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越秀投資有限公司

GUANGZHOU INVESTMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock code: 123)

DISCLOSEABLE TRANSACTION

**ACQUISITION OF AN ADDITIONAL 20% INTEREST IN
GUANGZHOU NORTHERN SECOND RING EXPRESSWAY CO., LTD.
BY BENTFIELD LIMITED, A WHOLLY-OWNED SUBSIDIARY OF
GZI TRANSPORT LIMITED**

A letter from the board of Directors of Guangzhou Investment Company Limited is set out on pages 5 to 16 of this circular.

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DEFINITIONS

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

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

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“GHDC”	means “廣州市公路開發公司” (for identification purposes, in English, Guangzhou Highways Development Company), a PRC state-owned enterprise, which is a connected person of the Company by virtue of its shareholding interests of 20%, 49%, 20%, 45% and 20%, respectively, interests in five subsidiaries of GZT;
“GNSR Expressway”	means Guangzhou Northern Second Ring Expressway;
“GNSR Expressway Co., Ltd.”	means Guangzhou Northern Second Ring Expressway Co., Ltd.;
“Greater China”	means Greater China Appraisal Limited, the independent professional business valuer appointed by GZT, who is an Independent Third Party;
“Group”	means the Company and its subsidiaries;
“Guangzhou Development Infrastructure”	means 廣州發展基建投資有限公司 (Guangzhou Development Infrastructure Investments Co., Ltd.), the vendor in the Acquisition;
“GZT”	means GZI Transport Limited (越秀交通有限公司), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange;
“GZT Group”	means GZT and its subsidiaries;
“GZT Holdings”	means GZI Transport (Holdings) Limited, a company incorporated in British Virgin Islands with limited liability and has an aggregate interest of 67.24% in GZT through 4 wholly-owned subsidiaries;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong Financial Reporting Standards”	includes all Hong Kong Financial Reporting Standards (HKFRS), Hong Kong Accounting Standards (HKAS) and interpretations issued by the Hong Kong Institute of Certified Public Accountants;
“Independent Third Party(ies)”	means independent third party(ies) who is (are) not connected persons of the Company as defined in the Listing Rules and is (are) independent of the Company and the connected persons of the Company;

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“JV Agreement”	means the joint venture agreement entered into between GHDC and Bentfield dated 18 June 1996 to govern the management and operation of GNSR Expressway Co., Ltd., and as supplemented from time to time to reflect any changes in the equity holders of GNSR Expressway Co., Ltd.;
“Latest Practicable Date”	means 14 December 2006;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange;
“Offer Notice”	means the notice served by Guangzhou Development Infrastructure on Bentfield dated 16 October 2006, pursuant to the terms of the JV Agreement and the articles of association of GNSR Expressway Co., Ltd., advising that it will sell its 20% equity interest in GNSR Expressway Co., Ltd. to the highest bidder at an auction of such interest;
“PRC”	means the People’s Republic of China;
“Pre-emption Right”	means the pre-emption right under the JV Agreement;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Second Joint Announcement”	means the joint announcement made by the Company and GZT on 20 November 2006 in relation to the entering into of the Equity Transfer Agreement;
“Share(s)”	means ordinary share(s) of HK\$0.10 each in the capital of the Company;
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified for the time being;
“Shareholders”	means shareholders of the Company;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiary”	has the same meaning as in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as at the date hereof and “subsidiaries” shall be construed accordingly;
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“THI Asia”	means THI Asia Consultants Limited, the independent professional traffic consultant appointed by GZT, who is an Independent Third Party;

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“Traffic Study Report”	means the traffic and revenue study report regarding GNSR Expressway prepared by THI Asia dated 14 November 2006, as set out in Appendix II;
“Transferee Confirmation Result Notice”	means the confirmation notice dated 16 November 2006, and issued by the Guangzhou Asset and Equity Exchange (廣州產權交易所) to confirm the proposed equity transfer; and
“Valuation Report”	means the business valuation report regarding GNSR Expressway Co., Ltd. prepared by Greater China dated 14 November 2006, as set out in Appendix I.

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



越秀投資有限公司

GUANGZHOU INVESTMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 123)

Executive Directors:

OU Bingchang (*Chairman*)

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LI Fei

TANG Shouchun

WANG Hongtao

LI Xinmin

HE Zili

Registered Office:

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Yue Xiu Building

160 Lockhart Road

Wanchai

Hong Kong

Independent Non-executive Directors:

YU Lup Fat Joseph

LEE Ka Lun

LAU Hon Chuen Ambrose

18 December 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

**ACQUISITION OF AN ADDITIONAL 20% INTEREST IN
GUANGZHOU NORTHERN SECOND RING EXPRESSWAY CO., LTD.
BY BENTFIELD LIMITED, A WHOLLY-OWNED SUBSIDIARY OF
GZI TRANSPORT LIMITED**

1. INTRODUCTION

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

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The purpose of this circular is to provide Shareholders with further details of the Acquisition and the Equity Transfer Agreement.

2. THE ACQUISITION

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

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

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On 9 November 2006, at a board meeting of the directors of each of the Company and GZT, the board of each of the Company and GZT approved the exercise by Bentfield of its Pre-emption Right to acquire from Guangzhou Development Infrastructure an additional 20% equity interest in GNSR Expressway Co., Ltd., and an Acceptance Notice has been served on Guangzhou Development Infrastructure on 14 November 2006. Upon completion of the Acquisition, GZT will, through Bentfield, own an aggregate interest of 60% in GNSR Expressway Co., Ltd., and GNSR Expressway Co., Ltd. will become a non wholly-owned subsidiary of GZT. There are no restrictions on the subsequent sale of the equity interest in GNSR Expressway Co., Ltd., save for the pre-emption right as set out in the JV Agreement and the articles of association of GNSR Expressway Co., Ltd. The only asset of GNSR Expressway Co., Ltd. is the GNSR Expressway.

3. TERMS AND CONDITIONS OF THE ACQUISITION

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

Date

20 November 2006

Parties

- (1) Bentfield (as purchaser); and
- (2) Guangzhou Development Infrastructure (as vendor).

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

Consideration

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

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

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

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

Deposit

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

Termination

The Equity Transfer Agreement may also be terminated:

- (1) if a force majeure event occurs;
- (2) by mutual agreement of the parties;

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

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- (3) by the exercise by other equity holders of GNSR Expressway Co., Ltd. (other than Bentfield) of their Pre-emption Right under the JV Agreement; or
- (4) the relevant regulatory approval of the equity transfer is not obtained or registration of the equity transfer is not completed by the relevant authorities within one year of signing of the Equity Transfer Agreement.

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

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

Completion

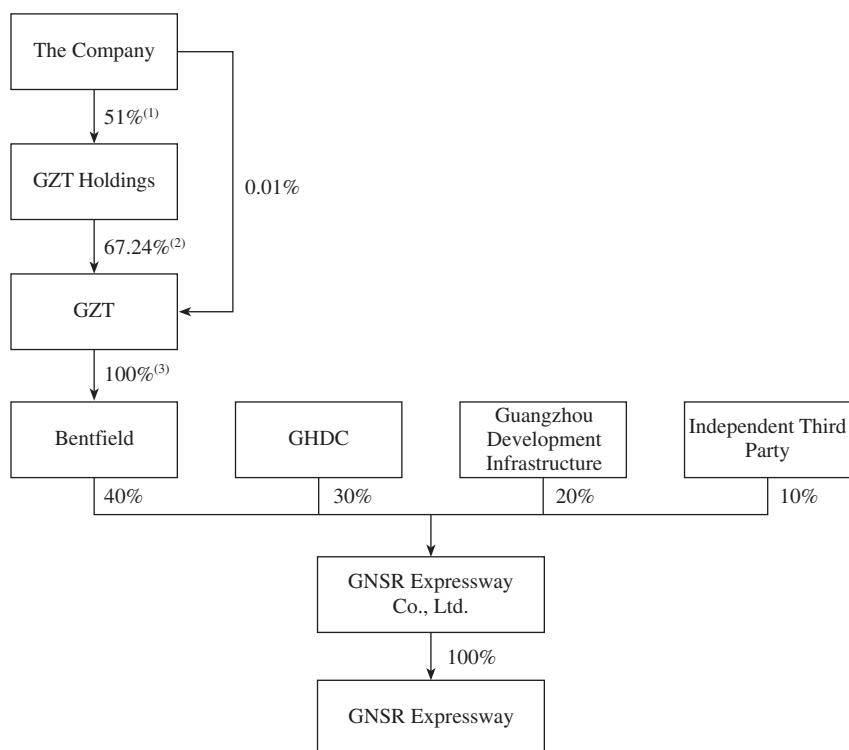
Completion shall take place on the date of completion of registration of the transfer of the equity interest by the Guangzhou Administration for Industry and Commerce.

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Equity holding Structure before and immediately after the Acquisition

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

(i) *Before completion of the Acquisition*

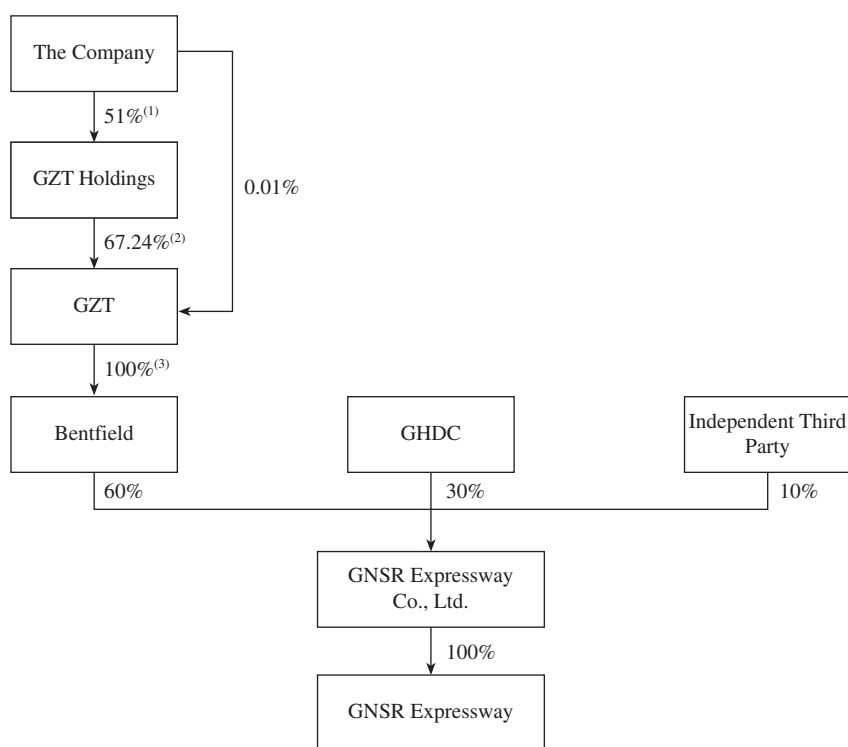


Notes:

1. The Company holds 51% interest in GZT Holdings through a wholly-owned subsidiary.
2. GZT Holdings holds an aggregate interest of 67.24% in GZT through four wholly-owned subsidiaries.
3. GZT holds 100% interest in Bentfield through a wholly-owned subsidiary.

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(ii) *Immediately after completion of the Acquisition*



Notes:

1. The Company holds 51% interest in GZT Holdings through a wholly-owned subsidiary.
2. GZT Holdings holds an aggregate interest of 67.24% in GZT through four wholly-owned subsidiaries.
3. GZT holds 100% interest in Bentfield through a wholly-owned subsidiary.

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

4. INFORMATION ON GNSR EXPRESSWAY CO., LTD.

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

GNSR Expressway Co., Ltd. was owned as to 51% by Bentfield and as to 49% by GHDC when it was established in 1996. On various dates in 1997 and 1998, GHDC disposed of 30% of its equity interest in GNSR Expressway Co., Ltd. to two Independent Third Parties. Guangzhou Development

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Infrastructure acquired its 20% equity interest in GNSR Expressway Co., Ltd. on 16 May 2000 from one of the Independent Third Parties. Immediately before 29 December 2005, GNSR Expressway Co., Ltd. was owned as to 46% by Bentfield, as to 24% by GHDC, as to 20% by Guangzhou Development Infrastructure and as to the remaining 10% by an Independent Third Party. Bentfield entered into a sale and purchase agreement with GHDC on 29 December 2005, pursuant to which, Bentfield agreed to sell and GHDC agreed to purchase a 6% equity interest in GNSR Expressway Co., Ltd. The disposal by Bentfield of a 6% equity interest in GNSR Expressway Co., Ltd. on 29 December 2005 was effected pursuant to GZT's investment strategy of adjusting its level of equity interest in joint venture companies to 40% where less than a 50% interest is held or where no controlling equity interest could reasonably be obtained in order to alleviate the situation associated with non-controlling equity interests in such joint venture companies.

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

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

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

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

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

According to the audited financial information of GNSR Expressway Co., Ltd., for the two financial years ended 31 December 2004 and 2005 and for the six months ended 30 June 2006, profits after income tax were approximately RMB25,515,000 (representing 164.8% growth compared to year 2003), RMB92,836,000 (representing 263.8% growth compared to year 2004) and RMB68,023,000 (representing 67.4% growth compared to first half of 2005) respectively mainly due to increasing operating profits from strong traffic growth and decreasing finance costs from continuous repayment of loan.

5. INFORMATION ON GUANGZHOU DEVELOPMENT INFRASTRUCTURE

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

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

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

6. PRINCIPAL BUSINESS OF THE COMPANY

The Company and its subsidiaries are principally engaged in the development, selling and management of properties and holding of investment properties, operation and management of toll highways and bridges and manufacturing and trading of newsprint. The Group's operations are mainly in places within Hong Kong and other regions of the PRC.

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7. REASONS FOR AND BENEFITS OF THE ACQUISITION

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

- (1) consolidation of control of GNSR Expressway Co., Ltd., which will, through the GZT Group, become an indirect subsidiary of the Group upon completion of the Acquisition (which is consistent with GZT's investment strategy stated above) and the accounts of GNSR Expressway Co., Ltd. will be consolidated with those of the Company and its subsidiaries;
- (2) acceptable investment return;
- (3) strong financial performance for the years ended 31 December 2004 and 2005 and for the six months ended 30 June 2006 and upward trend of the traffic volume forecast (as reflected in the Traffic Study Report) resulting from (i) the expected early opening of the Western Second Ring Expressway by December 2006 and Eastern Second Ring Expressway in 2008 ahead of schedule, both of which are expected to bring more traffic to the GNSR Expressway; (ii) the delay in the expected completion of Huanan Express Trunkway Phase III, which might have a possible diversion effect, from 2006 to 2008; and (iii) the higher than expected increase in vehicle ownership due to the prohibition of motorcyclists to use urban highways in Guangzhou;
- (4) the recent introduction of new macro economic revision policies are expected to drive up the development costs and risks associated with the construction of new toll expressways which are expected to reduce competition from new expressways;
- (5) the recent continual appreciation trend of RMB following the implementation of the PRC's new RMB exchange rate regime; and
- (6) the recent change in HK\$ interest rate trends from up to down.

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

8. SIGNIFICANT FINANCIAL EFFECTS OF THE ACQUISITION

Upon completion of the Acquisition, GZT's equity holding in GNSR Expressway Co., Ltd. will increase from 40% to 60%. Accordingly, GNSR Expressway Co., Ltd. will, through the GZT Group,

LETTER FROM THE BOARD

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

Impacts on assets and liabilities

At the date of completion of the Acquisition, all the identifiable assets and liabilities of GNSR Expressway Co., Ltd. would be stated at fair value and consolidated into the account of the Group. On the assets side, the Group's overall consolidated assets will be mainly increased by the consolidation of the "interests in toll highways and bridges", "goodwill" and "bank balances and cash" upon completion of the Acquisition. On the liabilities side, the Group's overall consolidated liabilities will be mainly increased by the consolidation of "borrowings" and "deferred income tax liabilities" upon completion of the Acquisition.

Impacts on net assets

Following the completion of the Acquisition, all the identifiable assets and liabilities of GNSR Expressway Co., Ltd. would be stated at fair value and an asset revaluation surplus which represents the increase in the fair value (after deducting minority interests) of GNSR Expressway Co., Ltd.'s net assets attributable to GZT's initial 40% interest would be created under the purchase method of accounting. Thus, the overall consolidated net assets of the Group would be increased upon completion of the Acquisition.

Impacts on earnings

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

- increase contributions from the operations of GNSR Expressway Co., Ltd. given the historical financial performance of GNSR Expressway Co., Ltd. and its projected revenue growth shown in the Traffic Study Report;
- decrease in earnings due to amortization of the fair value adjustments recognized at the date of the acquisition; and
- decrease in earnings due to increased finance costs to service the additional debt required for the acquisition of the additional 20% equity interest in GNSR Expressway Co., Ltd.

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

Gearing and working capital position

As substantial part of Consideration will be financed by borrowings, the Group's gearing ratio (calculated as total borrowings to total capitalization) is expected to increase.

LETTER FROM THE BOARD

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

9. FUTURE PROSPECTS

As mentioned in the subsection “Reasons for and benefits of the Acquisition” above, the Directors believe that the acquisition of an additional 20% equity interest in GNSR Expressway Co., Ltd. would bring in acceptable investment return to the Group as supported by the Valuation Report. In particular, the Acquisition enables the Group to obtain a controlling interest in GNSR Expressway Co., Ltd. so that the Group may exercise control on the financial and operational aspects as well as the dividend policy of GNSR Expressway Co., Ltd. In the past, GNSR Expressway Co., Ltd. has consistently applied all its surplus cash to early prepayment of the existing project loan to minimize finance costs. After completion of the Acquisition, the Group would enjoy the flexibility of being able to change this zero dividend policy as and when and in such manner as it considers appropriate to the best interests of the Group as a whole, taking into consideration from time to time of the differentials between prevailing finance costs at the level of GNSR Expressway Co., Ltd. as well as at the entity level of the Company, and above all the rate of return on investments to its Shareholders.

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

10. ADDITIONAL INFORMATION

The Acquisition constitutes a disclosable transaction for the Company under Chapter 14 of the Listing Rules. In order to give more information about the Acquisition, the business valuation of GNSR Expressway Co., Ltd., the Traffic Study Report, the operation and maintenance study for GNSR Expressway, the report from accountants on discounted future estimated cash flows in connection with the business valuation of GNSR Expressway Co., Ltd. and the comfort letter from DBS are set out in Appendix I, II, III, IV and V to this circular respectively.

Yours faithfully,
For and on behalf of the Board
Guangzhou Investment Company Limited
Ou Bingchang
Chairman

GREATER CHINA APPRAISAL LIMITED

漢華評值有限公司

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

14 November 2006

The Board of Directors
Guangzhou Investment Company Limited
GZI Transport Limited

Dear Sirs,

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

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

INTRODUCTION

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

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

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

DEFINITION AND BASIS OF VALUATION

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

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

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

INVESTIGATION

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

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

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

- the nature of the business and the history of the enterprise from its inception;
- the financial condition of the business and its book value;
- the economic outlook in general and the specific economic and competitive elements affecting each segment of the business;
- projected operating results of GNSR Expressway Co., Ltd.;
- traffic volume and revenue projection of GNSR Expressway conducted by THI Asia in the Traffic Forecast Report;
- operation as well as repair and maintenance expenses projection of GNSR Expressway conducted by the THI Asia in the O&M Report;
- operation, toll system and maintenance cost information provided by GNSR Expressway Co., Ltd.;
- market-derived investment returns of entities engaged in a similar line of business; and
- the financial and business risks of the enterprise and projected results.

ASSUMPTIONS

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

- there will be no major changes in the existing political, legal, and economic conditions in the PRC in which GNSR Expressway Co., Ltd. persist its business operation;
- there will be no major changes in the current taxation law in the PRC, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- interest rates will not differ materially from those presently prevailing;

- traffic growth and toll revenue of the GNSR Expressway will conform to the level as forecasted in the Traffic Forecast Report;
- operation as well as repair and maintenance expenses of GNSR Expressway will conform to the level as forecasted in the O&M Report;
- all relevant legal approvals and business certificates or licenses to operate the business enterprise of GNSR Expressway Co., Ltd. should have been formally obtained; and
- GNSR Expressway Co., Ltd. will retain competent management, key personnel, and technical staff to support its ongoing operation and development.

VALUATION METHODOLOGY

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

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

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

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

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

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

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

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

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

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

LIMITING CONDITIONS

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

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

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

OPINION OF VALUE

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

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

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

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

K. K. Ip
Managing Director

Samuel Y.C. Chan
Assistant Vice President
Business Valuation

Notes:

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

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

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

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

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

THI Asia
鼎漢亞洲

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Limited

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14 November 2006

The Directors
Guangzhou Investment Company Limited
GZI Transport Limited

Dear Sirs,

Traffic and Revenue Forecast Study for Guangzhou Northern Second Ring Expressway

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

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

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

E1. INTRODUCTION

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

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

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

Summary of General Project Description

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

E2. OBJECTIVES AND SCOPE OF SERVICES

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

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

E3. TRAFFIC FORECASTING METHODOLOGY

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

- a) Data Inventory and Review — The key objective for this technical stage is to obtain existing available information and organize them for the next stage of work. Typical information to be inventoried includes historic highway network data, O-D data, toll road traffic and revenue data, existing and future socio-economic forecasts of the relevant region, and previous analyses and reports.
- b) Define Technical Approach — The goal is to develop the most appropriate technical methodology to be used for study purposes. The determination of the types of method depends on the availability and quality of the data as well as the overall project programme.
- c) Travel Demand Forecasting — Based on the information and findings from previous stages, this stage defines and analyzes the existing traffic patterns and forecasts the future travel demand based on the appropriate key traffic variables that include:
 - Economic indicators and growth in travel demand;
 - Physical conditions of the road and its carrying capacity;
 - Vehicle classifications and percentage distribution; and
 - O-D patterns by class of vehicle.

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

E4. PRINCIPAL MODEL/ANALYTICAL ASSUMPTIONS

The general assumptions defined in the Study are as follows:

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

- b) O-D patterns identified from the available database are applicable to the subject analysis;
- c) The most current traffic composition of existing traffic flow is assumed to be applicable to the forecasts;
- d) Variations between existing and future travel behaviors, system patterns and trip making decisions are insignificant;
- e) Future economic growth trends in the study region should be consistent with existing regional economic policies, specifically the 11th Five-Year Plan, the provincial development master plan and local governmental policies. The adopted conservative annual economic growths are given in the table below;

Annual GDP Growth (%) Assumptions (Conservative)

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

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

- f) Technical parameters associated with the determination of facility capacity are within the practical range;
- g) Technical data obtained and used for the analysis is accurate and reliable, and therefore is a good representation of the typical average condition;
- h) Based on the Highway Capacity Manual published by the Department of Transportation of Transportation Research Board of the United States of America and professional judgment, the estimated facility-based sectional capacity for the highways under study is 130,000 vehicles per day. This Sectional Capacities are defined as the maximum number of vehicles that can be accommodated by highway sections of facilities per day;

- i) Major new highway links are planned or under construction in the vicinity of the study corridors. The major new links included in the study area are:
- Guangzhou Western Second Ring Expressway (2007); this dual-3 Carriageway is part of the PRD Second Ring Road Expressway System connecting GNSR Expressway with Foshan in the west.
 - Guangzhou Eastern Second Ring Expressway (2008); this is also part of the Second Ring Road system connect southern Guangzhou with GNSR Expressway.
 - Huanan Expressway Phase III (2008); this section of expressway is dual-3 carriageway with a total length of about 11 kms south of GNSR Expressway and will be parallel to the section of Taihe to Longshan interchanges of GNSR Expressway. From our transport model result, this expressway would divert about 8,400 vehicles from GNSR in year 2008.

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

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

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

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

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

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

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

E5. SUMMARY OF TRAFFIC PROJECTIONS

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

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

GNSR Expressway Historical Averaged Daily Traffic Flow and Growth

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

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

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

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

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

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

E6. TOLL RATE STRUCTURE

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

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

E7. ESTIMATION OF REVENUE

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

Projected Annual Revenue (RMB million) - Conservative Scenario

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

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

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

E8. CONCLUSION

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

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

Richard Yau
Executive Director

Jessica Liang
Project Manager

Notes:

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

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

THI Asia
鼎漢亞洲

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14 November 2006

The Directors
Guangzhou Investment Company Limited
GZI Transport Limited

Dear Sirs,

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

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

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

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

E1. INTRODUCTION

This operation and maintenance assessment consists of:

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

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

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

E2. PROJECT DESCRIPTION

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

E3. TECHNICAL FINDINGS AND RECOMMENDATIONS

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

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

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

Pavement Damage

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

Drainage

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

Expansion Joints

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

Bridge Vibration

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

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

Bridge Substructure

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

Miscellaneous Defects

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

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

Road Furniture

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

Tunnel

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

E4. OPERATION AND MAINTENANCE (O&M) COSTS

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

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

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

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

Operation and Maintenance Costs

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

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

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

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

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

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

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

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

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

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

Management Costs

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

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

Management costs for the concession period (RMB million)

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

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

E5. CONCLUSION

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

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

Richard Yau
Executive Director

Jessica Liang
Project Manager

Notes:

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

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



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong**REPORT FROM ACCOUNTANTS ON
DISCOUNTED FUTURE ESTIMATED CASH FLOWS
IN CONNECTION WITH THE BUSINESS VALUATION OF
GUANGZHOU NORTHERN SECOND RING EXPRESSWAY CO., LTD.
TO THE DIRECTORS OF GUANGZHOU INVESTMENT COMPANY LIMITED AND
GZI TRANSPORT LIMITED**

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

Respective responsibilities of the directors of GZI and accountants

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

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

Basis of opinion

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

Opinion

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

PricewaterhouseCoopers*Certified Public Accountants*

Hong Kong, 18 December 2006



14 November 2006

The Board of Directors
Guangzhou Investment Company Limited
GZI Transport Limited

Dear Sirs,

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

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

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

Yours faithfully,

For and on behalf of

DBS ASIA CAPITAL LIMITED

George Hongchoy

Jason Wong

Managing Director

Managing Director

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF DIRECTOR'S INTERESTS IN THE COMPANY

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, chief executive (if any) or their respective associates had any interests or short positions in the Shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which are (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (c) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

(a) Long Positions in 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. Tang Shouchun	The Company	Beneficial owner	0.03	2,340,000
Mr. Wang Hongtao	The Company	Beneficial owner	0.00	320,000
Mr. Yu Lup Fat Joseph	The Company	Beneficial owner	0.05	3,500,000
Mr. Lee Ka Lun	The Company	Beneficial owner	0.05	3,500,000

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

Name of Director	Interest in the Company or its associated corporations	Capacity in holding interest	Date of grant (Note)	Exercise price per Share HK\$	Number of outstanding share options
Mr. Ou Bingchang	The Company	Beneficial owner	02/06/2003 ¹	0.5400	9,000,000
Mr. Liang Yi	The Company	Beneficial owner	02/06/2003 ¹	0.5400	7,000,000
Mr. Li Fei	The Company	Beneficial owner	02/06/2003 ¹	0.5400	7,000,000
Mr. Tang Shouchun	The Company	Beneficial owner	23/06/2004 ²	0.6300	1,560,000

Notes:

1. The share options are exercisable from 2 June 2003 to 1 June 2013, of which a maximum of up to (i) 30%; and (ii) 60% (inclusive of any options exercised under (i)) thereof are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the date of the grant, respectively.
2. The share options are exercisable from 23 June 2004 to 22 June 2014, of which a maximum of up to (i) 30%; and (ii) 60% (inclusive of any options exercised under (i)) thereof are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the date of the grant, respectively.

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

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

3. DISCLOSABLE INTERESTS OF SHAREHOLDERS

- (a) Save as disclosed below, as at the Latest Practicable Date, so far as is known to any Director and chief executive (if any) of the Company, no person (not being a Director or the chief executive (if any) of the Company nor any member of the Group) has an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed under the provision of Divisions 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% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of shareholder	Capacity in holding interest	Long/short position	Approximate % of shareholding in the total issued Shares	Number of shares held
Yue Xiu Enterprises (Holdings) Limited (“ Yue Xiu ”) (<i>Note</i>)	Interest of controlled corporations	Long position	45.3	3,077,935,248

Note: Yue Xiu is deemed by the SFO to be interested in 3,078,435,428 shares in the Company as a result of its direct holding of such shares through its wholly-owned subsidiaries, details of which were as follows:

Name	Capacity in holding interest	Long/short position	Number and class of securities held
Excellence Enterprises Co., Ltd. (“ Excellence ”) (<i>Note i</i>)	Interest of controlled corporations	Long position	3,068,548,981
Bosworth International Limited	Beneficial Owner	Long position	2,173,846,821
Sun Peak Enterprises Ltd. (“ Sun Peak ”) (<i>Note ii</i>)	Interest of controlled corporation	Long position	565,683,000
Novena Pacific Limited (“ Novena ”)	Beneficial Owner	Long position	565,683,000
Shine Wah Worldwide Limited (“ Shine Wah ”) (<i>Note iii</i>)	Interest of controlled corporation	Long position	158,049,000
Morrison Pacific Limited (“ Morrison ”)	Beneficial Owner	Long position	158,049,000
Perfect Goal Development Co., Ltd. (“ Perfect Goal ”) (<i>Note iv</i>)	Interest of controlled corporation	Long position	135,737,000
Greenwood Pacific Limited (“ Greenwood ”)	Beneficial Owner	Long position	135,737,000

Name	Capacity in holding interest	Long/short position	Number and class of securities held
Seaport Development Limited (“ Seaport ”) (<i>Note v</i>)	Interest of controlled corporation	Long position	35,233,160
Goldstock International Limited (“ Goldstock ”)	Beneficial Owner	Long position	35,233,160
Yue Xiu Finance Company Limited	Beneficial Owner	Long position	9,386,267

Notes:

- i. Excellence, a wholly-owned subsidiary of Yue Xiu, is deemed by the SFO to be interested in 3,068,548,981 Shares as a result of its indirect holding of such Shares through its wholly-owned subsidiaries.
- ii. Sun Peak is deemed by the SFO to be interested in 565,683,000 Shares as a result of its indirect holding of such Shares through its wholly-owned subsidiary, Novena.
- iii. Shine Wah is deemed by the SFO to be interested in 158,049,000 Shares as a result of its indirect holding of such Shares through its wholly-owned subsidiary, Morrison.
- iv. Perfect Goal is deemed by the SFO to be interested in 135,737,000 Shares as a result of its indirect holding of such Shares through its wholly-owned subsidiary, Greenwood.
- v. Seaport is deemed by the SFO to be interested in 35,233,160 Shares as a result of its indirect holding of such Shares through its wholly-owned subsidiary, Goldstock.

4. EXPERTS

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

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

- (b) As at the Latest Practicable Date, DBS, PricewaterhouseCoopers, Greater China and THI Asia had no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) DBS, PricewaterhouseCoopers, Greater China and THI Asia have not withdrawn their respective written consents to the issue of this circular with the inclusion therein of their respective reports / letters and references to their respective names in the form and context in which they appear.

5. SERVICE CONTRACTS

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

6. GENERAL

- (a) As at the Latest Practicable Date, the Directors are not aware of any litigation, arbitration or claim of material importance pending or threatened against any member of the Group.
- (b) The registered office of the Company is situated at 26th Floor, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Mr. Yu Tat Fung, solicitor of the High Court of Hong Kong.
- (d) The qualified accountant of the Company is Mr. Chow Wai Kit. He is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Chow is also an associate member of The Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.
- (e) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.