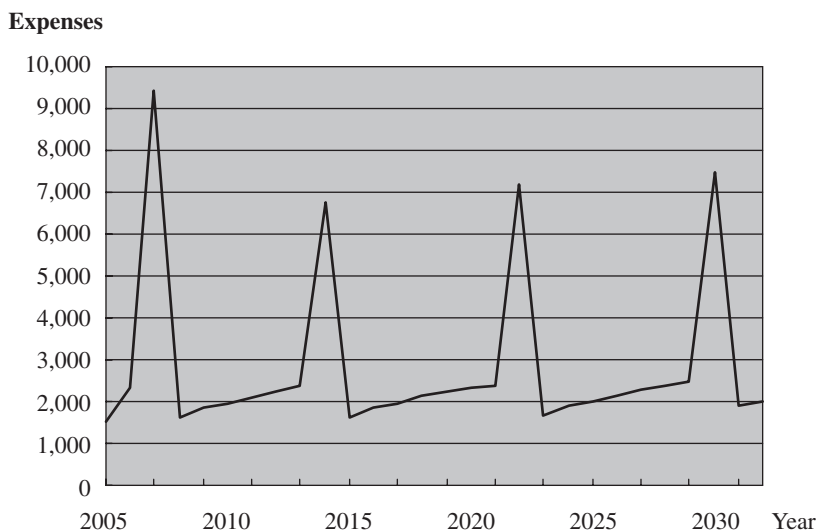
- 1) Leveraging on the model of PQI Decay Formula and conforming to the standards for major and medium maintenance as stipulated in 《高速公路養護規範》(for identification purpose, in English, “Regulations on the Maintenance of Expressways”) to judge when major or medium maintenance should be carried out (as required when the PQI value dropping to a level where an overhaul is required). For this Study, the calculation has been based on major and medium maintenance carried out for other similar expressways in the Guangdong Province, with the cost normally between RMB1.3 million to RMB1.6 million per kilometre;
- 2) To make a forecast on the expenses for minor maintenance by combining major and medium maintenance expenses forecast model and the MC forecast model for cement and concrete roads, the MC forecast model for asphalt and concrete roads and the PQI decay formula model;
- 3) To make a forecast on the special projects maintenance expenses based on the composition of the maintenance expenses of the GNSR Expressway incurred in the past;
- 4) To make a forecast on the maintenance expenses for greening and other expenses such as inspection charges. As the change in the expenses required for greening and inspection over time are insignificant, the greening expenses were set to be RMB1.4 million per year, and the inspection expenses was set to be RMB0.6 million per year;
- 5) In order to eradicate the water damages to high slope, an action plan has been carried out to strengthen the stability of high slope. The project will commence in 2007, with an estimated cost of approximately RMB30 million;
- 6) The total maintenance expenses of the GNSR Expressway are the aggregation of all forecast expenses.

5.4 Forecast results

The total maintenance expenses were derived by aggregating all expenses, as set out in the following table and chart.

Forecast on the total maintenance expenses

Year	Total maintenance expenses (RMB'000)	Year	Total maintenance expenses (RMB'000)
2005	15,210	2019	22,535
2006	23,135	2020	23,273
2007	96,340	2021	23,900
2008	16,115	2022	71,720
2009	18,510	2023	16,788
2010	19,480	2024	18,853
2011	21,133	2025	19,913
2012	22,200	2026	21,485
2013	23,648	2027	22,723
2014	67,550	2028	23,950
2015	16,393	2029	24,560
2016	18,685	2030	74,850
2017	19,725	2031	18,958
2018	21,290		



6. FORECAST ABOUT MANAGEMENT FEES

Management fees include salaries, staff benefits, staff insurance, administrative expenses, water and electricity expenses, transportation expenses and meal allowances.

Table of the forecast on the management fees of the GNSR Expressway

Unit: RMB'000			
Year	Management fees	Year	Management fees
2005	29,583	2019	42,767
2006	31,687	2020	42,767
2007	32,000	2021	42,767
2008	32,000	2022	46,188
2009	32,000	2023	46,188
2010	33,950	2024	46,188
2011	33,950	2025	49,883
2012	33,950	2026	49,883
2013	36,666	2027	49,883
2014	36,666	2028	53,874
2015	36,666	2029	53,874
2016	39,599	2030	53,874
2017	39,599	2031	58,184
2018	39,599		

7. ESTIMATION OF OPERATION AND MAINTENANCE EXPENSES

A forecast has been made on the operation and maintenance expenses of the GNSR Expressway. The forecast has taken into account the management fees, salaries and expenses for routine maintenance and special maintenance, greening, bridge and culvert inspection and overhaul, but has not taken into account the expenses for toll monitoring systems and highway property insurance and the capital invested in the construction of the new administration building and staff quarters. In addition, based on the forecast on the traffic volume, the average daily traffic volume will reach 102,714 vehicles by 2018, which is close to its designed traffic flow of 123,681 vehicles per 24 hours, beyond which, the traffic will become increasingly congested. Despite so, the GNSR Expressway can handle up to 140,000 vehicles per day, but if the expense of longer traffic time as a result of congestion. Therefore, the Study does not consider whether lane expansion will be undertaken by 2018. The operation and maintenance expenses estimation is shown in the following table.

**Table of the operation and maintenance expenses estimation
of the GNSR Expressway**

Unit: RMB'000			
Year	Operation and maintenance expenses	Year	Operation and maintenance expenses
2005	44,793	2019	65,302
2006	54,822	2020	66,040
2007	128,340	2021	66,667
2008	48,115	2022	117,908
2009	50,510	2023	62,976
2010	53,430	2024	65,041
2011	55,083	2025	69,796
2012	56,150	2026	71,368
2013	60,314	2027	72,606
2014	104,216	2028	77,824
2015	53,059	2029	78,434
2016	58,284	2030	128,724
2017	59,324	2031	77,142
2018	60,889		
		Total	1,907,157

For and on behalf of
The First Highway Survey and Design Institute of China
Legal person representative: Huoming

As the business valuation set out in the Appendix I of this circular is based on discounted cash flow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter from CCIF CPA Limited, the reporting accountant of the transaction contemplated in the Sale and Purchase Agreement, on such profit forecast for the purpose of incorporation in this circular:



CCIF CPA Limited
37/F, Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

20 January 2006

The Directors
GZI Transport Limited
25th Floor, Yue Xiu Building
160 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

We have examined the calculations of the business valuation (the “Valuation”) dated 20 January 2006 prepared by Greater China Appraisal Limited (the “Valuer”) in respect of the appraisal of the fair value of a 100% equity interest in the business enterprise of Guangzhou Northern Second Ring Expressway Co., Ltd. (“GNSRE”) as of 30 November 2005 as set out in Appendix I of the circular of GZI Transport Limited (“the Company”) dated 20 January 2006 (the “Circular”).

The Valuation including the assumptions, for which the Directors of the Company and the Valuer are solely responsible, has been prepared based on discounted cash flows. The discounted cash flows do not involve the adoption of accounting policies. The discounted cash flows depend on future events and on a number of 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 the validity of the assumptions and express no opinion on the appropriateness and validity of the assumptions on which the discounted cash flows, and thus the Valuation, are based.

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants. We examined the arithmetical accuracy of the Valuation. Our work has been undertaken solely to assist the Directors of the Company in evaluating whether the Valuation, so far as the calculations are concerned, has been properly compiled in accordance with the assumptions made by the Directors of Company and the Valuer. Our work does not constitute any valuation of the 100% equity interest in GNSRE as of 30 November 2005.

Based on the foregoing, in our opinion, the Valuation, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions made by the Directors of the Company and the Valuer as set out in the “Assumption” and “Valuation Methodology” section of the Valuation.

Our work in connection with the Valuation has been undertaken solely for the purpose of reporting under Rule 14A.59(17)(b) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and for no other purpose. We accept responsibility solely to the Directors of the Company. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully,
CCIF CPA Limited
Certified Public Accountants
Hong Kong
Chan Wai Dune, Charles
Practising Certificate Number P00712

As the business valuation set out in the Appendix I of this circular is based on discount cash flow method, it is deemed to be a profit forecast under the Listing Rules. The following is the text of a letter from Yu Ming on such profit forecast for the purpose of incorporation in this circular:



YU MING INVESTMENT MANAGEMENT LIMITED
禹銘投資管理有限公司

20 January 2006

The Directors
GZI Transport Limited
25th Floor
Yue Xiu Building
160 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

We refer to the business valuation prepared by Greater China Appraisal Limited (“Business Valuer”) in relation to the appraisal of the fair value of the entire interests in GNSR Expressway Co as at 30 November 2005. Terms used in this letter shall have the same meanings as defined in this circular, of which this letter forms part, unless the context otherwise requires.

We note that the fair value has been developed through the application of the discounted cash flow method, which is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

We have discussed with the management of the Company and the Business Valuer the bases and assumptions upon which the business valuation has been made. We have also examined the arithmetical calculations upon which the business valuation has been made.

On the basis of the foregoing and all the information comprising the business valuation including, among other things, the bases and assumptions made by the Directors and the Business Valuer, as well as the calculations of the business valuation, we are of the view that the business valuation has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
YU MING INVESTMENT MANAGEMENT LIMITED
Warren Lee
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, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS IN THE COMPANY

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive (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 (as defined in Part XV of the SFO) which was required 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 are taken or deemed to have under such provisions of the SFO), or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies 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
Mr. Liang Ningguang	Guangzhou Investment	Beneficial owner	0.01	400,000

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

Directors	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
Mr. Ou Bingchang	Guangzhou Investment	Beneficial owner	02/06/2003	0.5400	9,000,000
Mr. Chen Guangsong	Guangzhou Investment	Beneficial owner	02/06/2003	0.5400	8,000,000
Mr. Liang Ningguang	Guangzhou Investment	Beneficial owner	02/06/2003	0.5400	7,000,000
Mr. Liang Yi	Guangzhou Investment	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 per cent; and (ii) 60 per cent (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 grant, respectively.

As at the Latest Practicable Date, none of the Directors or the experts named in paragraph 4(a) below in this circular had any direct or indirect interests in any assets which have since 31 December 2004 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.

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

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

- (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 chief executive (if any) of the Company nor any member of the Group) has an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such positions of the SFO), or who is, directly or indirectly, interested in 10 per cent 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	Capacity in holding interest	Long/short position	Approximate % of shareholding in Shares	Number of Shares held
Yue Xiu Enterprises (Holdings) Limited (Note 1)	Beneficial owner and interest of controlled corporations	Long position	71.08	792,800,076
Guangzhou Investment (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

Name	Capacity in holding interest	Long/short position	Approximate % of shareholding in Shares	Number of Shares held
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
Shanghai Industrial Investment (Holdings) Company Ltd.	Interest of controlled corporations	Long position	9.98	111,366,000

Notes:

1. Yue Xiu Enterprises (Holdings) Limited has a direct holding of 5,769 Shares and is deemed by the SFO to be interested in 792,794,307 Shares as a result of its indirect holding of such Shares through its subsidiaries.
2. Guangzhou Investment 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.

- (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 interested in 10 per cent 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 Group (other than the Company).

Name of subsidiaries	Name of substantial shareholders	Approximate % of interest held
Guangzhou Nanxin Highways Development Company Limited	廣州市公路開發公司 (Guangzhou Highways Development Company)	20
Guangzhou Taihe Highways Development Company Limited	廣州市公路開發公司 (Guangzhou Highways Development Company)	20
Guangzhou Tailong Highways Development Company Limited	廣州市公路開發公司 (Guangzhou Highways Development Company)	49
Guangzhou Weian Highways Development Company Limited	廣州市公路開發公司 (Guangzhou Highways Development Company)	20
Guangzhou Xinguang Highways Development Company Limited	廣州市公路開發公司 (Guangzhou Highways Development Company)	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

4. EXPERTS' DISCLOSURE OF INTEREST AND CONSENT

- (a) The following are the qualifications of the experts who have given opinions or advices contained in this circular:

Name	Qualification
Yu Ming	a deemed licensed corporation eligible to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
CCIF CPA Limited	a qualified accountant under the Professional Accountants Ordinance and a member of the Hong Kong Institute of Certified Public Accountants
Greater China Appraisal Limited	an independent professional business valuer
China Traffic Institute	an independent professional traffic consultant

- (b) As at the Latest Practicable Date, Yu Ming, CCIF CPA Limited, Greater China Appraisal Limited and China Traffic Institute 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) Yu Ming, CCIF CPA Limited, Greater China Appraisal Limited and China Traffic Institute have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion therein of their respective letters and reference to their respective names in the form and context in which they appear.

5. SERVICE CONTRACT

As at the Latest Practicable Date, Mr. Liang Yi, Director, had entered into a service agreement with the Company which, after an initial fixed term of one year commencing on 28 February 2003, had been extended for a further term of two years up to 27 February 2006 unless terminated earlier by the Company giving to Mr. Liang Yi three months' prior written notice or by Mr. Liang Yi giving to the Company six months' prior written notice.

Save as disclosed herein, none of the Directors had, as at the Latest Practicable Date, a service contract or a proposed service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. MISCELLANEOUS

- (a) The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, the date to which the latest published audited consolidated accounts of the Group were made up.
- (b) The company secretary of the Company is Mr. Yu Tat Fung, solicitor of the High Court of Hong Kong.
- (c) The qualified accountant of the Company is Ms. Chan Kam Ting Sharon, *FCCA, FCPA*.
- (d) The English text of this circular (except appendices II and III where Chinese text shall prevail over English text) shall prevail over the Chinese text for the purpose of interpretation.

7. 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 4 February 2006:

- (a) the Sale and Purchase Agreement;
- (b) the letter of recommendation from Yu Ming to the Independent Board Committee and the Shareholders, the text of which is set out on pages 12 to 18 of this circular;
- (c) the business valuation report from Greater China Appraisal Limited, the text of which is set out on pages 19 to 24 of this circular;
- (d) the traffic forecast report on Guangzhou Northern Second Ring Expressway from China Traffic Institute, the text of which is set out on pages 25 to 34 of this circular;
- (e) the operation and maintenance cost estimation report on Guangzhou Northern Second Ring Expressway from China Traffic Institute, the text of which is set out on pages 35 to 42 of this circular;
- (f) the comfort letter of CCIF CPA Limited on the profit forecast relating to the business valuation of GNSR Expressway Co, the text of which is set out in Appendix IV to this circular;
- (g) the comfort letter of Yu Ming on the profit forecast relating to the business valuation of GNSR Expressway Co, the text of which is set out in Appendix V to this circular;

- (h) the written consents of Yu Ming, CCIF CPA Limited, Greater China Appraisal Limited and China Traffic Institute respectively referred in paragraph 4 of this Appendix;
- (i) the Director's service contract referred to in paragraph 5 of this Appendix.