



GZI Transport Limited

越 秀 交 通 有 限 公 司

(Stock Code: 1052)

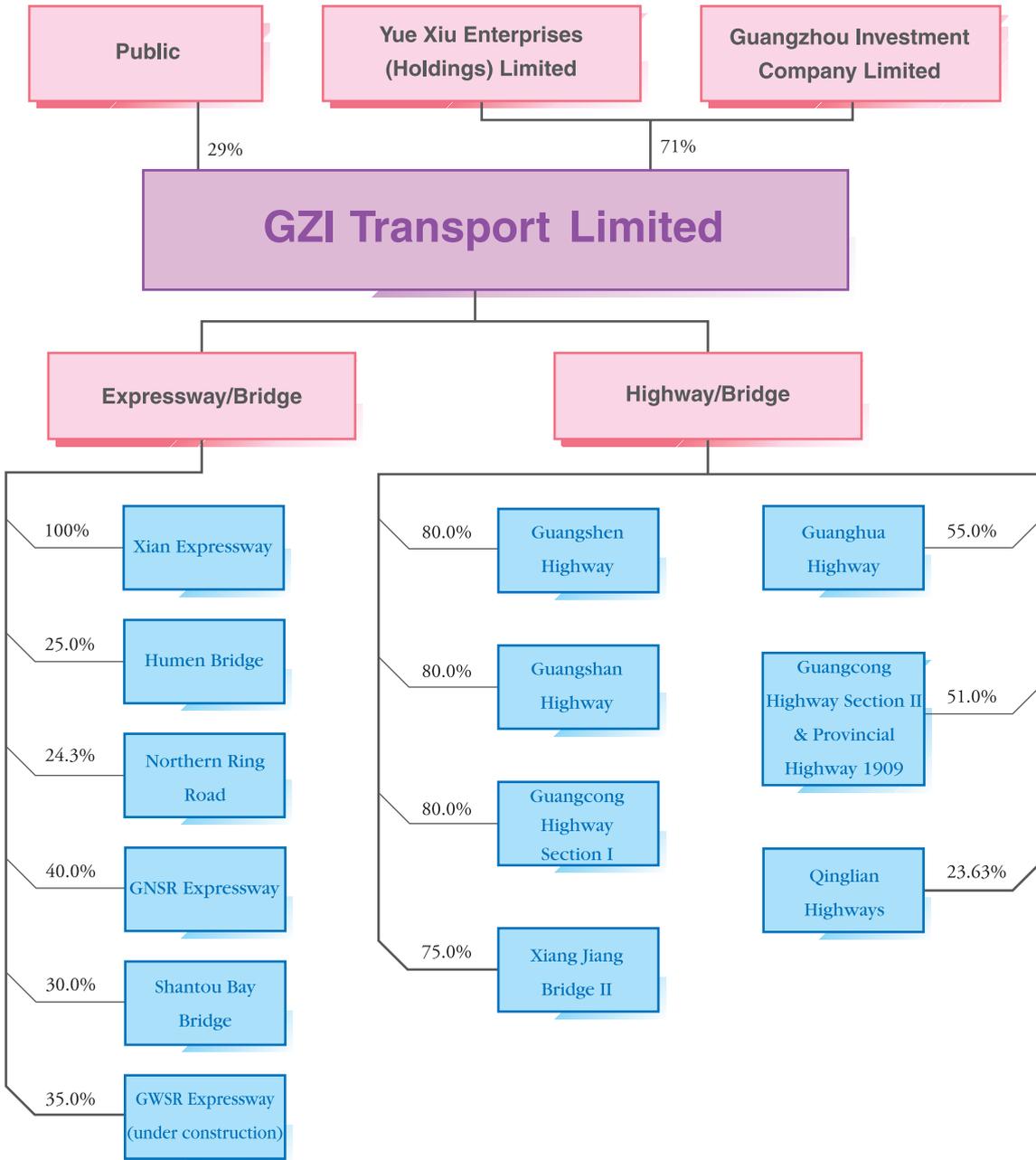


2005 ANNUAL REPORT



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Company Organization Chart





I am pleased to present the annual results of GZI Transport Limited (“Company”) and its subsidiaries (collectively the “Group”) for the year ended 31st December 2005.

In 2005, the Group’s turnover and profit attributable to shareholders amounted to HK\$425.0 million and HK\$306.0 million respectively, representing increases of 6.2 per cent and 10.4 per cent over 2004 respectively. Basic earnings per share was HK\$0.274 (2004: HK\$0.249). The Board recommended distribution of a final dividend of HK\$0.05 per share for 2005, which together with the paid interim dividend of HK\$0.05 per share, the dividend pay out ratio in the year was 36.5 per cent.

Chairman's Statement

The Group is a major toll road operator in Guangdong Province. Its toll roads are mainly located in the Pearl River Delta Region. In 2005, economy in Guangdong Province continued to maintain its rapid growth, with GDP in the whole province growing at 12.5 per cent over 2004. The economic development and further upgrading of the expressway network have driven up the rapid development of passenger and freight forwarding industry, with freight forwarding turnover growing at 13.8 per cent and passenger turnover growing at 13.1 per cent as compared with 2004, which in addition to the rapid growth of private car ownership, in particular Guangzhou City, where ownership rate of private cars per hundred households increased from 4.0 vehicles in 2004 to 6.3 vehicles in 2005, have further stimulated the increase in the traffic volume of toll roads and bridges, bringing prominent benefits to the toll roads (principally expressways) and bridges operated by the Group. The Group's assets and operating revenue also benefited from the appreciation of Renminbi in the second half of July 2005. The Guangzhou Western Second Ring Expressway (in which the Group is holding 35 per cent interest) which commenced construction in September 2004 is expected to be completed and open to traffic by the end of 2006 ahead of schedule.

As indicated by the "Guangdong Province Expressway Network Plan" (2004-2030), a three dimensional traffic network with 8,800 kms of expressway as structural backbone (of which 3,500 kms are expected be located in the Pearl River Delta) are expected be constructed in future, and investments have been budgeted at over Rmb400 billion (of which over Rmb170 billion will be invested in the Pearl River Delta Region). Guangdong Province being the major seaward passage of the Pan-Pearl River Delta Region and the only land passage connecting the Mainland and Hong Kong and Macau, expressways will still be the focus in future traffic infrastructure constructions. On 16th January 2006, the Asia-Pacific transshipment project of FedEx has been formally inaugurated in the Huadu district of Guangzhou, which would further enhance the catchment area of Guangzhou as a world class logistics port, and will be helpful in promoting the further growth of traffic volume and performance of the Group's highway and bridge projects in Guangdong Province.

The Group will strive to capture favorable opportunities and will continuously strengthen the management of its existing operating projects' toll collection and operating costs control in promoting the Group's earning potential. Simultaneously, the Group will proactively and cautiously seek and invest in expressway projects in the Guangdong Province, in particular the Pearl River Delta Region, and selectively invest in high quality expressway toll projects outside Guangdong Province with higher returns. In respect of future new projects, the Group will consider making investments by way of internal funds and bank borrowings, and under normal circumstances, adopt a stable dividend policy, with the aim of securing better returns to all shareholders.

I would like to take this opportunity to express my sincere thanks to our directors and all the staff members for their incessant efforts and contribution in the past year, as well as to all shareholders, the financial sector and business partners for their immense support.

Ou Bingchang

Chairman

Hong Kong, 19th April 2006

BUSINESS REVIEW

Toll Projects Summary

The Company is principally engaged in investment and operation of expressways and national toll highways and bridges located in Guangdong Province mainly in Guangzhou area.

Since its listing on The Stock Exchange of Hong Kong Limited in January 1997, the Group has been expanding steadily and total attributable length of toll road and bridge projects had already increased from 146.9 kms at the time of listing to the current 315.2 kms. As at 31st December 2005, the Group had a total of 13 investments in its operating toll road and bridge projects portfolio which includes Guangzhou Northern Ring Road, Guangzhou Northern Second Ring Expressway, Guangzhou Western Second Ring Expressway, Guangdong Humen Bridge and Shantou Bay Bridge; Guangshen Highway, Guangshan Highway, Guangcong Highway Sections I and II, Guanghua Highway and Qinglian Highways all of which connect the traffic hub of Guangzhou City and inter-provincial traffic between Guangdong, Hunan and Jiangxi provinces; Xian Expressway in Shaanxi Province and Xiang Jiang Bridge II in Xiangtan City of Hunan Province are both located outside Guangdong Province. Apart from Guangzhou Western Second Ring Expressway that is now under construction, the other toll projects are already operating and generating toll income.

SUMMARY INFORMATION ON OPERATING TOLL ROADS AND BRIDGES IN 2005

	Length (kms)	Width (lanes)	Toll station	Road type	Attributable interest (%)	Remaining operating year term
Subsidiaries						
Guangshen Highway	23.1	6	1	Class I highway	80.00	21
Guangshan Highway	64.0	4	2	Class II highway	80.00	21
Guangcong Highway Section I	33.3	6	1	Class I highway	80.00	21
Guangcong Highway Section II	33.1	6	1	Class I highway	51.00	21
& Provincial Highway 1909	33.3	4	1	Class I highway	51.00	21
Guanghua Highway	20.0	6	1	Class I highway	55.00	22
Xian Expressway	20.1	4	3	Expressway	100.00	11
Xiang Jiang Bridge II	1.8	4	1	Rigid frame bridge	75.00	16
Associates and Jointly Controlled Entity						
Humen Bridge	15.8	6	4	Suspension bridge	25.00	24
Northern Ring Road	22.0	6	11	Expressway	24.30	18
Qinglian Highways						
National Highway 107	253.0	2	4	Class II highway	23.63	
Highway between Qingyuan and Lianzhou cities	215.2	4	5	Class I highway	23.63	23
Shantou Bay Bridge	6.5	6	1	Suspension bridge	30.00	23
GNSR Expressway	42.4	6	9	Expressway	40.00	26

Overview of Operating Performance

As at the end of 2005, the aggregate mileage of expressways in Guangdong Province ranked second nationwide reaching 3,140 kms. Guangdong Province's expressway network radiates from Guangzhou as the center. On average, there is at least one or more expressways channeling traffic from Guangdong to neighboring provinces or districts, enabling Guangdong Province's economy to move into a virtuous developing track with an aim to build up a solid foundation for the advancement of economic cooperation and development in Pan Pearl River Delta Region. Being a toll operator in Guangdong Province with major investments and operations in Guangzhou area, our Company directly benefited from substantial growth in the economic development and private vehicle ownership in Guangzhou area. In 2005, Guangzhou's GDP continued to climb upward reaching Rmb511.575 billion, ranking third among major cities nationwide, representing approximately 13.0 per cent growth over 2004. Along with the rising household income, consumption level for hot commodities such as vehicles continue to elevate and spending ratio being pushed up, private car ownership per 100 households in Guangzhou increased from 4.0 vehicles in 2004 to 6.3 vehicles in 2005, expressing an increase of approximately 57.5 per cent. Moreover, the Company persists to focus on toll management and in a move to heighten the efficiency level of toll collection and to drive up the provincial inter-road network toll collection system, Northern Ring Road, GNSR Expressway, Guangdong Humen Bridge and Shaanxi Xian Expressway had already completed the implementation of their respective inter-road network toll collection system.

Despite the slight decline in traffic volume of a number of non-expressway projects in 2005, overall traffic volume and turnover especially expressway projects demonstrated an upward position. The total average daily toll traffic volume of the Company's subsidiaries for 2005 grew by 3.1 per cent to 132,400 vehicles as compared to 2004 and achieved a 6.2 per cent growth in turnover of HK\$424.8 million, being HK\$24.6 million higher than 2004. The aggregate average daily toll traffic volume of associates and jointly controlled entity grew by 8.2 per cent to 246,300 vehicles as compared to 2004 and attributable turnover amounted to HK\$466.6 million representing an increase of HK\$52.2 million and a growth rate of 12.6 per cent over 2004.



Source : 2001 to 2005 statistics from Guangzhou Municipal Bureau of Statistics



Shantou Bay Bridge

Average daily toll traffic volume of toll highways and bridges

	Average daily toll traffic volume (vehicle)			Weighted average toll fare per vehicle (Rmb)	
	2005	2004	Change	2005	2004
Subsidiaries					
Guangshen Highway	30,729	32,795	-6.3%	5.92	6.02
Guangshan Highway	23,210	24,041	-3.5%	10.26	9.95
Guangcong Highway Section I	12,754	13,605	-6.3%	12.95	12.97
Guangcong Highway Section II & Provincial Highway 1909	21,862	19,579	11.7%	8.08	7.72
Guanghua Highway	11,070	11,132	-0.6%	8.20	8.05
Xian Expressway	27,288	22,654	20.5%	11.88	11.90
Xiang Jiang Bridge II	5,494	4,566	20.3%	8.76	8.98
Total	132,407	128,372	3.1%		
Associates & Jointly Controlled Entity					
Humen Bridge	42,820	39,176	9.3%	42.66	42.79
Northern Ring Road	133,443	124,535	7.2%	12.32	11.99
Qinglian Highways	16,633	19,958	-16.7%	20.84	18.85
Shantou Bay Bridge	9,450	13,288	-28.9%	37.10	33.47
GNSR Expressway	43,965	30,791	42.8%	17.44	18.58
Total	246,311	227,748	8.2%		

Performance of Subsidiaries

Guangshen Highway Guangzhou Section (“Guangshen Highway”)

Guangshen Highway is a section of National Highway 107 and is one of the major roads connecting Guangzhou City and Shenzhen City. The total length is approximately 23.2 kms, of which the section from Dashadi in Huangpu to Nangang measures approximately 11.7 kms long with six lanes and the section from Nangang to Xintang, measures approximately 11.4 kms long with four lanes.

During 2005, Guangshen Highway continued to be affected by the linkage of Guangyuan Road East and Dongguang section in addition to the upgrading of highway network in the vicinity causing some degree of traffic diversion, average daily toll traffic volume dropped by 6.3 per cent to 30,729 vehicles when compared with 2004. Weighted average toll fare per vehicle was Rmb5.92, slightly below 2004 by 1.6 per cent.

Guangshan Highway Guangzhou Section (“Guangshan Highway”)

Guangshan Highway is a section of National Highway 324. It has a length of approximately 64.0 kms and is one of the major highways connecting Guangzhou Municipality and the eastern region of Guangdong Province.



Guangcong Highway Section I



Taihe Toll Station

During 2005, Guangshan Highway continued to be affected by the opening of Guangyuan Road East and Guanghui Expressway. As compared with 2004, the average daily toll traffic volume decreased by 3.5 per cent to 23,210 vehicles in 2005 and weighted average toll fare per vehicle increased by 3.1 per cent to Rmb10.26.

Guangcong Highway connecting Guangzhou Institute of Foreign Language and Tai Ping Chang (“Guangcong Highway Section I”)

Guangcong Highway Section I is a section of National Highway 105 between Guangzhou City and Conghua City in the northeast where a hot spring resort is located. Guangcong Highway Section I mainly connects inter-provincial traffic between Guangdong Province and provinces in Eastern China such as Jiangxi. It is also the main access from Guangzhou City to Conghua City in the suburban area.

Since 2004 when Jingzhu Expressway directly connects the urban area of Guangzhou City, traffic performance of Guangcong Highway Section I was weakened, causing average daily toll traffic volume of 2005 decreased by 6.3 per cent to 12,754 vehicles when compared with 2004. Weighted average toll fare per vehicle was Rmb12.95 which was slightly below 2004 by 0.2 per cent.

Guangcong Highway connecting Tai Ping Chang and Wenquan (“Guangcong Highway Section II & Provincial Highway 1909”)

Guangcong Highway Section II connects inter-provincial traffic between Guangdong Province and provinces in Eastern China, such as Jiangxi and intra-municipality traffic between Guangzhou and Conghua City in the northeast, where a hot spring resort is located. Provincial Highway 1909 connects inter-provincial traffic between Guangdong and Hunan provinces.

The completion of the widening works of National Highway 105 connecting Guangcong Highway Section II and its commencement in January 2005 had attracted vehicles from provinces such as the Jiangsu Province to travel in that highway section. Average daily toll traffic volume had increased by 11.7 per cent to 21,862 vehicles when compared with 2004. Weighted average toll fare per vehicle increased by 4.7 per cent to Rmb8.08 when compared with 2004.

Guanghua Highway

Guanghua Highway is the major highway connecting the urban area of Guangzhou City and the suburb of Huadu District where the New Guangzhou Airport is located.

Management Discussion and Analysis

The opening of the New Guangzhou Airport in August 2004 had brought positive impact to Guanghua Highway; however, with the upgrading of the highway network connecting the urban area section of the Airport Expressway and the opening of Guangqing Expressway conjunction in the second half of 2005, average daily toll traffic volume of Guanghua Highway for 2005 was 11,070 vehicles which is relatively similar to 2004 level and weighted average toll fare per vehicle was Rmb8.20, which was up by 1.8 per cent when compared with 2004.

Xian Expressway in Shaanxi Province (“Xian Expressway”)

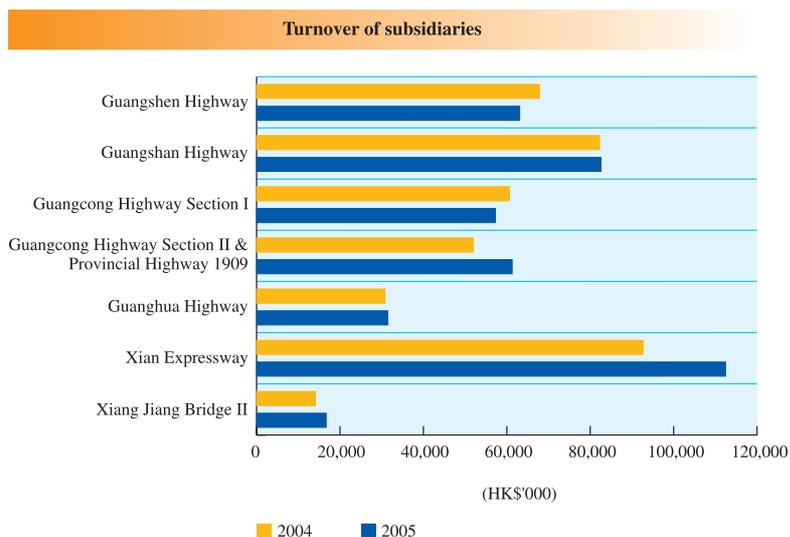
Xian Expressway is an expressway connecting Xian City and Lintong County where the world famous historical relic Terra-Cotta Warriors is located.

The commencement in operation of Xian City Express Highway connecting Xian Expressway coupled with the redevelopment of that road section linking Xian and Lintong had induced more vehicles traveling Xian Expressway. Average daily toll traffic volume of Xian Expressway for 2005 was 27,288 vehicles which increased significantly by 20.5 per cent when compared with 2004. Weighted average toll fare per vehicle was slightly below 2004 amounted to Rmb11.88.

Xiang Jiang Bridge II in Xiang Tan City of Hunan Province (“Xiang Jiang Bridge II”)

Xiang Jiang Bridge II is located in Xiang Tan City of Hunan Province. It is part of National Highway 107 linking the northern and southern banks of Xiang Jiang. The bridge primarily connects inter-provincial traffic between Guangdong Province and Hunan Province.

The upgrading of highway facilities in a way to improve the operating environment had led average daily toll traffic volume of Xiang Jiang Bridge II to increase significantly by 20.3 per cent to 5,494 vehicles in 2005. The rise of small passenger vehicles had caused weighted average toll fare per vehicle declined by 2.5 per cent to Rmb8.76 when compared with 2004.

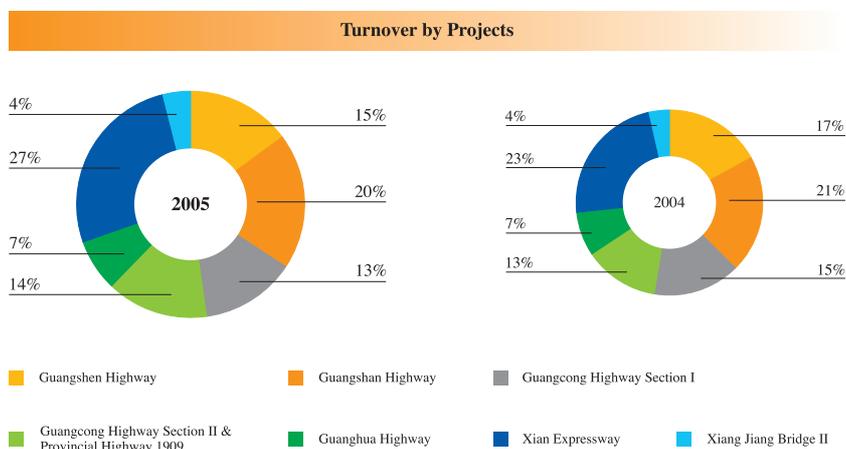


Performance of Associates

Humen Bridge

Humen Bridge is an expressway with a six-lane suspension bridge linking Panyu District of Guangzhou Municipality and Dongguan City both located in the heart of the Pearl River Delta. Its two ends are connected to the Guangzhou Shenzhen Expressway and Guangzhou Zhuhai Eastern Expressway.

Being benefited from the natural growth in traffic volume brought forth by the continuous rapid economic growth of the Pearl River Delta Region, average daily toll



Management Discussion and Analysis

traffic volume of Humen Bridge for 2005 increased by 9.3 per cent to 42,820 vehicles when compared with 2004. Weighted average toll fare per vehicle slightly decreased by 0.3 per cent to Rmb42.66 when compared with 2004.

Shantou Bay Bridge

Shantou Bay Bridge is a six-lane bridge located in the eastern entrance of Shantou Harbour which had started operation since December 1995. It connects Shenshan Expressway in the west and stretches over Shantou Harbour Huangsha Bay Sea Route linking Shanfen Expressway. It has a total length of approximately 6.5 kms.

Since the Queshi Bridge located near Shantou Bay Bridge had joined the “year pass policy” of Shantou City in January 2005, traffic volume was greatly affected as a major portion of Shantou City vehicles originally traveling through Bay Bridge were diverted to Queshi Bridge. Average daily traffic volume for 2005 had decreased by 28.9 per cent to 9,450 vehicles when compared with 2004. As the diverted traffic was mainly small passenger vehicles, weighted average toll fare per vehicle increased by 10.8 per cent to Rmb37.10 when compared with 2004.



Guangshan Highway

Guangzhou City Northern Ring Road (“Northern Ring Road”)

The Northern Ring Road located in Guangzhou City links the Guangzhou Shenzhen Expressway in the east and the Guangzhou Foshan Expressway in the west.

Being benefited from the natural growth in traffic volume brought forth by the continuous rapid economic growth of the Pearl River Delta region, average daily toll traffic volume for 2005 increased by 7.2 per cent to 133,443 vehicles when compared with 2004. On the other hand, the development of the logistics sectors had driven more large size vehicles to the traffic; as a result, weighted average toll fare per vehicle for 2005 increased by 2.7 per cent to Rmb12.32 when compared with 2004.

Qinglian Highways

Qinglian Highways are located in the northwestern part of Guangdong Province connecting Guangdong Province and Hunan Province. Qinglian Highways consist of a Class II Highway with 253.0 kms and a Class I Highway with 215.2 kms. In an aim to bring Qinglian Highways into full play, redevelopment work had commenced in December 2005 to re-construct Qinglian Class 1 Highway into an expressway. The funds for the reconstruction amounting to approximately Rmb4.2 billion (including interests) will be satisfied through bank borrowings by Qinglian Company. The reconstruction is expected to complete and be open to traffic in 2008. After redevelopment, Qinglian Expressway will become the most convenient passage way between Guangdong Province and Hunan Province. It will be the arterial expressway connecting the northern and southern highway network in Guangdong Province and will promote the economic activities from Pearl River Delta region towards the inland regions.

Meanwhile, the Jingzhu Expressway continued to divert the traffic volume from Qinglian Highways in 2005. Traffic flow of Qinglian Highways was also affected by the substantial decrease of coal trucks within Hunan region in April 2005 as well as the increasing traffic in Lianzhou intersection. The average daily toll traffic volume for 2005 had decreased by 16.7 per cent to 16,633 vehicles when compared with 2004. Due to decrease of medium size vehicles and increase of large size vehicles in the traffic mix, weighted average toll fare per vehicle for 2005 had risen by 10.6 per cent to Rmb20.84.

Performance of Jointly Controlled Entities

Guangzhou Northern Second Ring Expressway (“GNSR Expressway”)

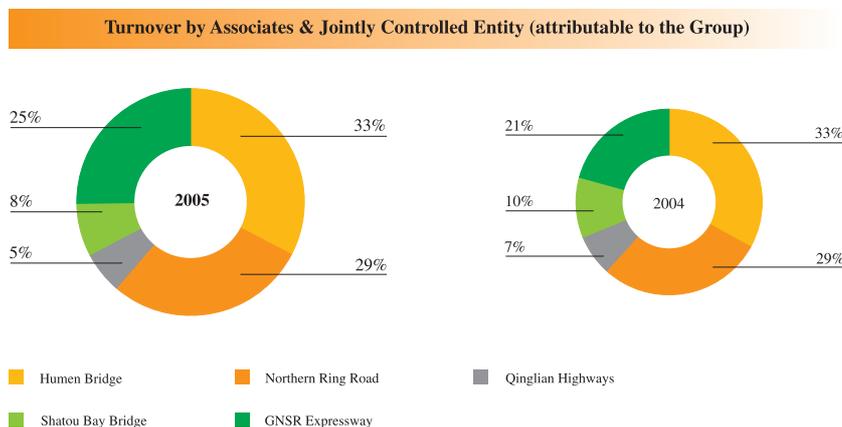
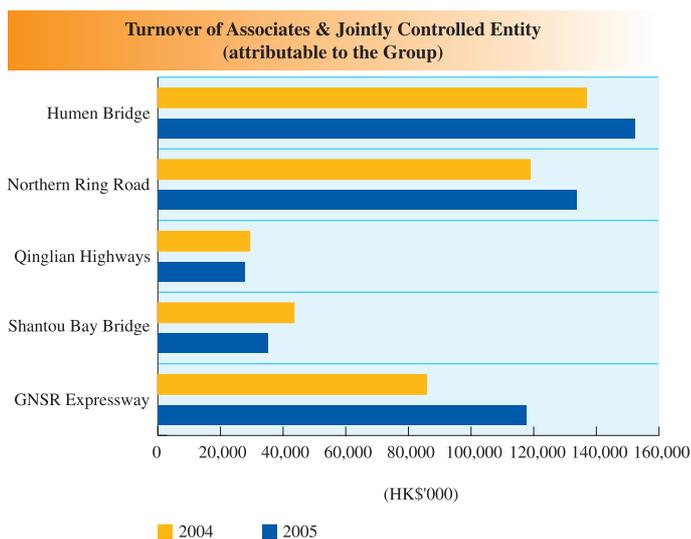
The six-lane 42.4 kms GNSR Expressway has nine intersections and nine toll stations. It connects eleven provincial, national highways and expressways in the north of Guangzhou Municipality. GNSR Expressway was completed and commenced toll collection in January 2002.

The opening of Jingzhu Expressway and Guanghui Expressway, both of which connecting GNSR Expressway, together with the opening of New Guangzhou Airport in August 2004 had significantly boosted the traffic volume of GNSR Expressway. Average daily toll traffic volume for 2005 had continued to increase steadily by 42.8 per cent to 43,965 vehicles. With the increase in proportion of small size vehicles, weighted average toll fare per vehicle decreased by 6.1 per cent to Rmb17.44 when compared with 2004.

Guangzhou Western Second Ring Expressway (“GWSR Expressway”)

The GWSR Expressway (under construction), of which the Group has 35.0 per cent shareholding, connects GNSR Expressway, extends from Guangzhou Sanshui Expressway near Xiaotan Town in Nanhai District of Foshan City and ends at Maoshan Village, Baiyun District of Guangzhou City, had a total length of 39.13 kms and with a dual direction six-lane route. After completion, it will be connected to such highways as GNSR Expressway, Jing Zhu Expressway, Guanghua Expressway, New Airport Expressway, Guangsan Expressway and National Highways 324, 321, 105, 106 and 107. It is also a convenient route for accessing the new Guangzhou Baiyun International Airport in the western region of Guangzhou.

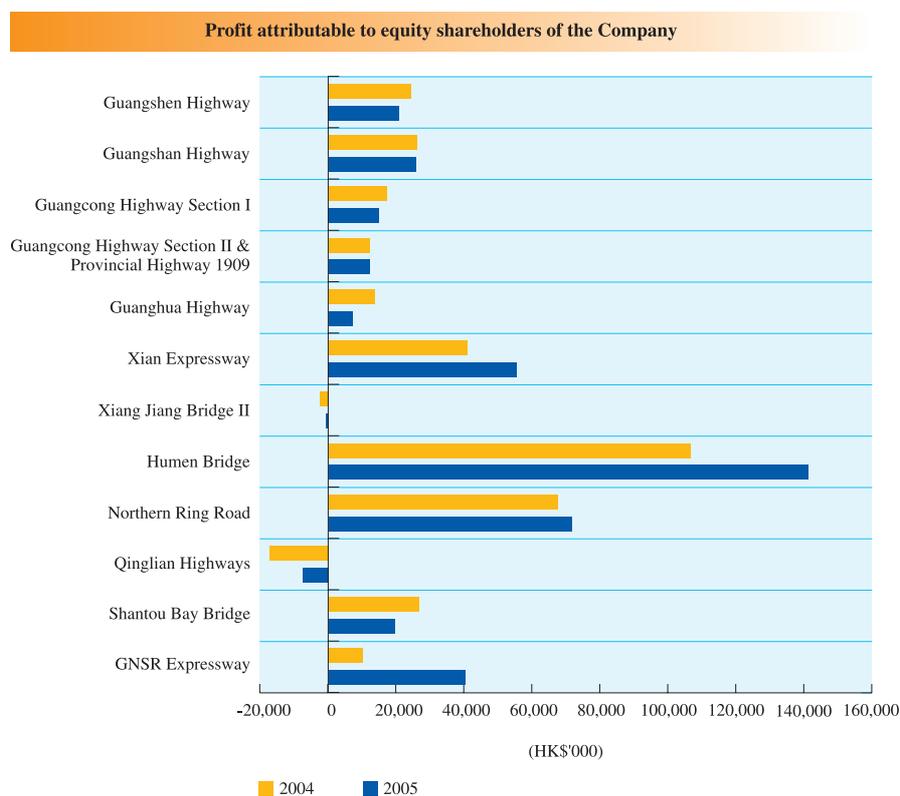
The total investment of the project amounted to Rmb2.97 billion, of which registered capital amounted to Rmb1.0 billion, whilst the remaining was raised in the form of project finance. Construction had officially commenced on 16th September 2004. The accumulated construction costs as at the end of March 2006 amounted to Rmb1.725 billion, representing approximately 58.0 per cent of the estimated investment. The project is expected to be completed ahead of schedule by December 2006. The Group had contributed a total of Rmb143.5 million as at 31st December 2005.



FINANCIAL REVIEW

Results Highlights

(HK\$'000)	2005	Restated 2004	% of change
Profit attributable to equity holders of the Company	305,898	277,029	10.4
Turnover	424,845	400,212	6.2
Operating profit	133,688	158,938	-15.9
Profits after tax and interest income from associates and jointly controlled entities	264,527	193,038	37.0
Interest coverage	53 times	32 times	
Basic earnings per share	HK\$0.274	HK\$0.249	10.0
Dividend per share	HK\$0.10	HK\$0.0975	
Return on shareholders' funds (excluding minority interests)	8.15%	7.95%	2.5



Analysis of Results

The profit attributable to equity holders of the Company for the year ended 31st December 2005 grew by 10.4 per cent to HK\$305.9 million as compared to 2004. Turnover of subsidiaries grew by 6.2 per cent to HK\$424.8 million. However, 2005 operating profit was HK\$25.2 million below 2004 amounting to HK\$133.7 million, representing a drop of 15.9 per cent due to increase in toll road maintenance expenses of certain subsidiaries and impairment losses newly incurred in 2005 on available-for-sale financial assets of HK\$44.3 million. Ignoring the impairment losses, operating profit growth will be 12.0 per cent. With the strong growth in turnover of expressways and downward adjustment of business tax rate, share of after tax profits less losses plus interest income of associates and jointly controlled entity was up by 37.0 per cent from 2004 level to HK\$264.5 million. Basic earnings per share increased by HK2.5 cents over 2004 to HK27.4 cents and return on shareholders' funds had increased from 7.95 per cent in 2004 to 8.15 per cent in 2005.



Xian Expressway in Shaanxi Province

Turnover

Through enhancement of toll road services' quality, intensify toll inspection strength, heighten collection effectiveness, exploration of new toll collection potential and mitigation of unfavorable effects brought about from the continuing formation of new toll road network in Guangdong and surrounding provinces to partial Class I and II toll highways, the Group's turnover for 2005 grew 6.2 per cent over 2004 to HK\$424.8 million. Xian Expressway recorded a 21.4 per cent growth; Xiang Jiang Bridge II and Guangcong Highway Section II grew 18.4 per cent and 18.0 per cent respectively; Guanghua Highway and Guangshan Highway grew slightly by 2.2 per cent and 0.4 per cent respectively; while Guangshen Highway and Guangcong Highway Section I declined by 7.0 per cent and 5.5 per cent respectively.

Other gains

In 2005, the Group had other gains amounted to HK\$17.0 million, which was HK\$16.4 million higher than 2004. There was a gain on disposal of a partial interest in a jointly controlled entity of HK\$11.7 million (the estimated gain on disposal was disclosed in the circular dated 20th January 2006 to be approximately HK\$13.4 million based on the carrying value as at 31st October 2005). Investment properties in 2005 had a fair value gain of HK\$1.3 million whereas in 2004, there was a fair value loss of HK\$1.7 million. With the upward adjustment of bank interest rate since March 2005, bank interest income in 2005 was up by HK\$1.7 million to HK\$3.0 million.

Amortisation / depreciation of interests in toll highways and bridges

Except for one subsidiary which adopts the unit of usage method of depreciation, the rest adopt the straight line method. The Group's amortization / depreciation of interests in toll highways and bridges for the year ended 31st December 2005 amounted to HK\$106.1 million which was 1.3 per cent slightly higher than 2004.

Toll highways and bridges maintenance expenses

In 2005, toll highways and bridges maintenance expenses amounted to HK\$93.0 million, which was HK\$18.0 million or 23.8 per cent higher than 2004. The increase was mainly due to the restoration works carried out on certain toll road sections of the Group's five subsidiaries' with an aggregated extra cost incurred totaled approximately HK\$25.6 million. Ignoring the restoration costs, normal maintenance expenses would be 10.3 per cent below 2004.

Management Discussion and Analysis

General and administrative expenses

General and administrative expenses incurred in 2005 amounted to HK\$44.2 million, being 9.6 per cent higher than 2004 which was mainly due to exchange loss arisen from translating monetary assets and liabilities.

Impairment losses on available-for-sale financial asset

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to other investments which are classified as available-for-sale financial assets and are carried at fair value. Unrealised gains and losses arising from changes in their fair values are recognized in equity. If there is a significant or prolonged decline in the fair values below the costs, the assets are impaired and the shortfall is then charged to income statement. In 2005, the Group had charged impairment losses on available-for-sale financial assets of HK\$44.3 million to the income statement apart from the decrease in fair value of HK\$36.1 million which was charged to equity.

Finance costs

Finance costs in 2005 amounted to HK\$25.9 million, of which, had included an adjustment on interest free loans from minority shareholders of subsidiaries amounted to HK\$15.6 million as required by HKAS 39 effectively on 1st January 2005 and onwards. Finance costs related to interest on bank borrowings amounted to HK\$8.1 million representing a decline of HK\$5.3 million or 39.4 per cent below 2004 due to repayment of bank borrowings equivalent to approximately HK\$39.8 million in 2005; and finance costs related to interest bearing loans from minority shareholders of subsidiaries for 2005 and 2004 were relatively similar.

Share of after tax profits less losses and interest income of associates

Being benefited from the turnover growth of expressways and downward adjustment of business tax rate since June 2005, share of after tax profits less losses and interest income of associates in 2005 totaled HK\$224.5 million which was 22.7 per cent higher than 2004. Humen Bridge and Northern Ring Road was benefited from the continuous economic growth in Pearl River Delta Region, their after tax profit and interest income attributable to the Group grew by 32.5 per cent and 6.3 per cent respectively as compared to 2004. Despite of Jingzhu Expressway's traffic diversion effect continuously affecting Qinglian Highways, the level of loss attributable to the Group had narrowed down from HK\$17.4 million in 2004 to HK\$7.4 million in 2005 due to its strict maintenance cost control policy. Shantou Bay Bridge was affected by both the "year pass policy" implemented by the Shantou Municipal People's Government and the expiration of tax holiday, its after tax profit and interest income attributable to the Group dropped by 27.0 per cent as compared to 2004.

Share of profit after tax of a jointly controlled entity

GNSR Expressway was benefited from the opening of Jingzhu Expressway, Guanghui Expressway and New Guangzhou Airport, its after tax profit attributable to the Group increased remarkably from HK\$10.1 million in 2004 to HK\$40.0 million in 2005.

Taxation

As the tax rates of subsidiaries in 2005 and 2004 were the same and that overall taxable profit for both years was at similar level, taxation for 2005 and 2004 were almost the same amounted to HK\$34.4 million and HK\$33.6 million respectively.

Interest Coverage

The interest coverage is measured by the ratio of earnings before interests, tax, depreciation and amortisation ("EBITDA") to interest expenses. For the year ended 31st December 2005, interest coverage increased to 53 times (2004: 32 times) due to increase in EBITDA and decline in interest expenses.

Management Discussion and Analysis

Final Dividend

The Directors recommended the payment of final dividend of HK\$0.05 (2004: HK\$0.0525) per share payable to shareholders whose names appeared on the register of members of the Company on 30th May 2006. Subject to the approval of shareholders at the Annual General Meeting to be held on 30th May 2006, the final dividend will be paid on 9th June 2006. Together with the interim dividend of HK\$0.05 (2004: HK\$0.045) per share, total dividends for the year ended 31st December 2005 will amount to HK\$0.10 (2004: HK\$0.0975) per share, representing a dividend pay out ratio of 36.5 per cent (2004: 39.3 per cent).

Liquidity and Financial Resources

Financial Highlights

(HK\$'000)	2005	Restated 2004	% of change
Bank balances and cash	368,883	188,850	95.0
Bank borrowings	144,231	184,038	-21.6
Current ratio	190%	105%	81.0
Shareholders' funds (excluding minority interests)	3,752,559	3,484,308	7.7
Gearing ratio	13.1%	16.2%	-19.1
Net asset per share	HK\$3.36	HK\$3.13	7.3

Cash flows

The Group's bank balances and cash as at 31st December 2005 was approximately HK\$368.9 million and was 95.0 per cent higher than HK\$188.8 million as at 31st December 2004. The net increase in bank balances and cash was derived from surpluses in cash flow from operating and investing activities over cash used in financing activities for the year ended 31st December 2005.

Net cash inflow from operating activities for the year ended 31st December 2005 amounted to HK\$222.1 million (2004: HK\$190.9 million). Cash flow under operating activities mainly were cash from operations of HK\$272.0 million (2004: HK\$237.9 million) less interest paid of HK\$16.7 million (2004: HK\$13.6 million) and China enterprise income taxation paid of HK\$33.5 million (2004: HK\$33.4 million).

Investing activities in 2005 had generated a net surplus of HK\$219.3 million (2004: HK\$97.4 million). Cash flow from investing activities mainly were repayments from associates of HK\$206.9 million (2004: HK\$178.9 million) reduced by cash used in capital expenditures and investments of HK\$54.1 million (2004: HK\$82.8 million). In December 2005, a proceed of approximately HK\$63.6 million from disposal of partial interest in a jointly controlled entity was added to the Group's cash flow.

Net cash used in financing activities in 2005 amounted to HK\$259.8 million (2004: HK\$348.4 million). Cash flow under financing activities were mainly used in repayment of bank loans of HK\$39.8 million (2004: HK\$161.5 million), repayments to minorities of subsidiaries of HK\$106.3 million (2004: HK\$86.9 million) and dividends paid of HK\$114.3 million (2004: HK\$100.3 million).

Bank borrowings

Outstanding bank borrowings of the Group as at 31st December 2004 amounted to approximately HK\$184.0 million. During 2005, the Group had repaid bank borrowings equivalent to approximately HK\$39.8 million. As at 31st December 2005, the outstanding bank borrowings amounted to approximately HK\$144.2 million and are repayable within one year. The management is in the opinion that with adequate cash balance, stable stream of operating cash flow and steady cash return from investments, liquidity risk is not an imminent issue of the Group. In January 2006, the Group had repaid an aggregate of Rmb100.0 million (equivalent to HK\$96.2 million) bank borrowings from its internal funds. The current ratio as at 31st December 2005 was 190.0 per cent (2004: 105.0 per cent).

Management Discussion and Analysis

The maturity profiles of outstanding bank borrowings as at 31st December 2005 and 31st December 2004 are shown below:

Bank Borrowings (wholly unsecured Rmb loans)

	2005		2004	
	HK\$'000	%	HK\$'000	%
Repayable:				
Within one year	144,231	100.0	71,362	38.8
In the second to fifth year	—	—	112,676	61.2
	<u>144,231</u>	<u>100.0</u>	<u>184,038</u>	<u>100.0</u>

Capital expenditures and investments

In 2005, the Group had capital expenditures and investments amounted to approximately HK\$54.1 million (2004: HK\$82.8 million), of which approximately HK\$53.8 million was the equity capital contribution to a jointly controlled entity under construction, the GWSR Expressway, further to the initial contribution in early 2004 of HK\$82.2 million.

Capital Structure

The Group's capital structures as at 31st December 2005 and 31st December 2004 are summarized below:

	2005			Restated 2004		
	HK\$'000	%	Average rate of interest (% per annum)	HK\$'000	%	Average rate of interest (% per annum)
Floating rate loans (Rmb)	144,231	3.3	4.94	184,038	4.4	5.9
Amount due to a minority shareholder	—	—	—	53,719	1.3	4.0
Loans from minority shareholders						
- interest bearing	120,561	2.8	6.12	120,561	2.9	5.9
- interest free	301,303	7.0	—	317,986	7.6	—
Total debts	<u>566,095</u>	<u>13.1</u>		<u>676,304</u>	<u>16.2</u>	
Shareholders' funds (excluding minority interests)	<u>3,752,559</u>	<u>86.9</u>		<u>3,484,308</u>	<u>83.8</u>	
Total capitalisation	<u>4,318,654</u>	<u>100.0</u>		<u>4,160,612</u>	<u>100.0</u>	
Gearing ratio	13.1%			16.2%		

Total capitalisation of the Group as at 31st December 2005 and 31st December 2004 amounted to approximately HK\$4.32 billion and HK\$4.16 billion respectively. The net increase of approximately HK\$158.0 million in total capitalisation was a result of drop in total debts and rise in shareholders' funds.

Management Discussion and Analysis

The ratio of total debts to total capitalisation (“Gearing Ratio”) as at 31st December 2005 and 31st December 2004 was 13.1 per cent and 16.2 per cent respectively. The composition of total debts had been adjusted to include minority shareholders’ loans to conform to the reclassification of long term loans in the consolidated balance sheet, resulting in a higher recalculated gearing ratios. The decline in total debts was mainly due to repayment of bank borrowings during 2005 and full settlement of amount due to a minority shareholder in December 2005.

Rmb floating rate loans are bank borrowings in China which accounted for 25.5 per cent of the total debts as at 31st December 2005 and 27.2 per cent as at 31st December 2004. During 2005, the Group had repaid approximately HK\$39.8 million from internal funds and no new loan had been drawn. All Rmb loans are unsecured.

Amount due to a minority shareholder represented part of the capital injection into a jointly controlled entity in 2001 which is denominated in Rmb and unsecured. This debt was fully settled in December 2005.

Loans from minority shareholders are part of the capital contributions from minority shareholders in respect of their respective equity shareholdings in certain subsidiaries which are unsecured and denominated in Rmb. Except for one subsidiary which minority shareholder’s loan is interest bearing, the rest are non-interest bearing. The interest-free loans are stated at fair values based on cash flows discounted by a borrowing rate of 5.0 per cent. In 2005, the Group had repaid approximately HK\$1.06 million.

As at 31st December 2005, shareholders’ funds amounted to HK\$3.75 billion which accounted for 86.9 per cent of the Group’s total capitalisation. As at 31st December 2004, shareholders’ funds amounted to HK\$3.48 billion being 83.8 per cent of the Group’s total capitalisation. The increase in shareholders’ funds in 2005 was mainly represented by two factors, namely: net profit retained for the year after appropriation of 2004 final dividend and 2005 interim dividend and increase in exchange fluctuation reserve due to appreciation of Rmb currency in the second half of 2005.

Treasury Policies

The Group’s overall treasury and funding policy is that of risk management and liquidity control. The Group will maintain banking relationship with financial institutions both in Hong Kong and China to capitalise on the different levels of liquidity offered by these two markets. Bank balances are generally placed in short term fixed rate deposits in bank accounts in Hong Kong and China. No fund is placed in non-bank institutions or invested in securities.

The Group’s principal operations are in China and most of the income is denominated in Rmb, with the recent appreciation of Rmb currency, management is now monitoring its potential impact to the Group. Since Rmb loan interest rate is at present comparatively higher than foreign currency loan interest rate, management will consider reducing the debt financing in Rmb and increase equity and debt financing denominated in foreign currency unless capital expenditure required Rmb funding. Consequently, management would adopt appropriate currency hedging measures to minimize any possible foreign currency risks.

Capital Commitments and Contingent Liabilities

As at 31st December 2005, the Group had a committed equity capital balance to Guangzhou Western Second Ring Expressway Company Limited (“GWSR Expressway Company”) of Rmb206.5 million (equivalent to approximately HK\$198.6 million). This balance would be paid by stages in such amount and by such date as to be determined by the board of directors of GWSR Expressway Company. Save for this equity capital commitment, the Group had no other capital commitments as at 31st December 2005.

There were no significant contingent liabilities since the year ended 31st December 2004.

Employees

As at 31st December 2005, the Group had approximately 743 employees of which about 613 were directly engaging in the daily operation, management and supervision of toll projects. The Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. The Group has also adopted a share option scheme which awards its employees according to the performance of the Group and individual employees.

Executive Directors

Mr Ou Bingchang, aged 59, was appointed executive director and Chairman of the Company on 8th January 2003. He is also the Chairman and the general manager of Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), the ultimate holding company of the Company, and the Chairman and the general manager of Guangzhou Investment Company Limited ("GZI"). Mr Ou graduated from China Pharmaceutical University in China. Prior to joining Yue Xiu in November 2002, he assumed leading roles in Guangzhou Pharmaceutical Factory, Economic Coordinating Office of Guangzhou Municipality and General Office of Guangzhou Municipal People's Government. During the period of serving as the director of the Guangzhou Municipal Transport Commission, Mr Ou had made distinguished contributions to Guangzhou Municipality in relation to transport planning, construction, development and management. He has over 30 years of experience in industrial technology, transportation network, enterprise and economic management.

Mr Li Xinmin, aged 54, was appointed executive director of the Company on 19th June 2001. He is also the Deputy Chairman of the Company. Mr Li has over 30 years of experience in highways construction and management. He had held positions including department head of the maintenance engineering division of transport authority in China and was the general manager of the Guangzhou Northern Second Ring Expressway Co. Ltd.

Mr Li Zhuo, aged 40, was appointed executive director and the General Manager of the Company on 19th April 2005. Mr Li graduated from Changsha Transport Institute in China with a major in accounting. He was then trained at the Postgraduate Division of the Party School in Guangdong Province with a major in economics. With more than 18 years of experience in financial management, Mr Li has held a number of senior management positions in the Guangzhou Highway System, including head of finance department, deputy division head, accountant and senior accountant.

Mr Chen Guangsong, aged 63, was appointed executive director of the Company on 26th October 2001. He is also a vice chairman of Yue Xiu and a director of GZI. Mr Chen obtained his bachelor degree from the South China University of Technology in China. He had been the general manager of Guangzhou Gourmet & Food Factory, chairman and general manager of Guangzhou Light Industrial Group. Prior to joining the Group, Mr Chen was the director of Guangzhou Municipal Economic Commission from 1998 to April 2001 and had over 33 years of experience in corporate management.

Mr Liang Ningguang, aged 52, was appointed executive director of the Company on 25th September 1996. He is also a vice chairman of Yue Xiu. Mr Liang graduated from the Central Television University in China majoring in finance and obtained a master's degree in business administration from the Murdoch University in Australia. He is also a member of the Chinese Institute of Certified Public Accountants and a senior accountant. Mr Liang is a responsible officer licensed under the Securities and Futures Ordinance of Hong Kong to carry on regulated activities types 1, 4, 6 and 9. He is also the Chairman, an Executive Director and also a responsible officer of GZI REIT Asset Management Limited, a company licensed by The Securities and Futures Commission to conduct the regulated activity of asset management. He was previously a deputy director of the Guangzhou Municipal Taxation Bureau and had over 20 years of experience in finance and management prior to joining Yue Xiu in 1989.

Mr Liang Yi, aged 53, was appointed executive director of the Company on 28th February 2003. He is also a director of Yue Xiu and a vice chairman of GZI. Mr Liang graduated from the Chinese People's Liberation Army Engineering Soldier's University majoring in public administration. Prior to joining Yue Xiu in June 2001, he assumed leading roles in Guangzhou Chemical Industry Bureau and organizations under Committee of Guangzhou. Mr Liang had made outstanding contribution in establishing the administrative supervisory system of Guangzhou Municipality. He has over 20 years of experience in public administration.

Mr Du Xinrang, aged 52, was appointed executive director of the Company on 12th September 2001. Mr Du graduated from the Xian Institute of Highways in China. He has 31 years of experience in highways construction and management. He had held positions such as department head and managers in transport authority in China.

Directors' Profiles

Mr He Zili, aged 56, was appointed executive director of the Company on 1st April 2000. Mr He graduated from the Central Television University in China with an economics degree. Prior to joining Yue Xiu in 1991, he worked as a deputy manager of Guangzhou Taxi Company Limited in charge of finance and accounting. Mr He is the general manager of the capital management department and a deputy financial controller of Yue Xiu. He has over 39 years of experience in finance and accounting.

Mr Zhang Siyuan, aged 39, was appointed executive director of the Company on 1st August 1999. He graduated from Chongqing Transport Institute in China. Prior to joining the Group in 1997, Mr Zhang had over 10 years of experience in highway construction and management and is an engineer.

Mr Tan Yuande, aged 40, was appointed executive director of the Company on 19th April 2005. Mr Tan graduated from Changsha Transport Institute in China with a major in Highway and City Roads. He was awarded a bachelor's degree. Mr Tan has 17 years of experience in management of highway construction projects. He had been long-held responsible for the management of construction projects in grade one construction management enterprise in China. He held positions of team leader, engineer, manager of Guangzhou Highway Construction Corporation.

Mr He Baiqing, aged 41, was appointed executive director of the Company on 19th April 2005. Mr He graduated from Changsha Transport Institute in China with a major in Highway and City Roads. He was awarded a bachelor's degree. Mr He has 17 years of experience in highway design and management, and was experienced in the planning and design of highways. He held positions of deputy head, head and senior engineer of Guangzhou Highway Inspection and Design Institute.

Mr Zhang Huping, aged 42, was appointed executive director of the Company on 2nd November 2005. Mr Zhang graduated from Guangzhou Finance and Trade Management Institute, majoring in accounting. He has been engaged in cost accounting in large state-owned enterprises, and has 20 years of experience in corporate accounting management and highway financial management. Mr Zhang has accumulated experience in computer financial and accounting management, accounting and automobile transportation management. He is a director of the first board of Guangzhou Institute of Accounting Computerization. He was also an accountant at the Planning and Finance Office of Guangzhou Highways Management Bureau.

Non-executive Director

Mr Poon Jing, aged 51, has been a non-executive director of the Company since 20th November 1996. He is the managing director of Asia Standard International Group Limited, Asia Orient Holdings Limited and chairman of Asia Standard Hotel Group Limited, all listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

Independent Non-executive Directors

Mr Fung Ka Pun, aged 60, has been an independent non-executive director of the Company since 20th November 1996. He is the founder and chairman of the e2-Capital Group and the managing director of e2-Capital (Holdings) Limited listed on the Stock Exchange. He is responsible for the e2-Capital Group's overall policy making and is a dealing director and an investment adviser registered under the Securities and Futures Ordinance of Hong Kong with over 27 years of experience in finance, stockbroking, securities trading and corporate finance. He is a member of the Institute of Chartered Secretaries and Administrators and a member of the Association of International Accountants. Prior to the establishment of the Goodwill Group in 1992, Mr Fung was the managing director of a local securities firm. He is an executive director and co-chairman of Capital Publications Limited, an independent non-executive director of Lei Shing Hong Limited, Lee Hing Development Limited and Denway Motors Limited.

Mr Lau Hon Chuen Ambrose, aged 58, has been an independent non-executive director of the Company since 20th November 1996. He is also an independent non-executive director of GZI. He holds a Bachelor of Laws degree from the University of London and is a Solicitor of the High Court of the Hong Kong Special Administrative Region, a China-Appointed Attesting Officer and a Notary Public. He is the senior partner of Messrs Chu & Lau, Solicitors & Notaries. Mr Lau is a Standing Committee Member of the National Committee of the Chinese People's Political Consultative Conference, a member of the Selection Committee for The First Government of The Hong Kong Special Administrative Region and a Non-official Justice of Peace among his many public service appointments. He was awarded the Gold Bauhinia Star by The Government of The Hong Kong Special Administrative Region. He is also a director of The Hong Kong Mortgage Corporation Ltd., a non-executive director of Hong Kong Parkview Group Ltd., Beijing Enterprises Holdings Ltd., Glorious Sun Enterprises Ltd., Qin Jia Yuan Media Services Company Limited, as well as Wing Hang Bank Ltd. The latter five companies are all listed on the Stock Exchange.

Mr Cheung Doi Shu, aged 44, has been an independent non-executive director of the Company since 24th July 1997. He is a qualified solicitor in the Australian Capital Territory, Hong Kong, Singapore, England and Wales and received his bachelor's and master's degrees in law from the University of London. He is the senior partner of D.S. Cheung & Co., Solicitors. He is also an independent non-executive director of Denway Motors Limited listed on the Stock Exchange.

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the conduct and growth of its business.

The Company's corporate governance practices are based on the principles and the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Company has complied with the Code Provisions save for certain deviations from the Code Provisions in respect of Code Provisions A.4.1 and A.4.2, details of which will be explained below.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

The Board of Directors ("Board") of the Company plays a crucial role in sustaining high standards of corporate governance and transparency and accountability of Company operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs in the interests of the Company. The Board focuses its attention on matters affecting the Company's overall strategic policies and finances, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial statements, dividend policy, major financial arrangements and major investments, treasury policies, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

Composition

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgment.

The Board comprises the following 16 members :

Executive directors

Mr Ou Bingchang (*Chairman*)
Mr Li Xinmin (*Deputy Chairman*)
Mr Li Zhuo (*General Manager*)
Mr Chen Guangsong
Mr Liang Ningguang
Mr Liang Yi
Mr Du Xinrang
Mr He Zili
Mr Zhang Siyuan
Mr Tan Yuande
Mr He Baiqing
Mr Zhang Huping

Non-executive directors

Mr Fung Ka Pun *
Mr Lau Hon Chuen Ambrose *
Mr Poon Jing
Mr Cheung Doi Shu *

* *Independent non-executive directors*

None of the members of the Board is related to one another.

During the year ended 31st December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considered all independent non-executive directors to be independent.

Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. None of the non-executive directors of the Company is appointed for a specific term. However, all the non-executive directors of the Company are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Bye-Laws. All the non-executive directors of the Company had retired by rotation during the past 3 years. They have been re-elected.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Company's Bye-Laws, at each annual general meeting one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, or such other manner of rotation as may be required by the Listing Rules or other codes, rules and regulations as may be prescribed by the applicable regulatory authority from time to time shall retire from office by rotation save any director holding office as Chairman or Managing Director. Further, any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

The Board recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

In order to ensure compliance with code provisions A.4.1 and A.4.2, a special resolution will be proposed to amend the Bye-Laws of the Company at the forthcoming annual general meeting of the Company.

Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction and a directors' guidelines on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

In year 2005, the Board held 4 meetings. The attendance record of each member of the Board is set out below :

Directors	Attendance of Board meetings in 2005
<i>Executive Directors</i>	
Ou Bingchang	4/4
Li Xinmin	4/4
Li Zhuo ¹	2/2
Chen Guangsong	4/4
Chen Jiahong ³	2/3
Liang Ningguang	4/4
Xiao Boyan ²	2/2
Liang Yi	4/4
Du Xinrang	3/4
Du Liangying ²	1/2
Zhong Ming ²	1/2
He Zili	3/4
Zhang Siyuan	4/4
Tan Yuande ¹	2/2
He Baiqing ¹	2/2
Zhang Huping ⁴	1/1
<i>Non-executive Director</i>	
Poon Jing	0/4
<i>Independent Non-executive Directors</i>	
Fung Ka Pun	3/4
Lau Hon Chuen Ambrose	3/4
Cheung Doi Shu	2/4

Notes:

1. Appointed on 19th April 2005
2. Resigned on 19th April 2005
3. Resigned on 2nd November 2005
4. Appointed on 2nd November 2005

Practices and Conduct of Meetings

Notices of the two regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

Minutes of all Board meetings and committee meetings are kept by the Company Secretary. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-Laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and General Manager are held by Mr Ou Bingchang and Mr Li Zhuo respectively.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The General Manager focuses on implementing objectives, policies and strategies approved and delegated by the Board.

BOARD COMMITTEES

The Board has established two committees, namely, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

Remuneration Committee

The Remuneration Committee comprises three independent non-executive directors and Mr Lau Hon Chuen Ambrose is the chairman of the committee. The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee met once on 7th April 2006 (with all three members present) and reviewed and approved the remuneration policy and structure of the Company and remuneration packages of the executive directors for the year under review.

Audit Committee

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise) and Mr Lau Hon Chuen Ambrose is the chairman of the committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- (a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.
- (b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- (c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31st December 2005 to review the financial results and reports, financial reporting and compliance procedures, internal control and risk management systems and the re-appointment of the external auditors. The attendance record of each Audit Committee member is set out below:

Directors	Attendance of Audit Committee meetings in 2005
Fung Ka Pun	2/2
Lau Hon Chuen Ambrose	2/2
Cheung Doi Shu	2/2

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Company's annual results for the year ended 31st December 2005 has been reviewed by the Audit Committee.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31st December 2005.

Specific employees who are likely to be in possession of unpublished price sensitive information of the Group have been requested to comply with the provisions of the Model Code. No incident of non-compliance was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31st December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 36.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31st December 2005 amounted to HK\$775,000 and HK\$146,000 respectively.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets. In meeting its responsibility, the Board seeks to increase risk awareness of its business operations and puts in place policies and procedures, including the parameters of delegated authority, which provide for the identification and arrangement of business risk.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-Laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairman of the Audit Committee are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.gzitransport.com.hk, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31st December 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Group consist of investment in and development, operation and management of toll highways, expressways and bridges mainly in Guangdong Province, the Mainland of China (“China”).

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 37.

The Directors have declared and now recommend the following dividends in respect of the year ended 31st December 2005:

	HK\$'000
Interim dividend of HK\$0.05 per share paid on 28th October 2005	55,772
Proposed final dividend of HK\$0.05 per share	55,772
	<hr/>
	111,544
	<hr/> <hr/>

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the accounts.

DONATIONS

No charitable and other donations were made by the Group during the year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 16 to the accounts.

SHARE CAPITAL AND OPTIONS

Details of the movements in the issued share capital of the Company during the year are set out in note 25 to the accounts.

Details of the movements in the share options granted by the Company during the year and options outstanding as at 31st December 2005 are set out in note 25 to the accounts.

Report of the Directors

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out below.

	Year ended 31st December				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Results					
Profit attributable to shareholders	<u>305,898</u>	<u>277,029</u>	<u>223,822</u>	<u>142,498</u>	<u>203,939</u>
Assets and liabilities					
Total assets	<u>4,631,092</u>	<u>4,486,660</u>	<u>4,560,962</u>	<u>4,602,426</u>	<u>5,031,143</u>
Total liabilities	<u>(633,422)</u>	<u>(753,797)</u>	<u>(942,136)</u>	<u>(1,148,107)</u>	<u>(1,661,921)</u>
	<u>3,997,670</u>	<u>3,732,863</u>	<u>3,618,826</u>	<u>3,454,319</u>	<u>3,369,222</u>

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year, the Company has not redeemed any of its shares. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31st December 2005 are set out in note 35 to the accounts.

DISTRIBUTABLE RESERVES

As at 31st December 2005, the distributable reserves of the Company available for distribution amounted to HK\$2,128,558,000 (2004: HK\$2,144,412,000).

DIRECTORS

The Directors who held office during the year and up to the date of this report were:—

Executive directors

Mr Ou Bingchang	
Mr Li Xinmin	
Mr Li Zhuo	(appointed on 19th April 2005)
Mr Chen Guangsong	
Mr Chen Jiahong	(resigned on 2nd November 2005)
Mr Liang Ningguang	
Mr Xiao Boyan	(resigned on 19th April 2005)
Mr Liang Yi	
Mr Du Liangying	(resigned on 19th April 2005)
Mr Du Xinrang	
Mr Zhong Ming	(resigned on 19th April 2005)
Mr He Zili	
Mr Zhang Siyuan	
Mr Tan Yuande	(appointed on 19th April 2005)
Mr He Baiqing	(appointed on 19th April 2005)
Mr Zhang Huping	(appointed on 2nd November 2005)

Non-executive directors

Mr Fung Ka Pun *
Mr Lau Hon Chuen Ambrose *
Mr Poon Jing
Mr Cheung Doi Shu *

* Independent non-executive directors

Messrs Ou Bingchang, Chen Guangsong, Liang Yi, Lau Hon Chuen Ambrose and Poon Jing retire by rotation in accordance with Bye-Law 99 of the Company's Bye-Laws and, being eligible, offer themselves for re-election. Mr Zhang Huping retires in accordance with Bye-Law 102 of the Company's Bye-Laws and, being eligible, offers himself for re-election.

The Directors' Profiles are set out on pages 18 to 20.

MANAGEMENT CONTRACTS

Details of contracts of significance for the provision of services by the Company's holding company and a related party to the Group are set out in note 33 to the accounts.

Save as disclosed herein, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company has a service contract with the Company which is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

INDEPENDENT NON-EXECUTIVE DIRECTORS' FEES

The independent non-executive directors of the Company received HK\$204,000 as directors' fee for the year ended 31st December 2005.

PENSION SCHEME ARRANGEMENTS

The Group operates a pension scheme for Hong Kong employees. The scheme is a defined contribution scheme and is administered by independent trustees. In relation to each employee, the employee contributes 5 per cent and the Group contributes 5 per cent to 8 per cent respectively of employee's basic salary to the scheme. There were no forfeited contributions in respect of employees who left the scheme prior to vesting fully in the contributions during the year.

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

Subsidiaries of the Company in China are required to participate in a defined contribution retirement plan organized by the respective provincial / municipal people's government and to make monthly contributions to the retirement plan equivalent to 16.0 per cent to 24.0 per cent of the monthly salary of the employees.

The Group's contribution is charged to its profit and loss account and expenses incurred by the Group for the year amounted to HK\$2,167,000.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its holding companies or its fellow subsidiaries was a party and in which any director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Significant related party transactions, which also constitute as connected transactions under the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), required to be disclosed in accordance with the Listing Rules, are disclosed in notes 31, 33(b) and 33(d)(i) to the accounts.

BANK LOANS AND OTHER BORROWINGS

Analysis of bank loans and other borrowings of the Group as at 31st December 2005 is set out in note 27 to the accounts.

INTERESTS OF DIRECTORS

As at 31st December 2005, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which are required to be recorded in the register maintained by the Company under Section 352 of the SFO or notified to the Company and the Stock Exchange were as follows :

I Long positions in shares of Guangzhou Investment Company Limited (“GZI”), the holding company of the Company:

Name of Director	Nature of interest	Beneficial interest in shares	Approximate % of interest
Mr Liang Ningguang	Personal	400,000	0.01

II. Long positions in underlying shares of equity derivatives of GZI:

Name of Director	Date of grant	Exercise price per share HK\$	Number of share options outstanding as at 1st January and 31st December 2005
Mr Ou Bingchang	02/06/2003	0.5400	9,000,000
Mr Chen Guangsong	02/06/2003	0.5400	8,000,000
Mr Liang Ningguang	02/06/2003	0.5400	7,000,000
Mr Liang Yi	02/06/2003	0.5400	7,000,000

Note:

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

Save as disclosed herein, as at 31st December 2005, none of the directors of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed herein, at no time during the year was the Company, its holding company, its subsidiaries, or its fellow subsidiaries a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31st December 2005, the following persons have an interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Note	Long position in shares	Approximate % of interest
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu")	(a)	802,976,076	71.99
GZI	(a)	750,134,000	67.25
First Dynamic Limited	(a)	750,000,000	67.24
Round Table Holdings Limited	(a)	750,000,000	67.24
GZI Transport (Holdings) Limited	(a)	750,000,000	67.24
Housemaster Holdings Limited	(a)	367,500,000	32.95
Power Head Limited	(a)	157,500,000	14.12
Delta Force Holdings Limited	(a)	112,500,000	10.09
Lawson Enterprises Limited	(a)	112,500,000	10.09
Shanghai Industrial Investment (Holdings) Company Ltd.	(b)	111,366,000	9.99

Notes:

- (a) The capacity of Yue Xiu in holding the 802,976,076 shares was, as to 5,769 shares, as beneficial owner and, as to 802,970,307 shares, attributable to interests of controlled corporations.

Housemaster Holdings Limited, Power Head Limited, Delta Force Holdings Limited and Lawson Enterprises Limited were the beneficial owners of 367,500,000, 157,500,000, 112,500,000 and 112,500,000 shares of the Company respectively. These companies were wholly-owned by GZI Transport (Holdings) Limited which, by virtue of the SFO, was deemed to be interested in the 750,000,000 shares held by these subsidiaries.

GZI Transport (Holdings) Limited was owned as to 51 per cent by Round Table Holdings Limited and 49 per cent by First Dynamic Limited. First Dynamic Limited was wholly-owned by Yue Xiu which also through certain subsidiaries owned about 51 per cent of the issued share capital of GZI as at 31st December 2005. Round Table Holdings Limited was wholly-owned by GZI which also directly held 134,000 shares of the Company. By virtue of the SFO, GZI, Round Table Holdings Limited and First Dynamic Limited were deemed to be interested in the 750,000,000 shares.

- (b) The capacity of Shanghai Industrial Investment (Holdings) Company Ltd. in holding the 111,366,000 shares was attributable to interests of controlled corporations.

SHARE OPTIONS

Pursuant to a share option scheme (“Share Option Scheme”) approved by shareholders of the Company on 3rd January 1997, the board of directors of the Company (“Board”) may, at their discretion, grant to directors and employees of the Company or any of its subsidiaries options to subscribe for ordinary shares in the Company. The Share Option Scheme is designed to act as an incentive to employees and executives of the Group. The exercise price is determined by the Board and being equal to the higher of (a) the nominal value of the share; and (b) not less than 80 per cent of the average closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of offer of an option. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option.

On 25th June 2002, the shareholders of the Company approved the resolutions relating to the termination of the Share Option Scheme and the adoption of a new share option scheme (“2002 Share Option Scheme”). Upon termination of the Share Option Scheme, no further share options will be granted thereunder but all the outstanding share options granted prior to such termination continue to be valid and exercisable in accordance therewith, and only those provisions of the Share Option Scheme which are required to give effect to the outstanding share options continue to remain in force for such purpose. The 2002 Share Option Scheme complies with the amendments to Chapter 17 of the Listing Rules.

Pursuant to the 2002 Share Option Scheme, the Board may grant to any person being an employee, officer, director, agent, consultant or representative of GZI, Yue Xiu, the Company or any of their respective subsidiaries (“Participants”) options to subscribe for shares in the Company. The purpose of the 2002 Share Option Scheme is to provide incentives to Participants to contribute to the Group and to enable the Group to recruit, retain and motivate high-calibre employees and attract human resources that are valuable to the Group. The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme is 10 per cent of the number of shares in issue as at the date of approval of the 2002 Share Option Scheme. The maximum entitlement of each Participant upon exercise of the options granted or to be granted within any 12-month period immediately preceding the proposed date of grant is limited to 1 per cent of the number of shares in issue as at the proposed date of grant. Any further grant of options in excess of this limit is subject to shareholders’ approval in general meeting. The share options are exercisable from the commencement date of the option period (which shall be a period to be notified by the Board at the time of the grant of an option, such period to commence on the date of grant or such later date as the Board may decide and expire on the last day of the period, which in any event shall not exceed 10 years from the date of grant), of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent (inclusive of any options exercised under (i)), of the options granted under the relevant grant are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the commencement date of the option period respectively. After the second anniversary of the commencement date of the option period the restrictions will cease. In respect of a Participant who is an employee of GZI, Yue Xiu, the Company or any of their respective subsidiaries, the same limits on the exercise of the share options as described above shall also apply, except that the periods referred to in (i) and (ii) above shall commence from the later of: (a) the date of completion by such Participant of one year of continuous employment as permanent member of the staff of GZI, Yue Xiu, the Company or any of their respective subsidiaries, as the case may be; and (b) the commencement date of the option period, and the date when the restrictions cease shall be modified accordingly. The exercise price is determined by the Board and must be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheets on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. The cash consideration to be paid for each grant of option is HK\$10, with full payment of the exercise price to be made upon exercise of an option. No such options have been granted to any person since its adoption as required to be disclosed under the Listing Rules.

The Directors consider that it is inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to shareholders.

Report of the Directors

Movements during the year of the options granted under the Share Option Scheme were as follows:

Number of share options				Exercise price per share HK\$	Date of grant	Exercisable period	Weighted average closing price (c) HK\$
outstanding as at 1st January 2005	exercised during the year	lapsed during the year	outstanding as at 31st December 2005				
1,114,000	792,000	92,000	230,000	0.7520	07/04/2000	07/04/2001-06/04/2006 (b)	2.589

Notes:

- (a) No options have been granted or cancelled during the year.
- (b) All options are exercisable in 3 tranches.
- (c) The weighted average closing price per share immediately before the dates on which the options were exercised.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws and there are no restrictions against such rights under the laws of Bermuda.

PUBLIC FLOAT

Based on the information that is publicly available to the Company as at the date of this report and within the knowledge of the Directors, there was a sufficiency of public float of the Company's securities as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

No disclosure with regard to the Group's major customers and suppliers are made since the aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers are less than 30 per cent of the Group's total sales and purchases during the current and previous years.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Ou Bingchang

Chairman

Hong Kong, 19th April 2006



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF GZI TRANSPORT LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 37 to 90 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibilities towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19th April 2006

Consolidated Income Statement

For the year ended 31st December 2005

	Note	2005 HK\$'000	Restated 2004 HK\$'000
Turnover	4	424,845	400,212
Business tax		(20,772)	(21,687)
		404,073	378,525
Other gains, net	5	17,035	462
Amortisation/depreciation of interests in toll highways and bridges		(106,051)	(104,681)
Toll highways and bridges maintenance expenses		(92,967)	(75,072)
General and administrative expenses		(44,151)	(40,296)
Impairment losses on available-for-sale financial assets	21	(44,251)	—
Operating profit		133,688	158,938
Finance costs	7	(25,889)	(15,547)
Share of profits less losses of associates	20	184,414	152,543
Interest income on loans to associates	20	40,099	30,383
		224,513	182,926
Share of profits of jointly controlled entities	19	40,014	10,112
Profit before taxation		372,326	336,429
Taxation	8	(34,433)	(33,635)
Profit for the year		337,893	302,794
Attributable to:			
Equity holders of the Company	9	305,898	277,029
Minority interests		31,995	25,765
		337,893	302,794
Earnings per share for profit attributable to the equity holders of the Company during the year			
- Basic	10	HK 27.4 cents	HK 24.9 cents
- Diluted	10	HK 27.4 cents	HK 24.8 cents
Dividends	11	111,544	108,675

Consolidated Balance Sheet

As at 31st December 2005

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

Consolidated Balance Sheet

As at 31st December 2005

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

Director
Li Xinmin

Director
Li Zhuo

Balance Sheet

As at 31st December 2005

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

Director
Li Xinmin

Director
Li Zhuo

Consolidated Cash Flow Statement

For the year ended 31st December 2005

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

Consolidated Statement of Changes in Equity

For the year ended 31st December 2005

	Note	Attributable to equity holders of the Company			Total HK\$'000
		Share capital HK\$'000	Reserves HK\$'000	Minority interests HK\$'000	
Balance at 1st January 2004, as previously reported as equity		111,423	3,198,983	—	3,310,406
Balance at 1st January 2004, as previously separately reported as minority interests		—	—	308,420	308,420
Balance at 1st January 2004, as restated		<u>111,423</u>	<u>3,198,983</u>	<u>308,420</u>	<u>3,618,826</u>
Currency translation differences and net loss recognised directly in equity	26	—	(3,144)	—	(3,144)
Profit for the year		—	277,029	25,765	302,794
Total recognised income for 2004		<u>—</u>	<u>273,885</u>	<u>25,765</u>	<u>299,650</u>
Issue of share capital	25 & 26	42	271	—	313
Dividends	26	—	(100,296)	(85,630)	(185,926)
		<u>42</u>	<u>(100,025)</u>	<u>(85,630)</u>	<u>(185,613)</u>
Balance at 31st December 2004		<u>111,465</u>	<u>3,372,843</u>	<u>248,555</u>	<u>3,732,863</u>
Balance at 1st January 2005, as previously reported as equity		111,465	3,372,257	—	3,483,722
Balance at 1st January 2005, as previously separately reported as minority interests		—	—	248,555	248,555
Adjustment for deferred tax arising from revaluation of investment properties	26	—	586	—	586
Balance at 1st January 2005, as restated		<u>111,465</u>	<u>3,372,843</u>	<u>248,555</u>	<u>3,732,863</u>
Opening adjustment on adoption of HKAS 39	26	—	15,620	—	15,620
Balance at 1st January 2005 after opening adjustment, as restated		<u>111,465</u>	<u>3,388,463</u>	<u>248,555</u>	<u>3,748,483</u>
Currency translation differences	26	—	80,902	14,775	95,677
Decrease in fair value of available-for-sale financial assets	26	—	(36,088)	—	(36,088)
Fair value adjustment on loans from minority shareholders of subsidiaries	26	—	15,620	—	15,620
Net income recognised directly in equity		—	60,434	14,775	75,209
Profit for the year		—	305,898	31,995	337,893
Total recognised income for 2005		<u>—</u>	<u>366,332</u>	<u>46,770</u>	<u>413,102</u>
Issue of share capital	25 & 26	79	516	—	595
Dividends	26	—	(114,296)	(50,214)	(164,510)
		<u>79</u>	<u>(113,780)</u>	<u>(50,214)</u>	<u>(163,915)</u>
Balance at 31st December 2005		<u>111,544</u>	<u>3,641,015</u>	<u>245,111</u>	<u>3,997,670</u>

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

The adoption of new/revised HKFRS

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

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

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and jointly controlled entities and other disclosures.
- HKASs 7, 8, 16, 23, 27, 28, 31, 33, 36, 38, HKAS-Int 15, HKFRS 3 and HK-Int 4 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

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

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

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

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

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

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

	As at 1st January 2005 HK\$'000
Equity	
Decrease in loans from minority shareholders of subsidiaries on fair value adjustment (note i)	15,620
Decrease in deferred taxation on change of basis of recovery of revalued assets (note ii)	<u>586</u>
	<u><u>16,206</u></u>
	For the year ended 31st December 2004 HK\$'000
Results	
Deferred taxation credit on revalued assets (note ii)	<u>586</u>
Attributable to:	
Equity holders of the Company	<u><u>586</u></u>
	For the year ended 31st December 2004 HK cents
Earnings per share	
Basic and diluted	
Deferred taxation credit on revalued assets (note ii)	<u><u>0.1</u></u>

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

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

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

- **HKAS 19 (Amendment), Employee Benefits** (effective from 1st January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the financial statements. The Group will apply this amendment from annual periods beginning 1st January 2006.
- **HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions** (effective from 1st January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31st December 2005 and 2004.
- **HKAS 39 (Amendment), The Fair Value Option** (effective from 1st January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1st January 2006.
- **HKAS 39 and HKFRS 4 (Amendments), Financial Instruments: Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts** (effective from 1st January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is not relevant to the Group.
- **HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources** (effective from 1st January 2006). These amendments are not relevant to the Group's operations, as the Group is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.
- **HKFRS 6, Exploration for and Evaluation of Mineral Resources** (effective from 1st January 2006). HKFRS 6 is not relevant to the Group's operations.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

- **HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1st January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1st January 2007.
- **HKFRS-Int 4, Determining whether an Arrangement contains a Lease** (effective from 1st January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.
- **HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds** (effective from 1st January 2006). HKFRS-Int 5 is not relevant to the Group's operations.
- **HK (IFRIC) - Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment** (effective from 1st December 2005). HK (IFRIC) - Int 6 is not relevant to the Group's operations.

(b) Consolidation

(i) Subsidiaries

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

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Consolidation (cont'd)

(i) Subsidiaries (cont'd)

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

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

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

(ii) Associates

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

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

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

(iii) Joint ventures

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

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

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

(c) Interests in toll highways and bridges

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Property, plant and equipment

(i) Depreciation

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

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

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

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

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

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

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

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

(e) Investment properties

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

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

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Investment properties (cont'd)

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

Changes in fair values are recognised in the income statement.

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

(f) Impairment of non-financial assets

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

(g) Financial assets

From 1st January 2004 to 31st December 2004:

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Financial assets (cont'd)

From 1st January 2005 onwards:

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

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

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

(h) Accounts and other receivable

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

(i) Cash and cash equivalents

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

(j) Borrowings

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Deferred taxation

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

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

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

(l) Share-based compensation

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

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

(m) Revenue recognition

- (i) Toll revenue is recognised on a receipt basis.
- (ii) Dividend income is recognised when the right to receive payment is established.
- (iii) Interest income is recognised on a time-proportion basis using the effective interest method.
- (iv) Operating lease rental income is recognised on a straight-line basis.

(n) Borrowing costs

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(o) Retirement benefit costs

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

(p) Translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) Contingent liabilities and contingent assets

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

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

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

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

2 FINANCIAL RISK MANAGEMENT

2.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

(ii) Economic risk

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

(b) Credit risk

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

2 FINANCIAL RISK MANAGEMENT (cont'd)

2.1 Financial risk factors (cont'd)

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

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

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

2.2 Fair value estimation

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

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

(a) Depreciation on interests in toll highways and bridges

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (cont'd)

(b) Current taxation and deferred taxation

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

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

4 TURNOVER

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Toll revenue	<u>424,845</u>	<u>400,212</u>

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

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

5 OTHER GAINS, NET

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

6 EXPENSES BY NATURE

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

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

7 FINANCE COSTS

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

8 TAXATION

- (a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable to Hong Kong profits tax during the year (2004: nil).
- (b) China enterprise income taxation is provided on the profits of the Group's investments in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law"). Under the China Tax Law, the Group's investments in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50 per cent reduction in income tax for the next three to five years. The principal income tax rate is 18 per cent. Certain of the Group's investments in China are qualified for the aforesaid tax holiday.

8 TAXATION (cont'd)

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

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

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

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

9 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

10 EARNINGS PER SHARE

Basic

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

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

Diluted

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

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

11 DIVIDENDS

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

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

12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

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

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

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

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

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

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

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

* independent non-executive director

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

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

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

* *independent non-executive director*

Notes:

- (a) Resigned on 2nd November 2005
- (b) Resigned on 19th April 2005
- (c) Resigned on 18th March 2004
- (d) Appointed on 2nd November 2005
- (e) Appointed on 19th April 2005

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

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

14 INTERESTS IN TOLL HIGHWAYS AND BRIDGES

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

15 LEASEHOLD LAND

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	<u>718</u>	<u>2,124</u>
	2005	2004
	HK\$'000	HK\$'000
At 1st January	2,124	3,961
Transfer to investment properties (note 17)	(1,376)	(1,715)
Amortisation of prepaid operating lease payment	(30)	(122)
	<u>718</u>	<u>2,124</u>
At 31st December		

16 PROPERTY, PLANT AND EQUIPMENT

(a) Group

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

16 PROPERTY, PLANT AND EQUIPMENT (cont'd)

(b) Company

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

17 INVESTMENT PROPERTIES

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

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

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

	Group	
	2005 HK\$'000	2004 HK\$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	<u>8,210</u>	<u>4,500</u>

18 INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES

(a) Investments in subsidiaries

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

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

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

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

19 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

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

19 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (cont'd)

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

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

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

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

20 INVESTMENTS IN ASSOCIATES

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

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

Notes to the Accounts

20 INVESTMENTS IN ASSOCIATES (cont'd)

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

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

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

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

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

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

22 OTHER INVESTMENTS

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

23 ACCOUNTS AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

24 BANK BALANCES AND CASH

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

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

Bank balances and cash are denominated in the following currencies:

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

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

25 SHARE CAPITAL

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

Share options

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

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

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

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

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

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

26 RESERVES

Group

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

26 RESERVES (cont'd)

Group (cont'd)

- (a) Reserve arising from consolidation represents the difference between the nominal value of the shares/registered capital of the subsidiaries acquired and the nominal value of the shares issued by Kiu Fung Limited, a subsidiary of the Company, as consideration therefor on 30th November 1996.
- (b) Statutory reserves represent enterprise expansion and general reserve funds set up by the operating subsidiaries, associates and jointly controlled entities in China. As stipulated by regulations in China, the Company's subsidiaries, associates and jointly controlled entities established and operated in China are required to appropriate a portion of their after-tax profits (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective boards of directors. According to the Foreign Investment Enterprises Accounting Standards in China, upon approval by the board, the general reserve funds may be used for making up losses and increasing capital while the enterprise expansion fund may be used for increasing capital. Included in the Group's statutory reserves is HK\$1,536,000 (2004: HK\$1,536,000) attributable to an associate.
- (c) Included in the Group's retained earnings are retained earnings of HK\$486,007,000 (2004: HK\$344,891,000) and accumulated losses of HK\$10,700,000 (2004: HK\$54,116,000) attributable to associates and jointly controlled entities respectively.

26 RESERVES (cont'd)

Company

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

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

27 BORROWINGS

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

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

	2005 HK\$'000	2004 HK\$'000
Within one year	144,231	71,362
In the second year	—	112,676
	<u>144,231</u>	<u>184,038</u>

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

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

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

27 BORROWINGS (cont'd)

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

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

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

The carrying amounts of current borrowings approximate their fair value.

28 DEFERRED TAXATION

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

Deferred taxation as at 31st December represents:

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

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

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

28 DEFERRED TAXATION (CONT'D)

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

Deferred tax assets:

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

Deferred tax liabilities:

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

29 AMOUNTS DUE TO A MINORITY SHAREHOLDER OF SUBSIDIARIES AND HOLDING COMPANIES

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

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

30 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to net cash generated from operations

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

31 CONTINGENT LIABILITIES

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

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

32 COMMITMENTS

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

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

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

33 RELATED PARTY TRANSACTIONS

(a) Related parties

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

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

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

33 RELATED PARTY TRANSACTIONS (cont'd)

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

	2005 HK\$'000	2004 HK\$'000
Administrative service fees shared with GZI	1,300	1,300
Rental expenses paid to Yue Xiu	202	—
	<u>1,502</u>	<u>1,300</u>

(c) Key management compensation

	2005 HK\$'000	2004 HK\$'000
Salaries and other short-term benefits	16,071	14,550
	<u>16,071</u>	<u>14,550</u>

(d) Transactions with state-controlled enterprises

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

- (i) On 29th December 2005, the Group entered into an agreement to transfer 6% of its equity interest in GNSR to GHDC for a cash consideration of HK\$63,558,000.
- (ii) As at 31st December 2005 and 2004, all bank deposits and bank borrowings were with state-controlled banks.

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

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

34 APPROVAL OF FINANCIAL STATEMENTS

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

35 GROUP STRUCTURE

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

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

35 GROUP STRUCTURE (cont'd)

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

35 GROUP STRUCTURE (cont'd)

	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Percentage of attributable interest held by the Company 2005 and 2004		Principal activities
			Direct	Indirect	
Hunan Yue Tung Highway and Bridge Development Company Limited	People's Republic of China, limited liability company	Rmb21,000,000	—	75	Development and management of Xiang Jiang Bridge II in Hunan Province
Ickleton Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangzhou Taihe Highways Development Company Limited
Kam Cheong Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding
Kinleader Co., Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding
Kiu Fung Limited	British Virgin Islands	2 Ordinary shares of HK\$1 each	100	—	Investment holding
Onwell Enterprises Limited	British Virgin Islands	100 Ordinary shares of US\$1 each	—	100	Investment holding in Guangdong Qinglian Highway Development Co., Ltd.
Pioneer Business Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guandong Humen Bridge Co., Ltd.
Profit Optima Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding
Proterall Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangzhou Qiaowei Highways Development Company Limited

35 GROUP STRUCTURE (cont'd)

	Place of incorporation/ establishment/ operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Percentage of attributable interest held by the Company 2005 and 2004		Principal activities
			Direct	Indirect	
Shaanxi Jinxiu Transport Co., Limited	People's Republic of China, limited liability company	Rmb100,000,000	—	100	Development and management of Xian-Lintong Expressway in Shaanxi Province
Smart Top Enterprises Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	Property holding
Sparco Development Limited	British Virgin Islands	100 Ordinary shares of US\$1 each	—	100	Investment holding in Shaanxi Jinxiu Transport Co., Limited
Super Praise Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangdong Shantou Bay Bridge Co., Ltd.
Superfield Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangzhou Nanxin Highways Development Company Limited
Teckstar Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangzhou Weian Highways Development Company Limited
Top Global Holdings Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding in Guangzhou Xinguang Highways Development Company Limited

35 GROUP STRUCTURE (cont'd)

	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/registered capital	Percentage of attributable interest held by the Company 2005 and 2004		Principal activities	
			Direct	Indirect		
Unionwin Investment Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	Investment holding	
Yan Tung Investment Limited	British Virgin Islands	10,000 Ordinary shares of US\$1 each	—	83.3	Investment holding in Hunan Yue Tung Highway and Bridge Development Company Limited	
	Place of establishment and operation	Issued and fully paid up share capital/registered capital	Percentage of voting power	Percentage of attributable interest held by the Company		Principal activities
				Direct	Indirect	
Jointly controlled entities						
Guangzhou Northern Second Ring Expressway Co., Limited	People's Republic of China	Rmb900,000,000	40	—	40 (2004: 46)	Development and management of Guangzhou Northern Second Ring Expressway in Guangzhou
Guangzhou Western Second Ring Expressway Co., Limited	People's Republic of China	Rmb1,000,000,000	33	—	35 (2004: 35)	Development and management of Guangzhou Western Second Ring Expressway in Guangzhou

35 GROUP STRUCTURE (cont'd)

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

Disclosures Pursuant to Rules 13.20 and 13.22 of the Listing Rules

ADVANCES TO ENTITY

The advances made by the Group to the following entity, which exceeded 8.0 per cent of the Total Assets (note 4) continued to exist as at 31st December 2005 and is required to be disclosed under Rule 13.20 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as follows:

Name of the Entity	Percentage of indirect attributable interest held by the Company	Advances as at 31st December 2005 (Note 1)		Interest rate	Total (A + B) HK\$ million
		Interest bearing (A) HK\$ million	Non-interest bearing (B) HK\$ million		
		Guangdong Humen Bridge Co., Ltd.	25.0		

FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES

The financial assistance provided by the Group to the affiliated companies of the Company, which in aggregate exceeded 8.0 per cent of the Total Assets (note 4) continued to exist as at 31st December 2005 and are required to be disclosed under Rule 13.22 of the Listing Rules as follows:

Name of the Affiliated Companies	Percentage of indirect attributable interest held by the Company	Advances as at 31st December 2005 (Note 1)		Interest rate	Total (A + B) HK\$ million
		Interest bearing (A) HK\$ million	Non-interest bearing (B) HK\$ million		
		Guangdong Humen Bridge Co., Ltd.	25.0		
Guangdong Qinglian Highway Development Co., Ltd.	23.6	—	225.3	—	225.3
Guangdong Shantou Bay Bridge Co., Ltd.	30.0	21.3	—	(Note 3)	21.3
Total		459.9	225.3		685.2

Disclosures Pursuant to Rules 13.20 and 13.22 of the Listing Rules

Notes:

- (1) The advances were shareholders' loans representing part of the investment costs injected by the Group in proportion to the Group's equity interest in such entity and affiliated companies. These advances are unsecured and have no fixed term of repayments. There were no committed capital injections to and guarantees given to or for the above entity and affiliated companies.
- (2) Of this interest-bearing advance, approximately HK\$351.9 million was charged at US prime rate; approximately HK\$86.6 million was charged at lending rates of financial institutions in China; and the remaining balance was charged at HK prime rate.
- (3) Of this interest-bearing advance, approximately HK\$20.7 million was charged at lending rates of financial institutions in China; and the remaining balance was charged at HK prime rate.
- (4) Total Assets means the consolidated total assets of the Group as at 31st December 2005, adjusted for the final dividend proposed on 19th April 2006.

PRO FORMA COMBINED BALANCE SHEET OF AFFILIATED COMPANIES

In accordance with Rule 13.22 of the Listing Rules, a pro forma combined balance sheet of the Company's relevant affiliated companies as at 31st December 2005 and the Group's attributable interest therein are set out below:

	HK\$'000
Long term assets	5,996,165
Current assets	155,951
Current liabilities	(137,647)
Long term liabilities	(3,774,865)
	<hr/>
Net assets	2,239,604
	<hr/> <hr/>
	HK\$'000
Attributable interest to the Group	
Net assets	781,768
Shareholder's loans receivable	685,220
	<hr/>
	1,466,988
	<hr/> <hr/>

Board of Directors

Executive Directors

Ou Bingchang (*Chairman*)
Li Xinmin
Li Zhuo
Chen Guangsong
Liang Ningguang
Liang Yi
Du Xinrang
He Zili
Zhang Siyuan
Tan Yuande
He Baiqing
Zhang Huping

Non-executive Directors

Fung Ka Pun*
Lau Hon Chuen Ambrose*
Poon Jing
Cheung Doi Shu*

* *Independent non-executive directors &
audit committee members*

Company Secretary

Yu Tat Fung

Qualified Accountant

Chan Kam Ting Sharon

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head Office and Principal Place of Business

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

Hong Kong Branch Share Registrar

Abacus Share Registrars Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

Share Listing

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

The stock codes are:
The Stock Exchange of Hong Kong Limited-1052
Reuters-1052.HK
Bloomberg-1052 HK

Investor Relations

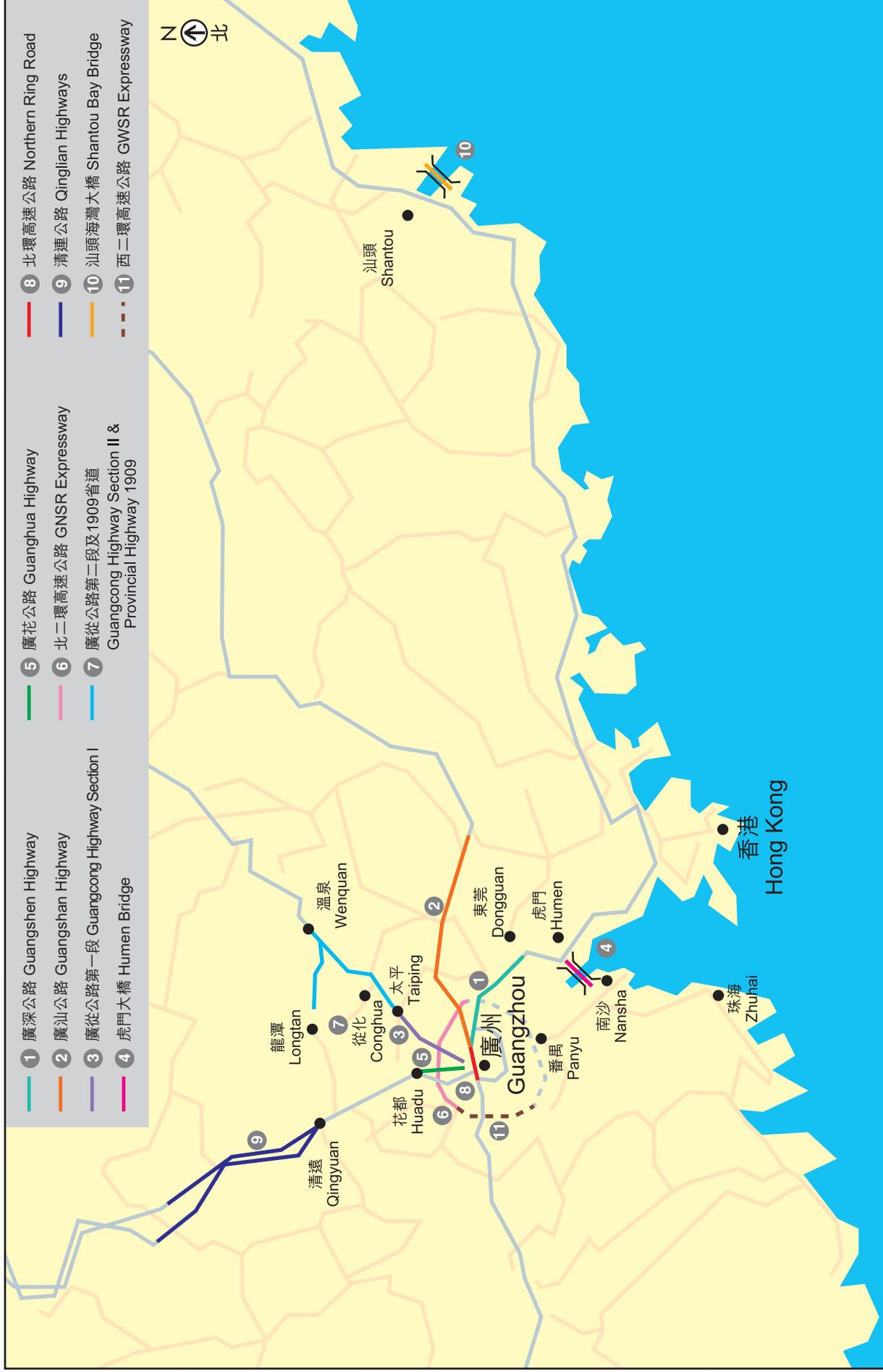
For further information about
GZI Transport Limited, please contact:
Grace Li
Telephone : (852) 2865 2205
Facsimile : (852) 2865 2126
Email : contact@gzitransport.com.hk

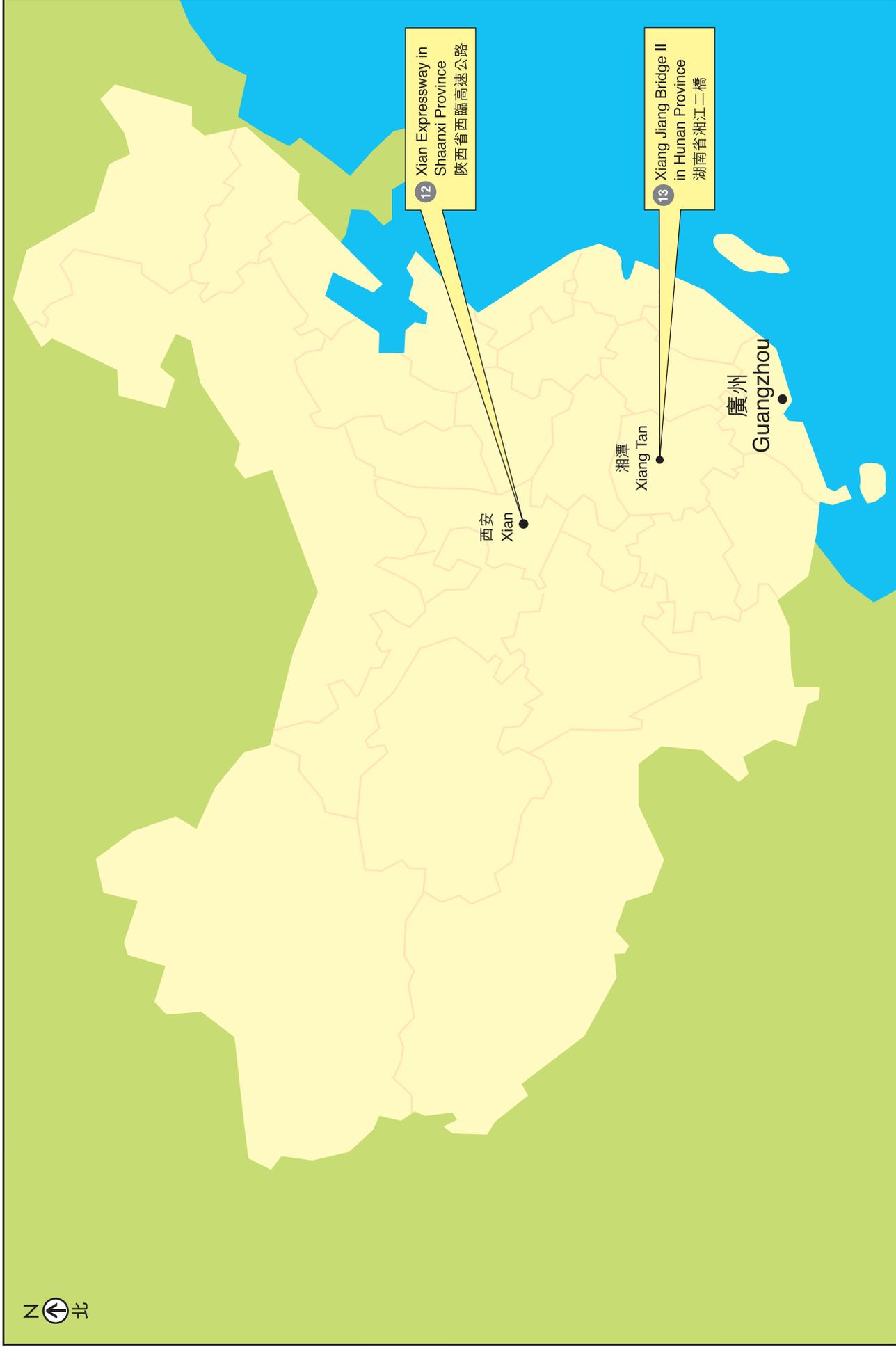
Websites to Access Company Information

<http://www.gzitransport.com.hk>
<http://www.hkex.com.hk>

Location Map of Toll Road Projects inside Guangdong Province

廣東省內項目位置圖





Location Map of Toll Road Projects outside Guangdong Province
廣東省外項目位置圖