



GZI Transport Limited
越秀交通有限公司

(Stock Code: 1052)

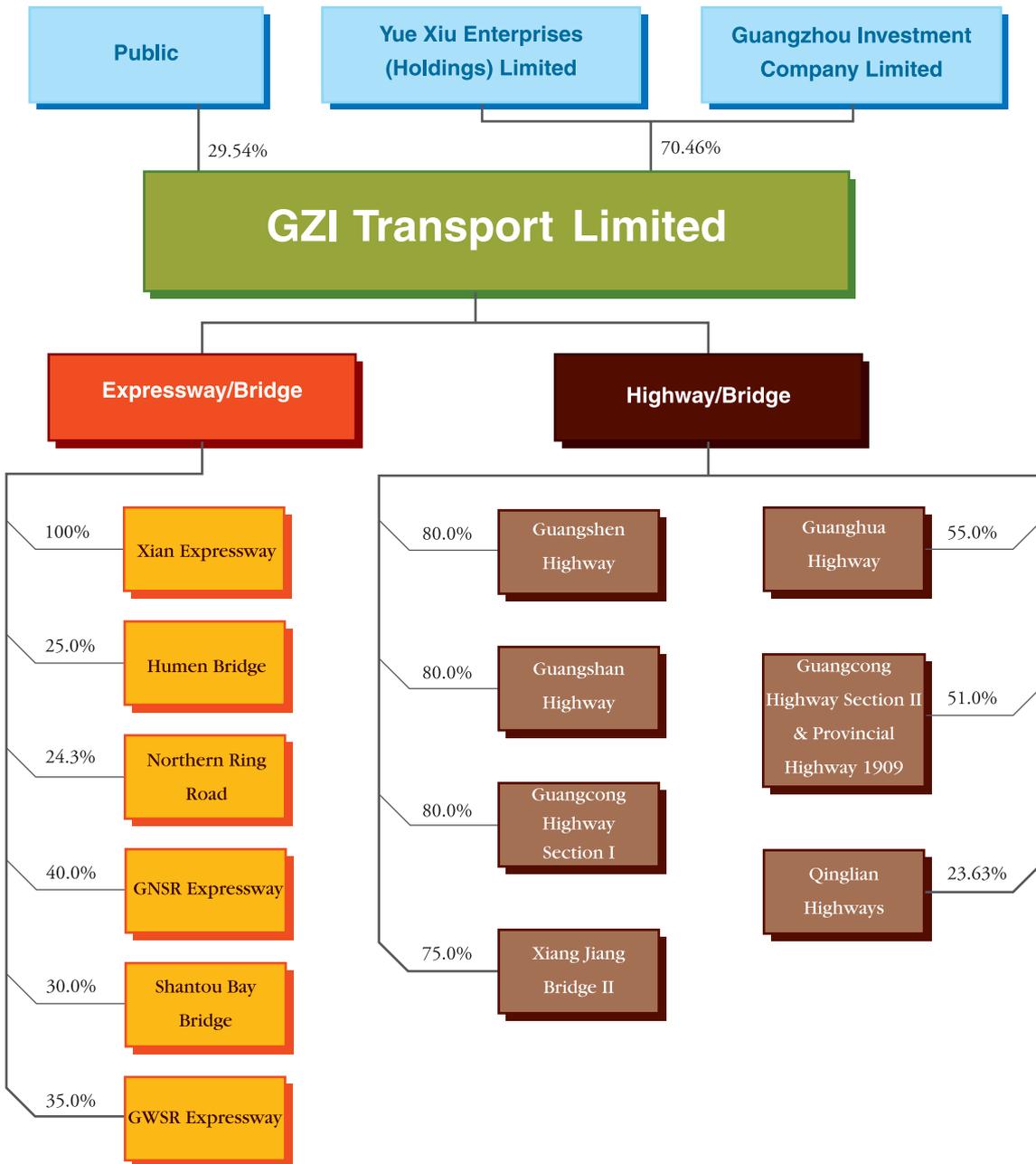


2006 annual report



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Group 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 31 December 2006.

RESULTS AND DIVIDEND

The Group has been striving to improve the service quality of toll roads, increase toll revenue, enhance road maintenance and management and toll collection rate. It has been endeavouring to reduce the operating costs with a view to continually increasing the return to shareholders. In 2006, the Group recorded toll revenue for the full year of HK\$449.0 million, representing an increase of 5.6 per cent over 2005. Profit attributable to equity holders of the Company amounted to HK\$461.0 million, representing an increase of 50.8 per cent over 2005. Basic earnings per share were HK\$0.413 (2005: HK\$0.274). The Board recommended distribution of a final dividend of HK\$0.07 per share for 2006, which when aggregated with the paid interim dividend of HK\$0.065 per share represented a dividend pay out ratio of 32.7 per cent in the year.



REVIEW AND PROSPECT

In January 1997, the Company was listed on the main board of The Stock Exchange of Hong Kong Limited and subsequently became one of the constituent stocks of the Hang Seng China-affiliated Corporations Index in March 1998. Since its listing, the Group has adopted a prudent and conservative policy to operate and develop its toll road business. Its operations were initially concentrated in the Guangzhou region but have been progressively extended to other regions of the Pearl River Delta ("Pearl River Delta Region") and regions outside Guangdong Province. The attributable length of the expressways, national toll highways and bridges invested by the Group has increased from 146.9 km as at listing to 315.4 km as at the end of 2006.

In 2006, there was rapid economic development across mainland China. In particular, the Pearl River Delta Region continued to pursue a rapid yet steady growth trend. Expressway networks in the region have been undergoing further improvement, thus creating favourable conditions for the rapid development of the logistics and transportation industries. According to preliminary statistics released by Guangzhou Statistical Information Network (廣州統計信息網), the passenger turnover and the freight forwarding volume for 2006 in Guangzhou grew by approximately 11.5 per cent and 11.7 per cent respectively over 2005. As a result, the traffic volume and toll revenue of expressways and bridges operated by the Group have seen continued growth. The healthy and steady development of the China economy, together with the banning of motorcycles in urban Guangzhou on 1 January 2007, has led to a rapid growth of private car ownership. The ownership rate of private cars per hundred households in Guangzhou increased from 6.3 vehicles in 2005 to 10.0 vehicles in 2006. Together with the trend of appreciation of Renminbi, this is expected to have more positive impacts on increasing the Group's total toll traffic volume, toll revenue and asset value.

The Group has entered into an Equity Transfer Agreement (出資轉讓協議) (details of the acquisition are set out in the circular issued on 18 December 2006) with Guangzhou Development Infrastructure Investments Co., Ltd. on the acquisition of an additional 20 per cent equity interest in Guangzhou Northern Second Ring Expressway Co., Ltd. ("GNSR Expressway Co.") on 20 November 2006. The only asset of GNSR Expressway Co. is Guangzhou Northern Second Ring Expressway ("GNSR Expressway"). Since 2003, the average daily toll traffic volume of GNSR Expressway has satisfactory growth each year. Following the completion of the acquisition, this is expected to have a positive impact on the Group's traffic volume and toll revenue. In 2006, the average daily toll traffic volume and the average daily toll revenue of GNSR Expressway were 56,252 vehicles and RMB974,000, representing an increase of 27.9 per cent and 27.0 per cent over 2005 respectively. The average daily toll traffic volume and the average daily toll revenue of GNSR Expressway for the two months period ending 28 February 2007 were 66,219 vehicles and RMB1,161,000 respectively, representing an increase of 26.1 per cent and 35.1 per cent as compared to the same period in 2006. The relevant regulatory authority approved the transfer of the 20 per cent equity interest in GNSR Expressway Co. on 15 March 2007. Registration of the transfer by the Guangzhou Administration for Industry and Commerce was completed at the end of March 2007. Upon completion, the interest in GNSR Expressway Co. attributable to the Group has been increased from 40 per cent to 60 per cent. The attributable length of the expressways, national toll highways and bridges invested by the Group has further increased from 315.4 km as at the end of 2006 to current 323.9 km.

The early opening of Guangzhou Western Second Ring Expressway ("GWSR Expressway") on 19 December 2006 is expected to create synergy with GNSR Expressway and will become a major profit growth contributor of the Group. For the 2 months of January and February 2007, average daily toll traffic volume was 4,185 vehicles and weighted average toll fare per vehicle amounted to RMB28.8.



The formation of expressway networks has created a strong driving force for the development of economy, as well as the passenger and cargo transportation industries, between regions, provinces and medium-sized and major cities, thereby achieving a fast yet sustainable development of the national economy of China, facilitating mutual development between regions and increasing the living standard generally. Consequently, the construction of expressways will be strengthened in mainland China during the “11th Five Year Plan”. According to the 《Comprehensive Transportation System in Guangdong Province “11th Five Year Plan”》, there will be a total of 35 key expressway projects (including 11 outbound expressway projects, 18 major expressway projects within the province and 6 local expressway projects) to be constructed throughout the Guangdong Province, with a total investment of approximately RMB228.8 billion. It is anticipated that investment amounting to approximately RMB159.1 billion will be made in constructing expressways of approximately 2,773 km during the “11th Five Year Plan” period. Therefore, there will be tremendous opportunities for investing in expressway projects.

With the increasing commercialization of the operation of toll highways and increasingly intense competition, the Group will continue to focus on strengthening the toll management of its existing operating projects, vigorously controlling and streamlining its operating costs. Leveraging on its own strengths, the Group will take advantage of various financial products available and to enlarge its debt and equity capital in the capital market as and when appropriate, proactively and pragmatically participate in market competition, to step up its efforts in exploring and investing in quality toll expressway projects with attractive returns (including construction projects with good potentials) and timely grasp business opportunities with a view to enlarging its market share, thereby further enhancing the Group's position in the toll road industry as well as increasing the Group's profitability and shareholders' return.

APPRECIATION

The excellent performance and dedication of all the Company's directors, management and staff had contributed to the continued growth of the Group. I would like to take this opportunity to express my heartfelt gratitude to all directors, management and staff of the Group. Meanwhile, I would also like to express my gratitude to all shareholders, professionals from the industrial and commercial sector and the public for their consistent strong support. I look forward to working together with all of you continuously to create even better results.

Ou Bingchang
Chairman

Hong Kong, 10 April 2007



BUSINESS REVIEW

Toll Projects Summary

The Group is principally engaged in investment, operation and management of toll expressways and national highways and bridges mainly located in Guangzhou area. As at 31 December 2006, the Group's investments in toll road and bridge projects include Guangzhou City Northern Ring Road, Guangzhou Northern Second Ring Expressway, Guangzhou Western Second Ring Expressway, Humen Bridge and Shantou Bay Bridge which are located within Guangdong Province; 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 both are located outside Guangdong Province.

Summary Information of Operating Toll Roads and Bridges

	Length (km)	Width (lanes)	Toll station(s)	Road type	Attributable interest (%)	Remaining operating term (years)
Subsidiaries						
Guangshen Highway	23.1	6	1	Class I highway	80.00	20
Guangshan Highway	64.0	4	2	Class II highway	80.00	20
Guangcong Highway Section I	33.3	6	1	Class I highway	80.00	20
Guangcong Highway Section II	33.1	6	1	Class I highway	51.00	20
& Provincial Highway 1909	33.3	4	1	Class I highway	51.00	20
Guanghua Highway	20.0	6	1	Class I highway	55.00	21
Xian Expressway	20.1	4	3	Expressway	100.00	10
Xiang Jiang Bridge II	1.8	4	1	Rigid frame bridge	75.00	15
Associates and Jointly Controlled Entities						
Humen Bridge	15.8	6	4	Suspension bridge	25.00	23
Northern Ring Road	22.0	6	11	Expressway	24.30	17
Qinglian Highways						
National Highway 107	253.0	2	4	Class II highway	23.63	
Highway between Qingyuan and Lianzhou cities ⁽¹⁾	215.2	4	5	Class I highway	23.63	22
Shantou Bay Bridge	6.5	6	1	Suspension bridge	30.00	22
GNSR Expressway	42.4	6	9	Expressway	40.00	26
GWSR Expressway ⁽²⁾	39.6	6	5	Expressway	35.00	25

- (1) Redevelopment work to upgrade Qinglian Class 1 Highway to an expressway commenced at the end of 2005. It is expected to be completed by 2008. Operating term will be 25 years commencing from completion of redevelopment.
- (2) GWSR Expressway commenced operation since 19 December 2006 with 5 toll stations in total at present. Operating term which is expected to be 25 years is now awaiting approval from relevant authorities.



Overview of Operating Performance

Being the key hub connecting Hong Kong and Macau to other provinces and cities in Southern China with the benefit of a close inter-regional economic ties, economic development of the Pearl River Delta Region continued to grow steadily. According to the preliminary statistics of GDSTATS.GOV.CN as at 24 January 2007, the Gross Domestic Product of Guangdong Province in 2006 grew by 14.1 per cent to Renminbi (“RMB”)2,596.9 billion over 2005. Per capita personal income of urban residents in Guangzhou in 2006 amounted to RMB19,850.7, representing an increase of 8.6 per cent over 2005. The flourishing economic activities boosted tourist and cargo turnovers handled by Guangzhou growths of 11.5 per cent and 11.7 per cent respectively over same period in 2005. With the expanding and improving expressway network in Guangdong Province, the banning of motorcycles in urban Guangzhou and the pursuit for better livelihood and higher living standard continued to stimulate private car ownership per hundred household, which increased by 58.7 per cent to 10.0 vehicles in 2006 as compared to 2005. The rapid growth in passenger and cargo freight industries have also caused huge demand for traffic infrastructures within Guangdong Province which have in turn stimulated the traffic flow and toll revenue of the Group’s expressways to continue to achieve higher growth records.

The average daily toll traffic volume and average daily toll revenue of Class I and II highway projects in 2006 declined as compared to same period in 2005. The decline was mainly due to traffic diversions caused by the upgrading of expressway network and opening of “green channels” allowing delivery vehicles carrying fresh agricultural produce and livestock to enjoy toll concessions and the hike in fuel price.

The Group has always endeavored to upgrade the road conditions and facilities along the expressway, so as to promote service quality and functional effectiveness of toll collection systems; to strengthen control on the management of each toll station and has committed to enhancing toll revenue collection. Implementation of unified toll collection system has enhanced traffic efficiency of Humen Bridge, Northern Ring Road, GNSR Expressway and Xian Expressway.



GWSR Expressway



Average Daily Toll Traffic Volume and Average Daily Toll Revenue

Year ended 31 December 2006

	Average daily toll traffic volume		Average daily toll revenue		Weighted average toll fare per vehicle	
	vehicle/day	Change	RMB/day	Change	RMB	Change
Subsidiaries						
Guangshen Highway	25,223	-17.9%	153,486	-15.6%	6.1	2.7%
Guangshan Highway	22,319	-3.8%	221,218	-7.1%	9.9	-3.4%
Guangcong Highway Section I	12,026	-5.7%	144,269	-12.7%	12.0	-7.3%
Guangcong Highway Section II & Provincial Highway 1909	21,950	0.4%	162,901	-7.8%	7.4	-8.2%
Guanghua Highway	10,751	-2.9%	89,188	-1.7%	8.3	1.2%
Xian Expressway	33,402	22.4%	405,524	25.1%	12.1	2.2%
Xiang Jiang Bridge II	4,896	-10.9%	52,269	8.6%	10.7	21.9%
Total	<u>130,567</u>	-1.4%	<u>1,228,855</u>	0.3%		
Associates and Jointly Controlled Entity						
Humen Bridge	50,612	18.2%	2,260,868	23.8%	44.7	4.7%
Northern Ring Road	153,745	15.2%	1,768,752	7.6%	11.5	-6.6%
Qinglian Highways	16,306	-2.0%	321,932	-7.1%	19.7	-5.3%
Shantou Bay Bridge	10,261	8.6%	391,980	11.8%	38.2	3.0%
GNSR Expressway	56,252	27.9%	973,602	27.0%	17.3	-0.7%
Total	<u>287,176</u>	16.6%	<u>5,717,134</u>	15.9%		

Performance of Expressways and Bridges

Xian Expressway in Shaanxi Province (“Xian Expressway”)

Situated along Xian City’s key international tourist route, Xian Expressway benefited from the blooming commercial and tourism activities in 2006 which caused natural traffic growth. Simultaneously, due to the redevelopment work in progress in the neighboring road network of Xian Expressway such as Xian Third Ring Road and Huaqing Expressway, certain vehicles are attracted to take Xian Expressway in the short term. Average daily toll traffic volume in 2006 increased by 22.4 per cent to 33,402 vehicles as compared to 2005. Weighted average toll fare per vehicle amounted to RMB12.1 which was 2.2 per cent higher than 2005.

Humen Bridge

Since its opening to traffic in May 1997, traffic flow of Humen Bridge demonstrated a steady and stable growth trend. This was due to the rapid economic development in the Pearl River Delta Region bringing forth natural traffic growth. Average daily toll traffic volume in 2006 increased by 18.2 per cent to 50,612 vehicles as compared to 2005. Weighted average toll fare per vehicle increased by 4.7 per cent to RMB44.7 when compared with 2005.



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

Benefited from the natural growth in traffic volume brought forth by the continuous rapid economic growth in the Pearl River Delta Region, average daily toll traffic volume in 2006 increased by 15.2 per cent to 153,745 vehicles as compared to 2005. Weighted average toll fare per vehicle decreased by 6.6 per cent in 2006 to RMB11.5 because the increment ratio of small sized vehicles was higher than that of large sized vehicles.

Guangzhou Northern Second Ring Expressway (“GNSR Expressway”)

The linkage of GNSR Expressway to Guangshen Expressway, Guangqing Expressway, Jingzhu Expressway and Guanghui Expressway created synergy effect on GNSR Expressway. The opening of Meihe Expressway and Yuegong Expressway in October and December 2005 resulted in an increase of vehicles traveling from Guanghui to GNSR Expressway section. The average daily toll traffic volume in 2006 posted a double digit growth of 27.9 per cent over 2005 to 56,252 vehicles. Weighted average toll fare per vehicle slightly dropped by 0.7 per cent to RMB17.3 as compared with 2005.

To obtain control over Guangzhou Northern Second Ring Expressway Co., Ltd. (“GNSR Expressway Co.”) and having considered the upward trend in GNSR Expressway’s traffic flow and the rising development costs and risks associated with the construction of new expressways, on 20 November 2006, the Group, by exercising its pre-emption right, entered into an equity transfer agreement with Guangzhou Development Infrastructure Investments Co., Ltd. to acquire its 20.0 per cent equity interest in GNSR Expressway Co. for a consideration of RMB666.2 million. Upon completion of the acquisition, the Group’s equity interest in GNSR Expressway Co. will increase from 40.0 per cent to 60.0 per cent. The Group issued a circular on 18 December 2006 to provide details of the acquisition. On 20 November 2006, the Group paid the deposit of HK\$132,580,000 (equivalent to approximately RMB133,906,000). Approval of the 20.0 per cent equity transfer was obtained on 15 March 2007 from the relevant regulatory authorities and balance of the consideration was paid on 19 March 2007 from bank borrowings and internal funds. Registration of the transfer with Guangzhou Administration for Industry and Commerce was completed on 28 March 2007.

Shantou Bay Bridge

2006 is the second year after Queshi Bridge, which is located near Shantou Bay Bridge, joined the “annual pass policy” of Shantou City. In 2006, traffic diversion caused by Queshi Bridge has been stabilised. The increasing cargo traffic volume in the vicinity of Shantou City and improvement of the road conditions of Shenshan East Road resulted in natural traffic growth and led the average daily toll traffic volume in 2006 to increase by 8.6 per cent to 10,261 vehicles as compared to 2005. Weighted average toll fare per vehicle amounted to RMB38.2 which was 3.0 per cent higher than 2005.

Guangzhou Western Second Ring Expressway (“GWSR Expressway”)

GWSR Expressway is interconnected with GNSR Expressway, Guangsan Expressway, Guanghua Expressway, Jingzhu Expressway and Guangzhou Airport Expressway which effectively shortened the travel distance between the western and northern regions of the Pearl River Delta. On 19 December 2006, GWSR Expressway officially commenced operation. Current traveling time from Foshan to New Guangzhou Airport using the GWSR Expressway takes only half an hour, pulling Foshan closer to Guangzhou City. Up to 31 December 2006, average daily toll traffic volume was 2,822 vehicles, weighted average toll fare per vehicle amounted to RMB25.8.

Performance of Class I and II Highways and Bridges

Guangshen Highway Guangzhou Section (“Guangshen Highway”)

The impact from the opening of the nearby Cangtuo toll station of Guangyuan East Road in April 2006 with lower toll fare and traffic diversion in neighboring roads have seriously weakened the traffic performance of Guangshen Highway. In 2006, average daily toll traffic volume notably declined by 17.9 per cent to 25,223 vehicles as compared to 2005. Weighted average toll fare per vehicle amounted to RMB6.1, representing a rise of 2.7 per cent over 2005.



Guangshan Highway Guangzhou Section (“Guangshan Highway”)

The improvement work being carried out in the Lungdong to Daiguanlukou section of Guangshan Highway caused a number of vehicles to divert traffic. The average daily toll traffic volume in 2006 decreased by 3.8 per cent to 22,319 vehicles as compared to 2005 and weighted average toll fare per vehicle decreased by 3.4 per cent to RMB9.9 as compared to 2005.

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

The opening of Yuegong Expressway and redevelopment works in Guangcong Highway-Yongtai intersection affected the average daily toll traffic volume in 2006 to drop by 5.7 per cent to 12,026 vehicles as compared to 2005. Weighted average toll fare per vehicle amounted to RMB12.0 which was 7.3 per cent lower than 2005.

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

The opening of Yuegong Expressway set off the short term traffic growth brought about by the intermittent closures of the northern section of Jingzhu Expressway from January to March 2006. Average daily toll traffic volume in 2006 has slightly increased by 0.4 per cent to 21,950 vehicles as compared to 2005. Weighted average toll fare per vehicle decreased by 8.2 per cent to RMB7.4 as compared to 2005 due to increase in ratio of small sized vehicles.

Guanghua Highway

With the upgrading of the highway network connecting the urban area section of the Guangzhou Airport Expressway and traffic diversion in neighboring roads, average daily toll traffic volume of Guanghua Highway dropped by 2.9 per cent to 10,751 vehicles as compared to 2005. Weighted average toll fare per vehicle was RMB8.3 which was 1.2 per cent higher than 2005.

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

With the abolishment of toll charge on motorcycles in Hunan Province since October 2005, average daily toll traffic volume in 2006 declined by 10.9 per cent to 4,896 vehicles as compared to 2005. With the project company striving to improve toll road facilities and strengthening toll management so as to improve toll collection rate, average daily toll revenue has realised a 8.6 per cent growth over 2005 and has increased to RMB52,269. Since the decline in traffic were mainly small sized vehicles, weighted average toll fare per vehicle largely increased by 21.9 per cent to RMB10.7 as compared to 2005.

Qinglian Highways

The average daily toll traffic volume of Qinglian Highways in 2006 has decreased by 2.0 per cent to 16,306 vehicles as compared to 2005. The decline was mainly due to redevelopment work to upgrade Qinglian Class I Highway to an expressway and the “green channel” policy imposed on national highways. Nevertheless, the decline rate of average daily toll traffic volume and daily average revenue was lesser than expected. Weighted average toll fare per vehicle in 2006 declined by 5.3 per cent to RMB19.7 as compared to 2005.

Redevelopment work to upgrade Qinglian Class I Highway to an expressway has already commenced at the end of 2005. The redevelopment is expected to be completed by 2008. It is planned that Qinglian Class I Highway will be redeveloped into a four-lane, closed system expressway. It will link Yilian Highway (in Hunan Province) and Jingzhu Expressway in the northern region. It will pass through Guangqing Expressway in the south and will link up with the road network of the Pearl River Delta. Upon completion, Qinglian Expressway will serve as a major route in the economic development of the Pan-Pearl River Delta Region, to further promote business exchanges between Guangdong Province and the less developed but resource rich regions in the northern part of Guangdong Province.

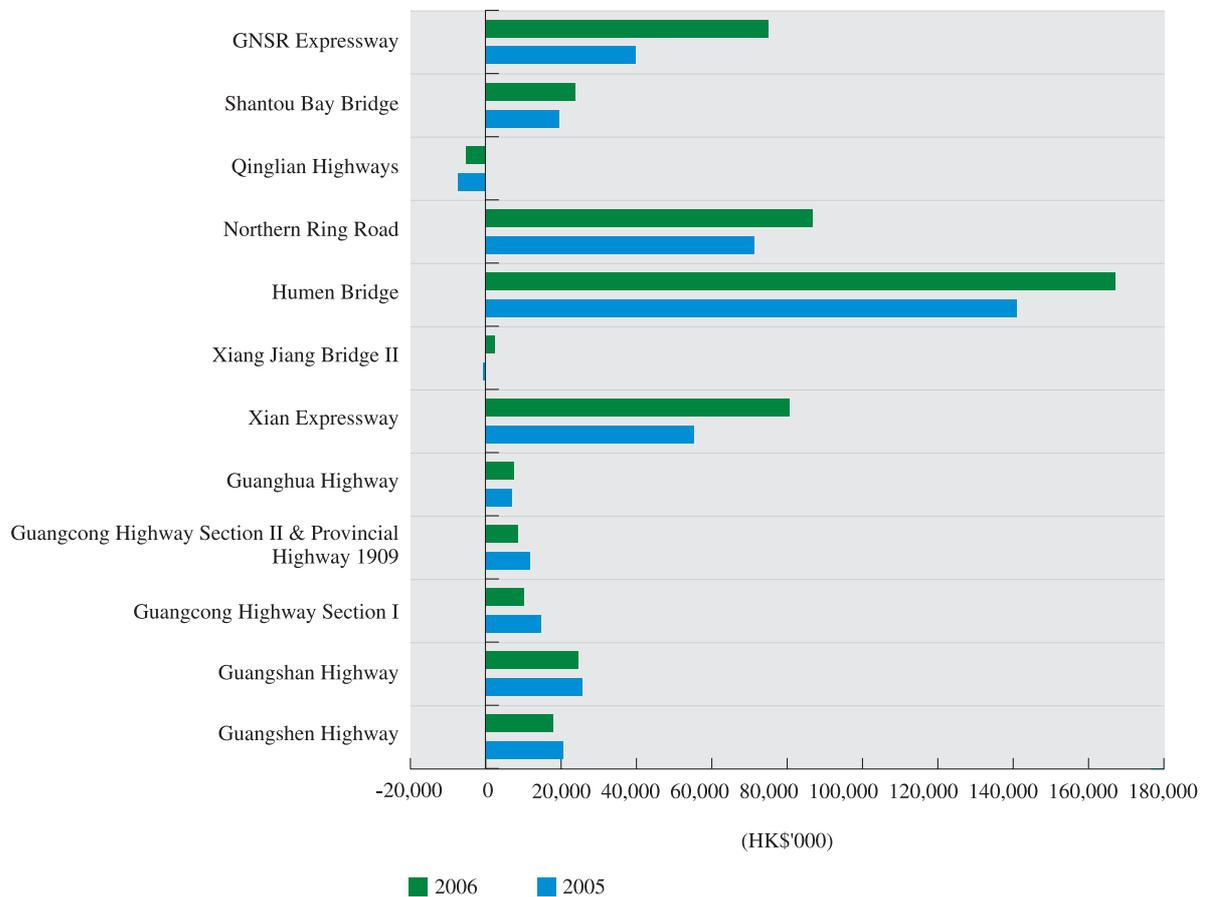


FINANCIAL REVIEW

Results Highlights

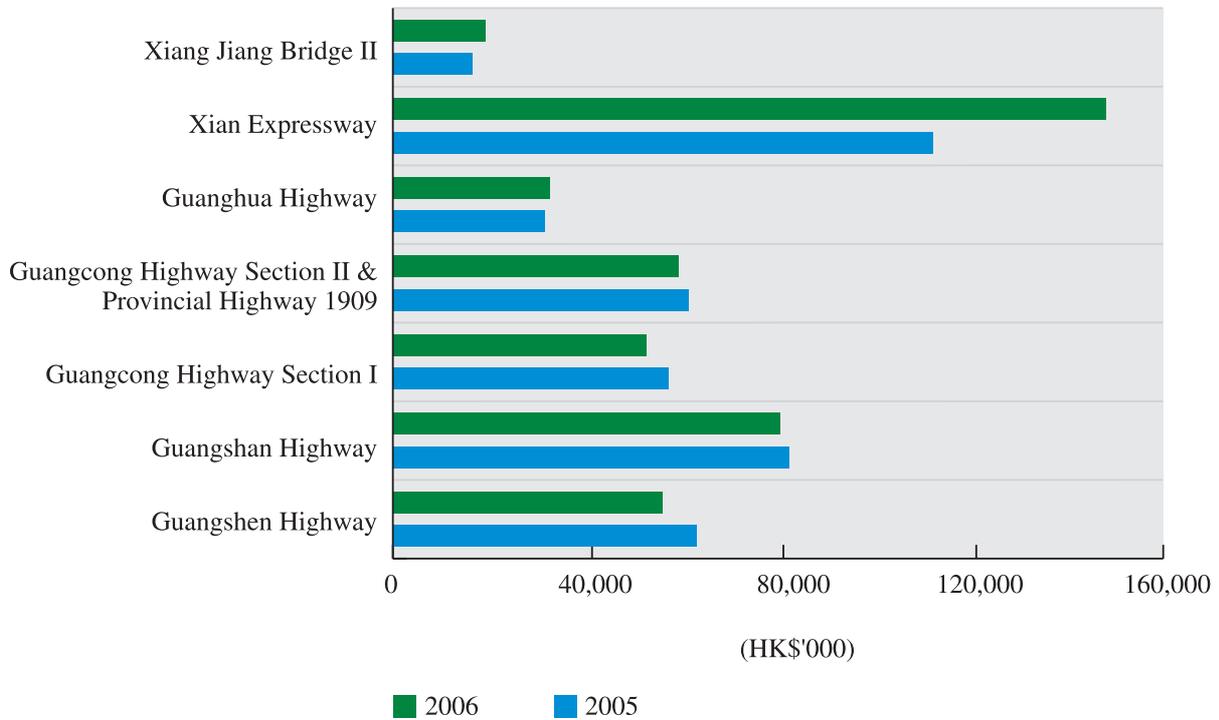
	2006	2005	Change
	HK\$'000	HK\$'000	
Profit attributable to equity holders of the Company	461,157	305,898	50.8%
Toll revenue	448,531	424,845	5.6%
Operating profit	184,819	130,647	41.5%
Profit after income tax and interest income from associates and jointly controlled entity	347,547	264,527	31.4%
Interest coverage	275 times	53 times	
Basic earnings per share	HK\$0.413	HK\$0.274	50.7%
Dividend per share	HK\$0.135	HK\$0.10	
Return to equity holders of the Company	11.0%	8.15%	35.0%

Profit attributable to equity holders of the Company by toll projects

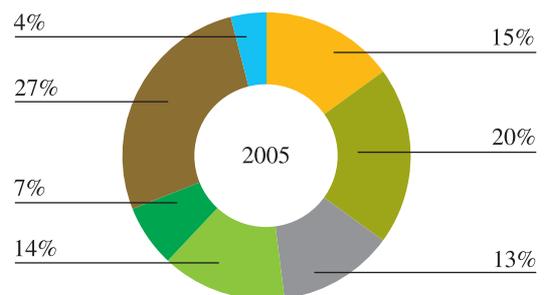
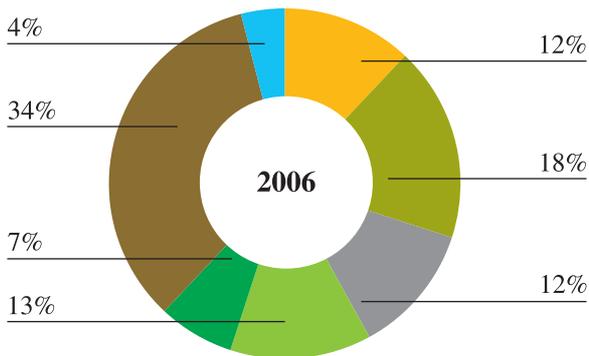




Toll Revenue of Subsidiaries



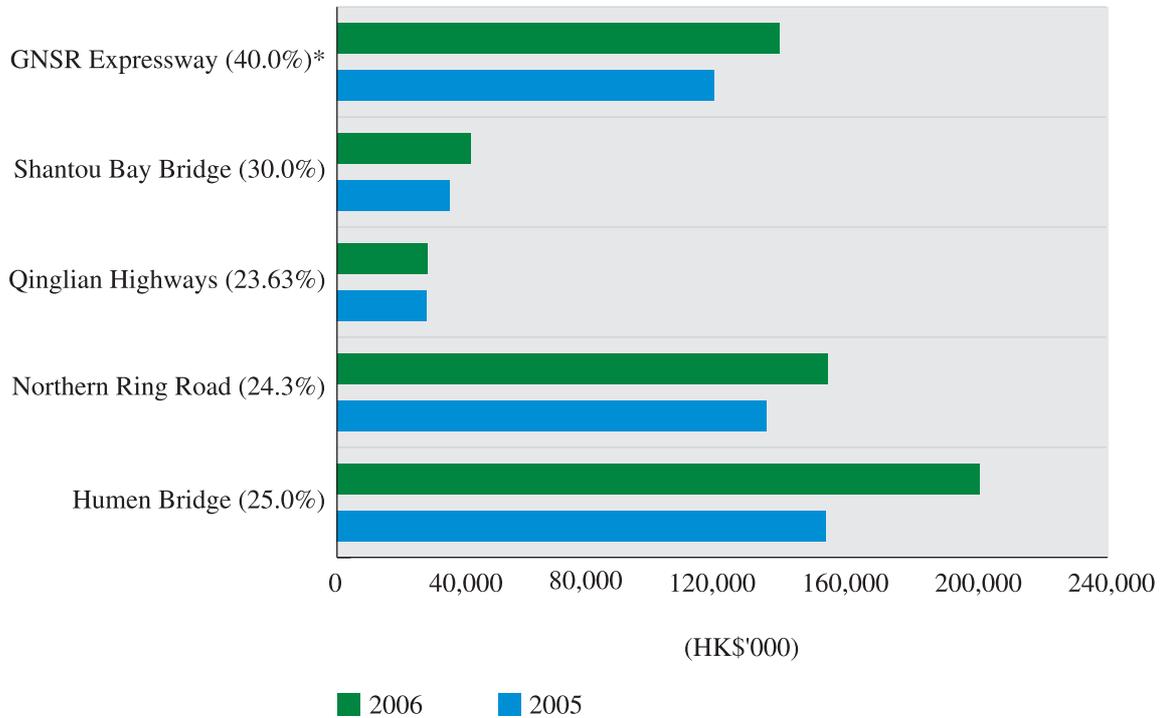
Analysis of Toll Revenue of Subsidiaries



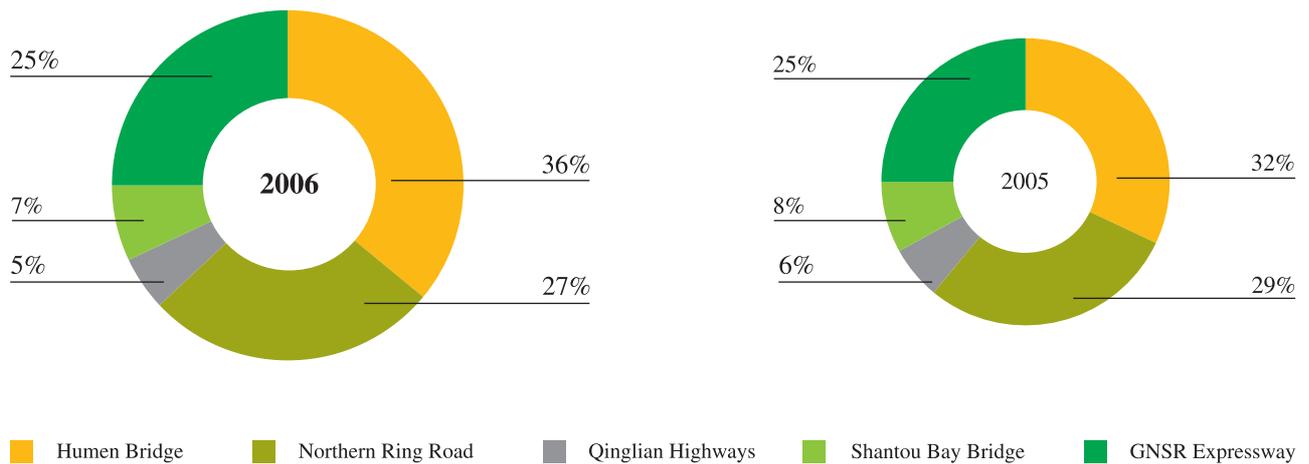
- Guangshen Highway
- Guangshan Highway
- Guangcong Highway Section I
- Guangcong Highway Section II & Provincial Highway 1909
- Guanghua Highway
- Xian Expressway
- Xiang Jiang Bridge II



Toll Revenue of Associates & Jointly Controlled Entity (Attributable to the Group)



Analysis of Toll Revenue of Associates & Jointly Controlled Entity (Attributable to the Group)



* Upon completion of the Acquisition, i.e. at the end of March 2007, the equity interest in GNSR Expressway Co. has been increased from 40.0 per cent to 60.0 per cent.



Analysis of Results

Despite traffic diversion and surging oil prices affecting the traffic volume and toll revenue of certain Class I and II highways, Xian Expressway and Xiang Jiang Bridge II both performed remarkably. Toll revenue of the Group grew 5.6 per cent, operating profit grew 41.5 per cent, contribution from associates and jointly controlled entity grew 31.4 per cent owing to rapid economic development in Guangdong Province as well as increases in cargo and passenger turnover. Profit attributable to equity holders of the Company amounted to HK\$461.2 million, being 50.8 per cent higher than 2005. Basic earnings per share increased by HK\$0.139 over 2005 to HK\$0.413 and return to equity holders of the Company increased from 8.15 per cent in 2005 to 11.0 per cent in 2006.

Revenue

For the year ended 31 December 2006, the Group's revenue amounted to HK\$448.5 million representing a 5.6 per cent increment over 2005. Xian Expressway, Xiang Jiang Bridge II and Guanghua Highway with revenue growth of 31.6 per cent, 14.3 per cent and 3.4 per cent respectively were the main growth contributors to the Group's overall revenue growth.

Other gains - net

Owing to the exchange gain derived from settlement of shareholders' loans injected to group companies, other gains recorded in 2006 amounted to HK\$28.3 million which was twelve times that of 2005.

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 amortisation / depreciation of interests in toll highways and bridges for the year ended 31 December 2006 amounted to HK\$111.6 million which was 5.3 per cent higher than 2005.

Toll highways and bridges maintenance expenses

For the year ended 31 December 2006, maintenance expenses of toll highways and bridges declined by HK\$1.5 million or 1.6 per cent to HK\$91.5 million as a result of strengthening toll roads and bridges' daily maintenance management.

General and administrative expenses

The increase in general and administrative expenses by 77.9 per cent in 2006 to HK\$58.1 million was mainly due to increase in staff costs which included directors' profit-based bonus, legal and professional fees in respect of the acquisition of an additional 20.0 per cent equity interest in GNSR Expressway Co. in 2006 and road shows expenses incurred during May and November 2006.

Finance costs - net

With the upward adjustment in bank deposit rate resulting in higher bank interest income in 2006 and the continual repayment of bank borrowings in 2006, overall net finance costs declined by 61.7 per cent to HK\$8.8 million as compared to 2005.

Management Discussion and Analysis



Share of profits less losses of associates and interest income on loans to associates

For the year ended 31 December 2006, total contributions from the Group's associates grew by 21.3 per cent to HK\$272.3 million. The speedy and healthy economic development leading to strong traffic growth of expressways and bridges in the Pearl River Delta Region and the reduction in business tax rate applied on toll revenue of toll expressways from 5.0 per cent to 3.0 per cent since June 2005 are the main profit growth factors of the Group's associates. Among the associates, Humen Bridge, Northern Ring Road and Shantou Bay Bridge all recorded earnings growth of 18.6 per cent, 21.3 per cent and 21.2 per cent respectively. Qinglian Highways which Class I Highway section is currently under redevelopment to an expressway were still recording operating losses.

Share of profit of a jointly controlled entity

The Group's operating jointly controlled entity, GNSR Expressway Co., continued to demonstrate its strong traffic growth in 2006 with profit contribution of HK\$75.2 million representing 88.0 per cent increment over 2005.

Income tax expense

As the overall taxable profit in 2006 was higher than 2005, income tax expense increased by 3.7 per cent to HK\$35.7 million.

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 31 December 2006, interest coverage was 275 times (2005: 53 times) due to increase in EBITDA and decline in interest expenses.

Final Dividend

The Directors recommended the payment of final dividend of HK\$0.07 (2005: HK\$0.05) per share payable to shareholders whose names appeared on the register of members of the Company on 29 May 2007. Subject to the approval of shareholders at the Annual General Meeting to be held on 29 May 2007, the final dividend will be paid on 8 June 2007. Together with the interim dividend of HK\$0.065 (2005: HK\$0.05) per share, total dividends for the year ended 31 December 2006 will amount to HK\$0.135 (2005: HK\$0.10) per share, representing a dividend pay out ratio of 32.7 per cent (2005: 36.5 per cent).

LIQUIDITY AND FINANCIAL RESOURCES

Financial Highlights

	2006 HK'000	2005 HK'000	Change
Bank balances and cash	339,714	368,883	- 7.9%
Bank borrowings	—	144,231	-100.0%
Current ratio	524.0%	190.0%	175.8%
Capital and reserves attributable to the Company's equity holders	4,185,989	3,752,559	11.6%
Gearing ratio (net of bank balances and cash)	2.6%	5.0%	-48.0%
Net asset per share	HK\$3.75	HK\$3.36	11.6%



Cash flows

The Group's bank balances and cash as at 31 December 2006 was approximately HK\$339.7 million which was 7.9 per cent lower than the balance as at 31 December 2005 of HK\$368.9 million. The net decrease in bank balances and cash was due to more funds being applied to financing activities than cash received from operating and investing activities for the year ended 31 December 2006.

Net cash inflow from operating activities for the year ended 31 December 2006 amounted to HK\$265.8 million (2005: HK\$222.1 million). Cash flows under operating activities mainly were cash from operations of HK\$307.9 million (2005: HK\$272.3 million) less interest paid of HK\$2.6 million (2005: HK\$16.7 million) and China enterprise income taxation paid of HK\$39.5 million (2005: HK\$33.5 million).

Investing activities for the year ended 31 December 2006 generated a net surplus of HK\$26.35 million (2005: HK\$219.3 million). Cash flows from investing activities were mainly repayments and dividends from associates of HK\$256.44 million (2005: HK\$206.9 million), bank interest income of HK\$9.2 million (2005: HK\$3.0 million) and proceeds from disposal of property, plant and equipment and investments of HK\$0.06 million (2005: HK\$63.6 million) and reduced by cash used in capital expenditures and investments of HK\$239.35 million (2005: HK\$54.2 million).

Net cash used in financing activities for the year ended 31 December 2006 amounted to HK\$321.3 million (2005: HK\$259.8 million). Cash flows under financing activities mainly were repayments of bank loans of HK\$144.2 million (2005: HK\$39.8 million), repayments and dividends to minority shareholders of subsidiaries of HK\$48.8 million (2005: HK\$106.3 million) and dividends paid of HK\$128.3 million (2005: HK\$114.3 million). There were no new shares issued in 2006 (2005: HK\$0.6 million).

Bank borrowings

Outstanding bank borrowings of the Group as at 31 December 2005 amounted to approximately HK\$144.2 million which were fully repaid in 2006.

Current ratio

The current ratio (current assets over current liabilities) as at 31 December 2006 was 524.0 per cent (2005: 190.0 per cent). The management is of 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.

Capital expenditures and investments

For the year ended 31 December 2006, capital expenditures and investments of the Group which amounted to approximately HK\$239.35 million (2005: HK\$54.2 million) included approximately HK\$101.5 million (2005: HK\$53.9 million) being additional equity capital contribution to a jointly controlled entity, Guangzhou Western Second Ring Expressway Co., Ltd. ("GWSR Expressway Co.") and approximately HK\$132.58 million being deposit for the acquisition of an additional 20.0 per cent equity interest in another jointly controlled entity, GNSR Expressway Co. Other capital expenditures were purchases of property, plant and equipment amounting to approximately HK\$5.27 million (2005: HK\$0.3 million).



Capital Structure

The Group's capital structures as at 31 December 2006 and 2005 are summarised below:

	2006			2005		
	HK\$'000	Composition %	Average rate of interest (% per annum)	HK\$'000	Composition %	Average rate of interest (% per annum)
Floating rate loans (RMB)	—		—	144,231	3.7	4.94
Loans from minority shareholders						
– interest bearing	129,000	3.0	6.56	120,561	3.0	6.12
– interest free	320,739	7.5	—	301,303	7.6	—
Total debts	449,739	10.5		566,095	14.3	
Less: Bank balances and cash	(339,714)	(7.9)		(368,883)	(9.3)	
Total debts (net of bank balances and cash)	110,025	2.6		197,212	5.0	
Capital and reserves attributable to the Company's equity holders	4,185,989	97.4		3,752,559	95.0	
Total capitalisation	4,296,014	100.0		3,949,771	100.0	
Gearing ratio (net of bank balances and cash)	2.6%			5.0%		

Total capitalisation of the Group as at 31 December 2006 and 2005 amounted to approximately HK\$4.3 billion and HK\$3.95 billion respectively. Due to the decrease in total debts (net of bank balances and cash) and the rise in capital and reserves attributable to the Company's equity holders by HK\$433.4 million, the ratio of total debts to total capitalisation (net of bank balances and cash) ("Gearing Ratio") had decreased from 5.0 per cent in 2005 to 2.6 per cent in 2006.

RMB floating rate loans are unsecured bank borrowings in the mainland China which accounted for approximately 25.5 per cent of the total debts as at 31 December 2005 were fully repaid in 2006.

Loans from minority shareholders are part of capital contributions made by minority shareholders in respect of their respective equity shareholdings in certain subsidiaries in accordance with the terms of the relevant shareholders' agreements to set up those subsidiaries. These loans 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 5.2 per cent. During 2006, the Group had repaid approximately HK\$1.6 million of the interest-free loans.

As at 31 December 2006, the capital and reserves attributable to the Company's equity holders amounted to HK\$4.19 billion which accounted for 97.4 per cent of the Group's total capitalisation. As at 31 December 2005, capital and reserves attributable to the Company's equity holders amounted to HK\$3.75 billion being 95.0 per cent of the Group's total capitalisation. The increase in capital and reserves attributable to the Company's equity holders in 2006 was mainly due to increase in net profit retained for the year after appropriation of 2005 final dividend and increase in exchange fluctuation reserve resulted from appreciation of RMB.



Treasury Policies

The Group's overall treasury and funding policy mainly focuses on risk management and liquidity control. The Group will proactively maintain banking relationship with financial institutions both in Hong Kong and the mainland 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 the mainland China. No fund is placed in non-bank institutions or invested in securities.

The Group's principal operations are in the mainland China and most of the income is denominated in RMB, with the upward trend of RMB exchange rate since 2005, management will continue to keep an eye on its potential impact to the Group. Since RMB loan interest rate is at present comparatively higher than foreign currency loan interest rate, management will suitably increase equity and debt financing denominated in foreign currency unless capital expenditures required RMB funding. Consequently, management will adopt appropriate currency hedging measures to minimise any possible foreign currency risks.

Capital Commitments and Contingent Liabilities

As at 31 December 2006, the Group had a committed equity capital balance payable to a jointly controlled entity, GWSR Expressway Co. of RMB105.0 million (equivalent to approximately HK\$105.0 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 Co.

Reference is made to the circular dated 18 December 2006, on 20 November 2006, the Group had entered into an Equity Transfer Agreement with an independent third party, Guangzhou Development Infrastructure Investments Co., Ltd. (the "Vendor") to acquire an additional 20.0 per cent equity interest in a jointly controlled entity, GNSR Expressway Co. for a consideration of RMB666.2 million. On the same date as the Equity Transfer Agreement was signed, i.e. on 20 November 2006, the Group remitted the deposit in the amount of HK\$132,580,000 (equivalent to approximately RMB133,906,000) from its internal funds to the Vendor. As at 31 December 2006, the balance of the consideration of this acquisition was approximately RMB532.3 million which will be payable within five days of attaining the relevant authority's approval of the equity transfer. On 9 March 2007, the Group has obtained a bank loan facility of HK\$400.0 million to finance part of the consideration of the acquisition. On 15 March 2007, the acquisition was approved by the relevant authority and on 19 March 2007, the Group has remitted HK\$543.8 million to settle the balance of the consideration of which HK\$143.8 million was sourced from internal funds.

Except for the aforementioned capital commitments, the Group has no other material capital commitments as at 31 December 2006.

There were no significant contingent liabilities as at 31 December 2006.

Employees

As at 31 December 2006, the Group has approximately 828 employees of which about 669 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 60, was appointed executive director and Chairman of the Company on 8 January 2003. He is also the Chairman and the general manager of Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu”), a controlling shareholder of the ultimate holding company, namely, Guangzhou Investment Company Limited (“GZI”), of the Company, and the Chairman and the general manager of 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 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 55, was appointed executive director of the Company on 19 June 2001. He is also the Deputy Chairman of the Company and a director of GZI. Mr Li has over 30 years of experience in highway 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. From March 2004 to April 2005, Mr Li was general manager of the Company.

Mr Qian Shangning, aged 44, was appointed executive director and General Manager of the Company on 12 April 2007. Mr Qian graduated from Chongqing Transport Institute in Highway and Urban Transportation, and later from Sun Yat-Sen University in Legal Studies. Between 1998 to 2001, Mr Qian had been a senior management member of the Group’s jointly controlled entity, Guangzhou Northern Second Ring Expressway Co., Ltd. Mr Qian has 24 years of experience in highway construction and is a senior engineer in China.

Mr Liang Ningguang, aged 53, was appointed executive director of the Company on 25 September 1996. He is also an executive director and the 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 54, was appointed executive director of the Company on 28 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. He has over 20 years of experience in public administration.

Mr Cai Tielong, aged 44, was appointed executive director of the Company on 12 April 2007. Mr Cai graduated from Hunan Central South University of Technology in Mechanical & Mining Engineering, and obtained a Masters Degree. Mr Cai has 16 years of experience in project management and 10 years of experience in project surveillance, and is a senior engineer in China.

Mr He Zili, aged 57, was appointed executive director of the Company on 1 April 2000. He is also a director of GZI. 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. After joining Yue Xiu, Mr He had been the general manager of the finance department, the investment and business department, and the capital management department. Mr He is currently the deputy group financial controller of Yue Xiu and the financial controller of GZI. He has over 40 years of experience in finance and accounting and is a senior accountant in China.

Ms Yuan Hongping, aged 38, was appointed executive director of the Company on 12 April 2007. Ms Yuan graduated from Sun Yat-Sen University Guangzhou, in Chinese, and later obtained a Master’s Degree in Corporate Management from Sun Yat-Sen University. Ms Yuan has 15 years of corporate management experience, and is a senior economist in China.

Directors' Profiles



Mr Chen Guanzhan, aged 48, was appointed executive director of the Company on 12 April 2007. Mr Chen joined Yue Xiu in November 2004 and is currently the general manager of the executive office and capital management department of Yue Xiu, and general manager of Yue Xiu Finance Company Limited. Mr Chen holds a Bachelor of Science Degree from Sun Yat-Sen University in Guangzhou and a Master of Science Degree in Environmental Chemical Engineering from South China University of Technology in Guangzhou; he had also been a visiting scholar to the California State University, Northridge in USA where he studied Public Administration. Mr Chen had previously taught at South China University of Technology in Guangzhou, and held certificates as university lecturer, senior engineer as well as human resources interviewer in Guangzhou, and had held offices in various departments of the Guangzhou Municipal People's Government. He has extensive experience in administration management, corporate management and capital management with a strong theoretical and practical foundation.

Mr Zhang Siyuan, aged 40, was appointed executive director of the Company on 1 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 in China.

Mr Luo Jinbiao, aged 41, was appointed executive director of the Company on 12 April 2007. Mr Luo graduated from Xian Transport Institute in Highway and Urban Transportation. Mr Luo has 18 years of experience in project management and surveillance, and is a senior engineer in China. He had also served as deputy director and director of Guangzhou Highways Management Bureau Engineering Research Institute.

Mr Zhang Huping, aged 43, was appointed executive director of the Company on 2 November 2005. Mr Zhang graduated from Guangzhou Finance and Trade Management Institute, majoring in accounting. He has engaged in cost accounting in large state-owned enterprises, and has over 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 was 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 52, has been a non-executive director of the Company since 20 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 61, has been an independent non-executive director of the Company since 20th November 1996. Mr Fung is the executive co-chairman of E2-Capital (Holdings) Limited, a company listed on the Stock Exchange. He is also the founder and chairman of the Goodwill International (Holdings) Limited, a substantial shareholder of E2-Capital (Holdings) Limited. Mr Fung has over 30 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. He is also an independent non-executive director of Lei Shing Hong Limited, Lee Hing Development Limited, Denway Motors Limited and deputy chairman and an independent non-executive director of Samling Global Limited.

Mr Lau Hon Chuen Ambrose, aged 59, has been an independent non-executive director of the Company since 20 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 45, has been an independent non-executive director of the Company since 24 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, a company 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, 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 members :

Executive directors

Mr Ou Bingchang (*Chairman*)

Mr Li Xinmin (*Deputy Chairman*)

Mr Qian Shangning (*General Manager*) (appointed with effect from 12 April 2007)

Mr Li Zhuo (resigned with effect from 12 April 2007)

Mr Chen Guangsong (resigned with effect from 28 November 2006)

Mr Liang Ningguang

Mr Liang Yi

Mr Cai Tielong (appointed with effect from 12 April 2007)

Mr Du Xinrang (resigned with effect from 12 April 2007)

Mr He Zili

Ms Yuan Hongping (appointed with effect from 12 April 2007)

Mr Chen Guanzhan (appointed with effect from 12 April 2007)

Mr Zhang Siyuan

Mr Luo Jinbiao (appointed with effect from 12 April 2007)

Mr Tan Yuande (resigned with effect from 12 April 2007)

Mr He Baiqing (resigned with effect from 12 April 2007)

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*

During the year ended 31 December 2006, Mr Chen Guangsong resigned as executive director on 28 November 2006.

At the board meeting of the Company held on 10 April 2007, Messrs Li Zhuo, Du Xinrang, Tan Yuande and He Baiqing resigned as executive directors with effect from 12 April 2007. Mr Qian Shangning, Mr Cai Tielong, Ms Yuan Hongping, Mr Chen Guanzhan and Mr Luo Jinbiao were appointed as executive directors with effect from 12 April 2007. Mr Qian Shangning has been appointed General Manager to succeed Mr Li Zhuo.

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



During the year ended 31 December 2006, 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.

In accordance with the Company's Bye-Laws which were amended by a special resolution at the annual general meeting held on 30 May 2006 for the purpose of compliance with the CG Code, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

In accordance with the Company's Bye-Laws, Mr Qian Shangning, Mr Cai Tielong, Ms Yuan Hongping, Mr Chen Guanzhan and Mr Luo Jinbiao having been appointed as executive directors of the Company, shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. In addition, Messrs Liang Ningguang, Zhang Siyuan, Fung Ka Pun and Cheung Doi Shu retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Board recommended the re-appointment of the directors standing for re-election at the next 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 2006, the Board held 4 meetings. The attendance record of each member of the Board is set out below :

Directors	Attendance of Board meetings in 2006
<i>Executive directors</i>	
Ou Bingchang	3/4
Li Xinmin	4/4
Li Zhuo	3/4
Chen Guangsong ¹	3/3
Liang Ningguang	3/4
Liang Yi	3/4
Du Xinrang	1/4
He Zili	4/4
Zhang Siyuan	3/4
Tan Yuande	2/4
He Baiqing	2/4
Zhang Huping	2/4
<i>Non-executive director</i>	
Poon Jing	0/4
<i>Independent Non-executive directors</i>	
Fung Ka Pun	4/4
Lau Hon Chuen Ambrose	4/4
Cheung Doi Shu	2/4

Note:

1. Resigned on 28 November 2006



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 position of the Chairman is held by Mr Ou Bingchang while the position of General Manager was held by Mr Li Zhuo during the year ended 31 December 2006 and was succeeded by Mr Qian Shangning with effect from 12 April 2007.

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 4 April 2007 (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 31 December 2006 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 2006
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 31 December 2006 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 31 December 2006.

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 consolidated financial statements of the Company for the year ended 31 December 2006.

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

During the year ended 31 December 2006, the remuneration paid to the external auditors of the Company in respect of audit services was HK\$1.2 million and non-audit services was HK\$1.2 million which was mainly related to the acquisition of an additional 20.0 per cent equity interest in Guangzhou Northern Second Ring Expressway Co., Ltd.

INTERNAL CONTROLS

During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and Group's 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.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

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.



The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2006.

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 31 December 2006:

	HK\$'000
Interim dividend of HK\$0.065 per share paid on 18 October 2006	72,504
Proposed final dividend of HK\$0.07 per share	78,081
	<hr/>
	150,585
	<hr/> <hr/>

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 29 to the consolidated financial statements.

DONATIONS

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

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of the movements in property, plant and equipment and investment properties of the Group and the Company are set out in notes 18 and 19 to the consolidated financial statements.

SHARE CAPITAL AND OPTIONS

Details of the movements in the issued share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

Details of the movements in the share options granted by the Company during the year and options outstanding as at 31 December 2006 are set out in note 28 to the consolidated financial statements.



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 31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Results					
Profit attributable to shareholders	<u>461,157</u>	<u>305,898</u>	<u>277,029</u>	<u>223,822</u>	<u>142,498</u>
Assets and liabilities					
Total assets	<u>4,947,235</u>	<u>4,631,092</u>	<u>4,486,660</u>	<u>4,560,962</u>	<u>4,602,426</u>
Total liabilities	<u>(526,100)</u>	<u>(633,422)</u>	<u>(753,797)</u>	<u>(942,136)</u>	<u>(1,148,107)</u>
	<u>4,421,135</u>	<u>3,997,670</u>	<u>3,732,863</u>	<u>3,618,826</u>	<u>3,454,319</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 31 December 2006 are set out in note 38 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the distributable reserves of the Company available for distribution amounted to HK\$2,114,435,000 (2005: HK\$2,128,558,000).



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 Qian Shangning	(appointed with effect from 12 April 2007)
Mr Li Zhuo	(resigned with effect from 12 April 2007)
Mr Chen Guangsong	(resigned with effect from 28 November 2006)
Mr Liang Ningguang	
Mr Liang Yi	
Mr Cai Tielong	(appointed with effect from 12 April 2007)
Mr Du Xinrang	(resigned with effect from 12 April 2007)
Mr He Zili	
Ms Yuan Hongping	(appointed with effect from 12 April 2007)
Mr Chen Guanzhan	(appointed with effect from 12 April 2007)
Mr Zhang Siyuan	
Mr Luo Jinbiao	(appointed with effect from 12 April 2007)
Mr Tan Yuande	(resigned with effect from 12 April 2007)
Mr He Baiqing	(resigned with effect from 12 April 2007)
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

Messrs Liang Ningguang, Zhang Siyuan, Fung Ka Pun and Cheung Doi Shu retire by rotation in accordance with Bye-Law 99 of the Company's Bye-Laws and, being eligible, offer themselves for re-election. Mr Qian Shangning, Mr Cai Tielong, Ms Yuan Hongping, Mr Chen Guanzhan and Mr Luo Jinbiao retire in accordance with Bye-Law 102 of the Company's Bye-Laws and, being eligible, offer themselves for re-election.

The Directors' Profiles are set out on pages 19 and 20.



MANAGEMENT CONTRACTS

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\$375,000 as Directors' fee for the year ended 31 December 2006.

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

Certain related party transactions, which also constitute as connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), required to be disclosed in accordance with the Listing Rules, are disclosed in note 35(b) to the consolidated financial statements.

BORROWINGS

Analysis of borrowings of the Group as at 31 December 2006 is set out in note 30 to the consolidated financial statements.



INTERESTS OF DIRECTORS

As at 31 December 2006, 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 ⁽ⁱ⁾ outstanding as at 1 January and 31 December 2006
Mr Ou Bingchang	02/06/2003	0.5400	9,000,000
Mr Liang Ningguang	02/06/2003	0.5400	7,000,000
Mr Liang Yi	02/06/2003	0.5400	7,000,000

Note:

- (i) The share options are exercisable from 2 June 2003 to 1 June 2013, of which a maximum of up to (i) 30 per cent; and (ii) 60 per cent (inclusive of any options exercised under (i)) 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 31 December 2006, 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 31 December 2006, 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)	791,878,076	70.99
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
Mr Cheah Cheng Hye	(b)	140,976,000	12.63
Value Partners Limited	(b)	140,976,000	12.63

Notes:

- (a) The capacity of Yue Xiu in holding the 791,878,076 shares was, as to 5,769 shares, as beneficial owner and, as to 791,872,307 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 45 per cent of the issued share capital of GZI as at 31 December 2006. 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 Value Partners Limited in holding the 140,976,000 shares was investment manager. Mr Cheah Cheng Hye was deemed to be interested in 140,976,000 shares as a result of his indirect holding of such shares through his controlled corporation, Value Partners Limited.

SHARE OPTIONS

Pursuant to a share option scheme ("Share Option Scheme") approved by shareholders of the Company on 3 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.

On 25 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.

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
outstanding as at 1 January 2006	exercised during the year	lapsed during the year	outstanding as at 31 December 2006			
230,000	—	(230,000)	—	0.7520	07/04/2000	07/04/2001 - 06/04/2006 (b)

Notes:

- (a) No options have been granted or cancelled during the year.
- (b) All options are exercisable in 3 tranches.

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

As announced by the Company on 28 February 2007, based on the information set out in the Disclosure of Interest Forms filed by Value Partners Limited (“Value Partners”) and Mr Cheah Cheng Hye pursuant to Part XV of the SFO in November 2006, Value Partners and Mr Cheah Cheng Hye have increased their shareholding interest (“Shareholding Increase”) in the Company to 140,976,000 shares of the Company, representing approximately 12.63% of the entire issued share capital in the Company.

As at the date of this report, GZI, the controlling shareholder of the Company, together with its controlling shareholder, Yue Xiu, and its associates (“GZI Group”), currently hold 785,932,076 shares, representing approximately 70.46% of the entire issued share capital in the Company. As far as the Company is aware, Value Partners together with its associates, including Mr Cheah Cheng Hye, became or were deemed to be substantial shareholders of the Company as a result of the Shareholding Increase and they currently hold 140,976,000 shares. The aggregate shareholding interest of the GZI Group and Value Partners and its associates, including Mr Cheah Cheng Hye, in the Company is approximately 83.09%, thereby resulting in a public float of approximately 16.91% which is below 25% of the Company’s total issued share capital as required under Rule 8.08 of the Listing Rules.

The Company is considering various ways to ensure the minimum percentage of public float be maintained in compliance with the relevant Listing Rules at the earliest possible moment.

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 consolidated financial statements 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, 10 April 2007



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GZI TRANSPORT LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of GZI Transport Limited (the "Company") set out on pages 37 to 85, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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 responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 April 2007

Consolidated Income Statement

For the year ended 31 December 2006



	Note	2006 HK\$'000	2005 HK\$'000
Revenue	5	448,531	424,845
Other income	6	248	264
Other gains - net	7	28,289	2,244
Amortisation/depreciation of interests in toll highways and bridges		(111,623)	(106,051)
Toll highways and bridges maintenance expenses		(91,453)	(92,967)
General and administrative expenses		(58,110)	(32,665)
Business tax		(20,081)	(20,772)
Impairment losses on available-for-sale financial assets	23	(10,982)	(44,251)
Operating profit		184,819	130,647
Finance costs - net	9	(8,762)	(22,848)
Interest income on loans to associates	22	31,080	40,099
Share of profits less losses of associates	22	241,254	184,414
Share of profits of jointly controlled entities	21	75,213	40,014
Profit before income tax		523,604	372,326
Income tax	10	(35,692)	(34,433)
Profit for the year		487,912	337,893
Attributable to:			
Equity holders of the Company	11	461,157	305,898
Minority interests		26,755	31,995
		487,912	337,893
Earnings per share for profit attributable to the equity holders of the Company for the year			
- Basic	12	HK 41.3 cents	HK 27.4 cents
- Diluted	12	HK 41.3 cents	HK 27.4 cents
Dividends	13	150,585	111,544

Consolidated Balance Sheet

As at 31 December 2006



	Note	2006 HK\$'000	2005 HK\$'000
ASSETS			
Non-current assets			
Interests in toll highways and bridges	16	1,943,682	1,980,017
Leasehold land	17	700	718
Property, plant and equipment	18(a)	26,662	23,541
Investment properties	19	8,650	8,210
Investments in jointly controlled entities	21	671,170	475,549
Investments in associates	22	1,745,816	1,686,542
Deferred income tax assets	31	312	417
Available-for-sale financial assets	23	46,271	65,925
Other non-current asset	24	132,580	—
		<u>4,575,843</u>	<u>4,240,919</u>
Current assets			
Asset held for sale	25	15,000	—
Trade receivables	26	4,016	13,428
Other receivables, deposits and prepayments	26	12,662	7,862
Bank balances and cash	27	339,714	368,883
		<u>371,392</u>	<u>390,173</u>
Total assets		<u>4,947,235</u>	<u>4,631,092</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	28	111,544	111,544
Reserves	29	4,074,445	3,641,015
		<u>4,185,989</u>	<u>3,752,559</u>
Minority interests		<u>235,146</u>	<u>245,111</u>
Total equity		<u>4,421,135</u>	<u>3,997,670</u>

Consolidated Balance Sheet

As at 31 December 2006



	Note	2006 HK\$'000	2005 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	30	449,739	421,864
Deferred income tax liabilities	31	5,484	5,985
		<u>455,223</u>	<u>427,849</u>
Current liabilities			
Due to			
A minority shareholder of subsidiaries	32	1,196	5,919
Holding companies	32	4,025	3,652
Trade payables and accrued charges		56,059	38,750
Current income tax liabilities		9,597	13,021
Borrowings	30	—	144,231
		<u>70,877</u>	<u>205,573</u>
Total liabilities		<u>526,100</u>	<u>633,422</u>
Total equity and liabilities		<u>4,947,235</u>	<u>4,631,092</u>
Net current assets		<u>300,515</u>	<u>184,600</u>
Total assets less current liabilities		<u>4,876,358</u>	<u>4,425,519</u>

Director
Li Xinmin

Director
Zhang Siyuan

Balance Sheet

As at 31 December 2006



	Note	2006 HK\$'000	2005 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	18(b)	1,044	591
Investments in subsidiaries	20(a)	1,263,948	1,263,948
		<u>1,264,992</u>	<u>1,264,539</u>
Current assets			
Due from subsidiaries	20(b)	1,430,798	1,428,324
Deposits and prepayments	26	158	125
Bank balances and cash	27	148,576	156,310
		<u>1,579,532</u>	<u>1,584,759</u>
Total assets		<u>2,844,524</u>	<u>2,849,298</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	28	111,544	111,544
Reserves	29	2,691,898	2,706,021
Total equity		<u>2,803,442</u>	<u>2,817,565</u>
LIABILITIES			
Current liabilities			
Due to holding companies	32	18,785	18,404
Other payables and accrued charges		22,297	13,329
Total liabilities		<u>41,082</u>	<u>31,733</u>
Total equity and liabilities		<u>2,844,524</u>	<u>2,849,298</u>

Director
Li Xinmin

Director
Zhang Siyuan

Consolidated Cash Flow Statement

For the year ended 31 December 2006



	Note	2006 HK\$'000	2005 HK\$'000
Cash flows from operating activities			
Net cash generated from operations	33	307,840	272,313
Interest paid		(2,558)	(16,687)
China enterprise income tax paid		(39,512)	(33,550)
Net cash generated from operating activities		265,770	222,076
Cash flows from investing activities			
Deposit paid for acquisition of additional interest in a jointly controlled entity		(132,580)	—
Disposal of property, plant and equipment		64	—
Purchase of property, plant and equipment	18(a)	(5,273)	(300)
Capital injection into a jointly controlled entity	21	(101,500)	(53,846)
Disposal of partial interest in a jointly controlled entity		—	63,558
Repayments of loans by associates	22	176,915	153,630
Dividends received from associates	22	79,532	53,229
Interest received		9,192	3,041
Net cash generated from investing activities		26,350	219,312
Cash flows from financing activities			
Repayments of bank loans		(144,231)	(39,807)
Repayments of loans from minority shareholders of subsidiaries		(1,602)	(56,074)
Dividends paid		(128,276)	(114,296)
Dividends paid to minority shareholders of subsidiaries		(47,207)	(50,214)
Issue of shares		—	595
Net cash used in financing activities		(321,316)	(259,796)
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at 1 January		368,883	188,850
Effect of foreign exchange rate changes		27	(1,559)
Cash and cash equivalents at 31 December		339,714	368,883
Analysis of the balances of cash and cash equivalents			
Bank balances and cash	27	339,714	368,883

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006



	Note	Attributable to equity holders of the Company			Total HK\$'000
		Share capital HK\$'000	Reserves HK\$'000	Minority interests HK\$'000	
Balance at 1 January 2005		111,465	3,388,463	248,555	3,748,483
Currency translation differences	29	—	80,902	14,775	95,677
Decrease in fair value of available-for-sale financial assets	29	—	(36,088)	—	(36,088)
Fair value adjustment on loans from minority shareholders of subsidiaries	29	—	15,620	—	15,620
Net income recognised directly in equity		—	60,434	14,775	75,209
Profit for the year		—	305,898	31,995	337,893
Total recognised income for 2005		—	366,332	46,770	413,102
Issue of share capital	28 & 29	79	516	—	595
Dividends	29	—	(114,296)	(50,214)	(164,510)
		79	(113,780)	(50,214)	(163,915)
Balance at 31 December 2005		111,544	3,641,015	245,111	3,997,670
Balance at 1 January 2006		111,544	3,641,015	245,111	3,997,670
Currency translation differences	29	—	80,120	10,487	90,607
Increase in fair value of available-for-sale financial assets	29	—	3,802	—	3,802
Fair value adjustment on loans from minority shareholders of subsidiaries	29	—	16,627	—	16,627
Net income recognised directly in equity		—	100,549	10,487	111,036
Profit for the year		—	461,157	26,755	487,912
Total recognised income for 2006		—	561,706	37,242	598,948
Dividends	29	—	(128,276)	(47,207)	(175,483)
Balance at 31 December 2006		111,544	4,074,445	235,146	4,421,135



1 GENERAL INFORMATION

GZI Transport Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) are principally engaged in investment in and development, operation and management of toll highways and bridges mainly in Guangdong Province, the People’s Republic of China (the “PRC”).

The Company is an exempted company incorporated under the laws of Bermuda. The address of its registered office is Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda and its principal place of business is 25th Floor, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong.

The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements have been approved for issue by the Board of Directors of the Company on 10 April 2007.

2 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 the Group 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 Group’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 4.

The following new standards, amendments to standards and interpretations are mandatory for the financial year ended 31 December 2006:

HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
Amendment to HKAS 19	Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures
Amendment to HKAS 21	Net Investment in a Foreign Operation
Amendment to HKAS 39	Financial Instruments: Recognition and Measurement
	- Cash Flow Hedge Accounting of Forecast Intragroup Transactions
	- The Fair Value Option
Amendment to HKAS 39 and HKFRS 4 Amendment	Financial Guarantee Contracts
Amendment to HKFRS 1 and 6	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Amendments as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:

HKAS 1	Presentation of Financial Statements
HKAS 27	Consolidated and Separate Financial Statements
HKFRS 3	Business Combinations
HKFRS 6	Exploration for and Evaluation of Mineral Resources

The adoption of the above new standards, amendments to standards and interpretations did not have material impact to the Group's principal accounting policies or presentation of financial statements.

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

		Effective for accounting periods beginning on or after
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29	1 March 2006
HK(IFRIC)-Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HK(IFRIC)-Int 12	Service Concession Arrangements	1 January 2008
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
Amendment to HKAS 1	Presentation of Financial Statements: Capital Disclosures	1 January 2007

The Group has already commenced an assessment of the related impact of adopting the above new standards, amendments to standards and interpretations to the Group but is not yet in a position to state whether substantial changes to Group's principal accounting policies and presentation of the consolidated financial statements will be resulted.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation

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

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. 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. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(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.

(c) Interests in toll highways and bridges

Interests in toll highways and bridges comprise tangible infrastructures and intangible operating rights.

Tangible infrastructures

Major costs incurred in restoring tangible infrastructures of toll highway to their normal working condition are charged to the income statement. Improvements are capitalized and depreciated over their expected useful lives to the Group.

Depreciation of tangible infrastructures of toll highway is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period of 30 to 36 years over the projected total traffic volume throughout the life of the asset. The Group reviews regularly the projected total traffic volume throughout the life of the asset, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

The Group has been granted by the relevant local government authorities the rights to operate the toll highway for period of 30 to 36 years. According to the relevant governments' approval documents and the relevant regulations the Group is responsible for the construction of the toll highway and the acquisition of the related facilities and equipment and it is also responsible for the operations and management, maintenance and overhaul of the toll highway during the approved operating periods. The toll fees collected during the operating periods is attributable to the Group. The relevant toll highway assets are required to be returned to the local government authorities when the operating rights periods expire without any payments to be made to the Group. According to the relevant regulations, these operating rights are not renewable and the Group does not have any termination options.

Intangible operating rights

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.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains - net, in the income statement.

(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 at least annually by external values.

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

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



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investment properties (continued)

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

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.

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.

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

Changes in the fair value of available-for-sale financial assets are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "impairment losses on available-for-sale financial assets". Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the group's right to receive payments is established.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial assets (continued)

If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include, but not limited to, the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

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) Asset held for sale

The asset held for sale is stated at the lower of its carrying amount and fair value less cost to sell.

(i) Trade and other receivables

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

(j) Cash and cash equivalents

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

(k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it 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.

(m) 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.

(n) 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 over the lease periods.

(o) 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.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Retirement benefit costs

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

(q) 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 which is the Company's presentation currency.

(ii) Transactions and balances

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

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 exchange rates prevailing on 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.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) 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 financial statements. 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 financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange 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 its exposure to any of these financial risks.

(a) Foreign exchange risk

A 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 Chinese government.

(b) Credit risk

The Group has no significant credit risk. Generally, the Group's cash is held with highly-rated financial institutions.

(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 cash flow commitments, including capital expenditure.



3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(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.

3.2 Fair value estimation

The nominal value less estimated credit adjustments of trade receivables, trade payables 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.

4 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 7 per cent.



4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

(b) Current income tax and deferred income tax

The Group is subject to income tax in Mainland China and Hong Kong. Significant judgement is required in determining the amount of the provision for income tax and the timing of payment of the related income tax. 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 income 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 income tax assets and income tax in the periods in which such estimate is changed.

5 REVENUE

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

	2006 HK\$'000	2005 HK\$'000
Toll revenue	<u>448,531</u>	<u>424,845</u>

No analysis of the Group's revenue 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.

6 OTHER INCOME

	2006 HK\$'000	2005 HK\$'000
Rental income	<u>248</u>	<u>264</u>

7 OTHER GAINS - NET

	2006 HK\$'000	2005 HK\$'000
Gain on disposal of partial interest in a jointly controlled entity	—	11,705
Fair value gains on investment properties (note 19)	440	1,306
Net exchange gains/(losses)	27,147	(11,486)
Others	<u>702</u>	<u>719</u>
	<u>28,289</u>	<u>2,244</u>



8 EXPENSES BY NATURE

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

	2006 HK\$'000	2005 HK\$'000
Amortisation of prepaid operating lease payments (note 17)	18	30
Auditors' remuneration	1,200	775
Depreciation of property, plant and equipment (note 18(a))	2,480	2,397
Outgoings in respect of investment properties	29	25
Staff costs (note 14)	<u>62,300</u>	<u>48,351</u>

9 FINANCE COSTS - NET

	2006 HK\$'000	2005 HK\$'000
Interest on bank borrowings	2,334	8,103
Interest on amount due to a minority shareholder of subsidiaries	—	2,166
Interest on loans from minority shareholders of subsidiaries	<u>15,620</u>	<u>15,620</u>
	17,954	25,889
Bank interest income	<u>(9,192)</u>	<u>(3,041)</u>
	<u>8,762</u>	<u>22,848</u>

10 INCOME TAX

- (a) No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group has no income assessable to Hong Kong profits tax during the year (2005: nil).
- (b) China enterprise income tax is provided on the profits of the Group's investments in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law"). The principal income tax rate is 18 per cent.

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. Certain of the Group's investments in China are qualified for the aforesaid tax holiday as at 31 December 2006.



10 INCOME TAX (continued)

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

	2006	2005
	HK\$'000	HK\$'000
Current income tax		
China enterprise income tax	36,088	35,532
Deferred income tax (note 31)	(396)	(1,099)
	<u>35,692</u>	<u>34,433</u>

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

	2006	2005
	HK\$'000	HK\$'000
Profit before income tax less shares of profits less losses from associates and jointly controlled entities	<u>207,137</u>	<u>147,898</u>
Calculated at a tax rate of 18 per cent (2005: 18 per cent)	37,285	26,622
Income not subject to tax	(15,698)	(10,929)
Expenses not deductible for tax purposes	15,350	20,197
Effect of different tax rates	(1,245)	(1,457)
Income tax charge	<u>35,692</u>	<u>34,433</u>

11 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\$114,153,000 (2005: HK\$98,442,000).



12 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.

	2006 HK\$'000	2005 HK\$'000
Profit attributable to equity holders of the Company	<u>461,157</u>	<u>305,898</u>
Weighted average number of ordinary shares in issue ('000)	<u>1,115,442</u>	<u>1,114,929</u>
Basic earnings per share (HK cents)	<u>41.3</u>	<u>27.4</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.

	2006 HK\$'000	2005 HK\$'000
Profit attributable to equity holders of the Company	<u>461,157</u>	<u>305,898</u>
Weighted average number of ordinary shares in issue ('000)	<u>1,115,442</u>	<u>1,114,929</u>
Adjustments for share options ('000)	<u>47</u>	<u>560</u>
Weighted average number of ordinary shares for diluted earnings per share ('000)	<u>1,115,489</u>	<u>1,115,489</u>
Diluted earnings per share (HK cents)	<u>41.3</u>	<u>27.4</u>



13 DIVIDENDS

	Company	
	2006	2005
	HK\$'000	HK\$'000
Interim, paid, of HK\$0.065 (2005: HK\$0.05) per share	72,504	55,772
Final, proposed, of HK\$0.07 (2005: HK\$0.05) per share	78,081	55,772
	<u>150,585</u>	<u>111,544</u>

At a meeting held on 10 April 2007, the Directors proposed a final dividend of HK\$0.07 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 ending 31 December 2007.

14 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	HK\$'000	HK\$'000
Wages and salaries	54,677	42,966
Pension costs (defined contribution plans)	2,564	2,167
Social security costs	2,010	1,241
Staff welfare	3,049	1,977
	<u>62,300</u>	<u>48,351</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 at 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.



15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The remuneration of every Director for the year ended 31 December 2006 is set out below:

Name of Director	Fees	Salaries	Discretionary	Total
	HK\$'000	HK\$'000	bonuses HK\$'000	HK\$'000
<i>Executive directors</i>				
OU Bingchang	—	720	1,817	2,537
LI Xinmin	—	720	1,817	2,537
LI Zhuo (e)	—	720	1,582	2,302
CHEN Guangsong (c)	—	550	—	550
LIANG Ningguang	—	600	1,514	2,114
LIANG Yi	—	600	1,514	2,114
DU Xinrang	—	600	1,318	1,918
HE Zili	—	600	1,514	2,114
ZHANG Siyuan	—	600	1,318	1,918
TAN Yuande (e)	—	600	1,318	1,918
HE Baiqing (e)	—	600	1,318	1,918
ZHANG Huping (d)	—	600	1,318	1,918
	—	7,510	16,348	23,858
<i>Non-executive directors</i>				
POON Jing	38	—	—	38
FUNG Ka Pun ¹	125	—	—	125
LAU Hon Chuen Ambrose ¹	125	—	—	125
CHEUNG Doi Shu ¹	125	—	—	125
	413	—	—	413
	413	7,510	16,348	24,271



15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

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

Name of Director	Fees HK\$'000	Salaries HK\$'000	Discretionary	Total HK\$'000
			bonuses HK\$'000	
<i>Executive directors</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 directors</i>				
POON Jing	38	—	—	38
FUNG Ka Pun ¹	68	—	—	68
LAU Hon Chuen Ambrose ¹	68	—	—	68
CHEUNG Doi Shu ¹	68	—	—	68
	242	—	—	242
	242	7,440	8,389	16,071

¹ independent non-executive director

Notes:

- (a) Resigned on 2 November 2005
- (b) Resigned on 19 April 2005
- (c) Resigned on 28 November 2006
- (d) Appointed on 2 November 2005
- (e) Appointed on 19 April 2005



15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

No Directors waived emoluments in respect of the years ended 31 December 2006 and 2005. No emoluments were paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office for both years presented.

- (b) The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2006 and 2005 are also Directors whose emoluments are reflected in the analysis presented above.

16 INTERESTS IN TOLL HIGHWAYS AND BRIDGES

	Intangible operating rights HK\$'000	Group	
		Tangible infrastructures HK\$'000	Total HK\$'000
Year ended 31 December 2005			
Opening net book amount	1,703,684	336,336	2,040,020
Exchange differences	38,116	7,932	46,048
Amortisation/depreciation	(93,290)	(12,761)	(106,051)
Closing net book amount	<u>1,648,510</u>	<u>331,507</u>	<u>1,980,017</u>
At 31 December 2005			
Cost	2,248,518	413,462	2,661,980
Accumulated amortisation/depreciation	(600,008)	(81,955)	(681,963)
Net book amount	<u>1,648,510</u>	<u>331,507</u>	<u>1,980,017</u>
Year ended 31 December 2006			
Opening net book amount	1,648,510	331,507	1,980,017
Exchange differences	62,028	13,260	75,288
Amortisation/depreciation	(98,015)	(13,608)	(111,623)
Closing net book amount	<u>1,612,523</u>	<u>331,159</u>	<u>1,943,682</u>
At 31 December 2006			
Cost	2,333,900	430,000	2,763,900
Accumulated amortisation/depreciation	(721,377)	(98,841)	(820,218)
Net book amount	<u>1,612,523</u>	<u>331,159</u>	<u>1,943,682</u>



17 LEASEHOLD LAND

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	<u>700</u>	<u>718</u>
At 1 January	718	2,124
Transfer to investment properties (note 19)	—	(1,376)
Amortisation of prepaid operating lease payments	<u>(18)</u>	<u>(30)</u>
At 31 December	<u>700</u>	<u>718</u>



18 PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Year ended 31 December 2005				
Opening net book amount	14,278	10,232	1,898	26,408
Exchange differences	—	217	41	258
Additions	21	279	—	300
Transfer to investment properties (note 19)	(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 31 December 2005				
Cost	18,265	16,496	5,443	40,204
Accumulated depreciation	(5,743)	(6,914)	(4,006)	(16,663)
Net book amount	<u>12,522</u>	<u>9,582</u>	<u>1,437</u>	<u>23,541</u>
Year ended 31 December 2006				
Opening net book amount	12,522	9,582	1,437	23,541
Exchange differences	—	359	57	416
Additions	—	3,637	1,636	5,273
Disposals	—	(65)	(23)	(88)
Depreciation	(731)	(1,148)	(601)	(2,480)
Closing net book amount	<u>11,791</u>	<u>12,365</u>	<u>2,506</u>	<u>26,662</u>
At 31 December 2006				
Cost	18,264	20,544	7,034	45,842
Accumulated depreciation	(6,473)	(8,179)	(4,528)	(19,180)
Net book amount	<u>11,791</u>	<u>12,365</u>	<u>2,506</u>	<u>26,662</u>



18 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Company

	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Year ended 31 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 31 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>
Year ended 31 December 2006			
Opening net book amount	554	37	591
Additions	77	461	538
Disposal	(16)	—	(16)
Depreciation	(69)	—	(69)
Closing net book amount	<u>546</u>	<u>498</u>	<u>1,044</u>
At 31 December 2006			
Cost	1,383	2,251	3,634
Accumulated depreciation	(837)	(1,753)	(2,590)
Net book amount	<u>546</u>	<u>498</u>	<u>1,044</u>



19 INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
At 1 January	8,210	4,500
Transfer from leasehold land and buildings (notes 17 and 18(a))	—	2,404
Fair value gains	440	1,306
	<u>8,650</u>	<u>8,210</u>
At 31 December	<u>8,650</u>	<u>8,210</u>

The investment properties of the Group were revalued at 31 December 2006 on an open market value basis by an independent firm of professional surveyor, CS Surveyors Limited.

The Group's investment properties are held on leases of between 10 to 50 years in Hong Kong.

20 INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES

- (a) Investments in subsidiaries

	Company	
	2006	2005
	HK\$'000	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 38.

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



21 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group Share of net assets	
	2006 HK\$'000	2005 HK\$'000
At 1 January	475,549	422,893
Share of post-acquisition results and reserves		
- profit before income tax	78,217	49,309
- income tax	(3,004)	(9,295)
	75,213	40,014
Capital injection	101,500	53,846
Disposals	—	(51,853)
Exchange differences	18,908	10,649
At 31 December	671,170	475,549

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

	Guangzhou Northern Second Ring Expressway Co., Ltd.		Guangzhou Western Second Ring Expressway Co., Ltd.	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Income	137,753	117,549	—	—
Expenses	(62,540)	(77,535)	—	—
Profit	75,213	40,014	—	—
Assets:				
Non-current assets	945,777	920,716	798,743	399,211
Current assets	5,259	5,547	18,120	46,107
	951,036	926,263	816,863	445,318
Liabilities:				
Non-current liabilities	(495,558)	(558,225)	(528,500)	(175,000)
Current liabilities	(29,308)	(30,470)	(43,363)	(132,337)
	(524,866)	(588,695)	(571,863)	(307,337)
Net assets	426,170	337,568	245,000	137,981

Details of the Group's jointly controlled entities are set out in note 38.



22 INVESTMENTS IN ASSOCIATES

	Group		
	Share of net assets	Loans receivable	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	849,539	793,031	1,642,570
Share of post-acquisition results and reserves			
- profit before income tax	202,211	—	202,211
- income tax	(17,797)	—	(17,797)
	184,414	—	184,414
Dividends	(53,229)	—	(53,229)
Interest	—	40,099	40,099
Repayments	—	(153,630)	(153,630)
Exchange differences	20,598	5,720	26,318
At 31 December 2005	1,001,322	685,220	1,686,542
At 1 January 2006	1,001,322	685,220	1,686,542
Share of post-acquisition results and reserves			
- profit before income tax	280,179	—	280,179
- income tax	(38,925)	—	(38,925)
	241,254	—	241,254
Dividends	(79,532)	—	(79,532)
Interest	—	31,080	31,080
Repayments	—	(176,915)	(176,915)
Capitalisation of loans receivable	225,324	(225,324)	—
Exchange differences	38,230	5,157	43,387
At 31 December 2006	1,426,598	319,218	1,745,816

The loan balances are unsecured, have no fixed repayment terms and bear interest at the prevailing US dollars prime rates ranging from 7.50% to 8.25% (2005: 5.25% to 7.25%) per annum and lending rates of financial institutions in China at approximately 6.12% (2005: 6.12%) per annum.

Notes to the Consolidated Financial Statements



22 INVESTMENTS IN ASSOCIATES (continued)

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	953	1,024
US dollar	253,751	351,808
Renminbi	64,514	332,388
	<u>319,218</u>	<u>685,220</u>

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

	Guangdong Humen Bridge Co., Ltd.		Guangdong Qinglian Highway Development Co., Ltd.		Guangzhou Northring Freeway Co., Ltd.		Guangdong Shantou Bay Bridge Co., Ltd.	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Income	200,199	152,340	28,018	27,909	152,685	133,685	41,630	35,087
Expenses	(63,418)	(49,617)	(33,277)	(35,317)	(65,920)	(62,182)	(18,663)	(17,491)
Profit/(loss)	<u>136,781</u>	<u>102,723</u>	<u>(5,259)</u>	<u>(7,408)</u>	<u>86,765</u>	<u>71,503</u>	<u>22,967</u>	<u>17,596</u>
Assets:								
Non-current assets	701,403	629,622	761,381	708,997	278,179	273,338	291,626	293,384
Current assets	18,292	13,097	60,299	22,087	47,180	77,286	4,622	3,028
	<u>719,695</u>	<u>642,719</u>	<u>821,680</u>	<u>731,084</u>	<u>325,359</u>	<u>350,624</u>	<u>296,248</u>	<u>296,412</u>
Liabilities:								
Non-current liabilities	(356,572)	(425,344)	(181,295)	(385,152)	(70,998)	(119,838)	(28,128)	(44,231)
Current liabilities	(16,703)	(13,863)	(69,727)	(17,817)	(9,822)	(11,232)	(3,139)	(2,040)
	<u>(373,275)</u>	<u>(439,207)</u>	<u>(251,022)</u>	<u>(402,969)</u>	<u>(80,820)</u>	<u>(131,070)</u>	<u>(31,267)</u>	<u>(46,271)</u>
Net assets	<u>346,420</u>	<u>203,512</u>	<u>570,658</u>	<u>328,115</u>	<u>244,539</u>	<u>219,554</u>	<u>264,981</u>	<u>250,141</u>

Details of the Group's associates are set out in note 38.



23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2006 HK\$'000	2005 HK\$'000
At 1 January	65,925	143,124
Impairment losses charged to income statement	(10,982)	(44,251)
Increase/(decrease) in fair value credited/(charged) to equity (note 29)	3,802	(36,088)
Transfer to asset held for sale	(15,000)	—
Exchange differences	2,526	3,140
	<hr/>	<hr/>
At 31 December	46,271	65,925
	<hr/> <hr/>	<hr/> <hr/>

These financial assets represent unlisted equity securities stated at fair value as at 31 December 2006 and are denominated in Renminbi.

24 OTHER NON-CURRENT ASSET

The amount represents a deposit paid for the acquisition of an additional 20% equity interest in a jointly controlled entity, Guangzhou Northern Second Ring Expressway Co., Ltd. Details of the acquisition are set out in note 36.

25 ASSET HELD FOR SALE

The Group has negotiated with a third party for disposal of an available-for-sale financial asset at a consideration of HK\$15,000,000. As at 31 December 2006, the transaction is yet to be completed.

26 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

Trade receivables are aged below 30 days and denominated in Renminbi.



27 BANK BALANCES AND CASH

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash at bank and in hand	248,305	253,068	57,167	40,495
Short-term bank deposits	91,409	115,815	91,409	115,815
	<u>339,714</u>	<u>368,883</u>	<u>148,576</u>	<u>156,310</u>

The effective interest rate on short-term bank deposits was 4.14% (2005: 3.86%) per annum; these deposits have an average maturity of 7 days.

Bank balances and cash are denominated in the following currencies:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	82,321	82,935	80,926	82,838
US dollar	80,606	51,376	58,619	34,958
Renminbi	176,787	234,572	9,031	38,514
	<u>339,714</u>	<u>368,883</u>	<u>148,576</u>	<u>156,310</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.



28 SHARE CAPITAL

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

Share options

Pursuant to a share option scheme (the "Old Share Option Scheme") approved by shareholders of the Company on 3 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.

As at 31 December 2006, there were no outstanding options granted under the Old Share Option Scheme to subscribe for shares of the Company.

Movements in the number of share options outstanding under the Old Share Option Scheme and their related exercise price are as follows:

Date of grant	Exercise price per share	Balance outstanding as at 1 January		Options lapsed during the year		Options exercised during the year		Balance outstanding as at 31 December	
		2006	2005	2006	2005	2006	2005	2006	2005
	HK\$								
7 April 2000	0.752	230,000	1,114,000	(230,000)	(92,000)	—	(792,000)	—	230,000

On 25 June 2002, the Company adopted a new share option scheme (the "New Share Option Scheme"), under which it may grant options to employees (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the number of shares in issue as at 25 June 2002. The exercise price is determined by the Board and must be at least the highest of (a) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited's (the "Stock Exchange") daily quotation sheets on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. As at 31 December 2006, no such options have been granted to any person since its adoption.



29 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
Balance at 1 January 2005	576,947	1,705,497	15,620	11,479	29,049	—	1,049,871	3,388,463
Currency transaction differences								
- Group	—	—	—	43,935	—	—	—	43,935
- Associates	—	—	—	26,318	—	—	—	26,318
- Jointly controlled entities	—	—	—	10,649	—	—	—	10,649
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 13)	—	—	—	—	—	—	(58,524)	(58,524)
2005 Interim dividend (note 13)	—	—	—	—	—	—	(55,772)	(55,772)
Balance at 31 December 2005	577,463	1,705,497	31,240	92,381	29,049	(36,088)	1,241,473	3,641,015
Representing:								
Retained earnings							1,185,701	
2005 Final dividend proposed							55,772	
							1,241,473	
Balance at 1 January 2006	577,463	1,705,497	31,240	92,381	29,049	(36,088)	1,241,473	3,641,015
Currency transaction differences								
- Group	—	—	—	17,825	—	—	—	17,825
- Associates	—	—	—	43,387	—	—	—	43,387
- Jointly controlled entities	—	—	—	18,908	—	—	—	18,908
Increase in fair value of available-for-sale financial assets	—	—	—	—	—	3,802	—	3,802
Fair value adjustment on loans from minority shareholders of subsidiaries	—	—	16,627	—	—	—	—	16,627
Transfer	—	—	—	—	(2,104)	—	2,104	—
Profit for the year	—	—	—	—	—	—	461,157	461,157
2005 Final dividend (note 13)	—	—	—	—	—	—	(55,772)	(55,772)
2006 Interim dividend (note 13)	—	—	—	—	—	—	(72,504)	(72,504)
Balance at 31 December 2006	577,463	1,705,497	47,867	172,501	26,945	(32,286)	1,576,458	4,074,445
Representing:								
Retained earnings							1,498,377	
2006 Final dividend proposed							78,081	
							1,576,458	



29 RESERVES (continued)

Group (continued)

- (a) Capital reserve represents the difference between the nominal value of the shares/registered capital of the subsidiaries acquired and the nominal value of the shares issued by Kiu Fung Limited, a subsidiary of the Company, as consideration therefor on 30 November 1996.
- (b) Statutory reserves represent enterprise expansion and general reserve funds set up by the operating subsidiaries, associates and jointly controlled entities in China. As stipulated by regulations in China, the Company's subsidiaries, associates and jointly controlled entities established and operated in China are required to appropriate a portion of their after-tax profits (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective Boards of Directors. According to the Foreign Investment Enterprises Accounting Standards in China, upon approval by the board, the general reserve funds may be used for making up losses and increasing capital while the enterprise expansion fund may be used for increasing capital. Included in the Group's statutory reserves is HK\$1,734,000 (2005: HK\$1,536,000) attributable to associates.
- (c) Included in the Group's retained earnings are retained earnings of HK\$638,028,000 (2005: HK\$486,007,000) and HK\$64,500,000 (2005: accumulated losses of HK\$10,700,000) attributable to associates and jointly controlled entities respectively.



29 RESERVES (continued)

Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2005	576,947	1,773,497	370,915	2,721,359
Profit for the year	—	—	98,442	98,442
Issue of shares	516	—	—	516
2004 Final dividend (note 13)	—	—	(58,524)	(58,524)
2005 Interim dividend (note 13)	—	—	(55,772)	(55,772)
	<u>577,463</u>	<u>1,773,497</u>	<u>355,061</u>	<u>2,706,021</u>
Representing:				
Retained earnings			299,289	
2005 Final dividend proposed			55,772	
			<u>355,061</u>	
At 1 January 2006	577,463	1,773,497	355,061	2,706,021
Profit for the year	—	—	114,153	114,153
2005 Final dividend (note 13)	—	—	(55,772)	(55,772)
2006 Interim dividend (note 13)	—	—	(72,504)	(72,504)
	<u>577,463</u>	<u>1,773,497</u>	<u>340,938</u>	<u>2,691,898</u>
Representing:				
Retained earnings			262,857	
2006 Final dividend proposed			78,081	
			<u>340,938</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 30 November 1996. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders. At Group level, the contributed surplus is classified as components of reserves of the underlying subsidiaries.



30 BORROWINGS

	Group	
	2006 HK\$'000	2005 HK\$'000
Non-current		
Loans from minority shareholders of subsidiaries	449,739	421,864
Current		
Short-term bank borrowings	—	67,308
Current portion of long-term bank borrowings	—	76,923
	—	144,231
Total borrowings, unsecured and denominated in Renminbi	449,739	566,095

(a) The bank borrowings at 31 December 2005 were fully repaid in 2006.

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

(b) The effective interest rate of bank borrowings at 31 December 2005 was 5.184%.

Except for an aggregate amount of HK\$129,000,000 (2005: HK\$120,561,000) which bears interest at the prevailing Bank of China Rmb long-term lending rates ranging from 6.120% to 6.840% (2005: 6.120%) per annum, the loans from minority shareholders of subsidiaries are interest-free.

(c) The carrying amounts of the non-current borrowings approximate to their fair values.

The fair values are based on cash flows discounted using a rate of 5.184% (2005: 5.184%).

The carrying amounts of current borrowings approximate their fair value.



31 DEFERRED INCOME TAX

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Deferred income tax assets	(312)	(417)
Deferred income tax liabilities	<u>5,484</u>	<u>5,985</u>
	<u><u>5,172</u></u>	<u><u>5,568</u></u>

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
At 1 January	5,568	6,667
Credited to income statement (note 10(c))	<u>(396)</u>	<u>(1,099)</u>
At 31 December	<u><u>5,172</u></u>	<u><u>5,568</u></u>



31 DEFERRED INCOME TAX (continued)

The detail movements in deferred income tax assets and liabilities during the year are as follows:

Deferred income tax assets:

	Revaluation of investment properties HK\$'000
At 1 January 2005	(586)
Charged to income statement	169
	<hr/>
At 31 December 2005	(417)
Charged to income statement	105
	<hr/>
At 31 December 2006	<u>(312)</u>

Deferred income tax liabilities:

	Accelerated depreciation HK\$'000
At 1 January 2005	7,253
Credited to income statement	(1,268)
	<hr/>
At 31 December 2005	5,985
Credited to income statement	(501)
	<hr/>
At 31 December 2006	<u>5,484</u>

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

The amounts are unsecured, interest free and repayable on demand. They are denominated in Renminbi and Hong Kong dollar respectively.



33 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to net cash generated from operations

	2006	2005
	HK\$'000	HK\$'000
Operating profit	184,819	130,647
Amortisation/depreciation of interests in toll highways and bridges	111,623	106,051
Amortisation of prepaid operating lease payment	18	30
Depreciation of property, plant and equipment	2,480	2,397
Impairment losses on available-for-sale financial assets	10,982	44,251
Fair value gains on investment properties	(440)	(1,306)
Loss on disposal of property, plant and equipment	24	—
Gain on disposal of partial interest in a jointly controlled entity	—	(11,705)
Exchange differences	(27,147)	11,486
	<hr/>	<hr/>
Operating profit before working capital changes	282,359	281,851
Decrease/(increase) in receivables, deposits and prepayments	12,894	(5,710)
Increase/(decrease) in payables and accrued charges	16,937	(2,194)
Decrease in amount due to a minority shareholder of subsidiaries	(4,723)	(2,316)
Increase in amounts due to holding companies	373	682
	<hr/>	<hr/>
Net cash generated from operations	307,840	272,313
	<hr/> <hr/>	<hr/> <hr/>



34 COMMITMENTS

At 31 December 2006, the Group had financial commitments in respect of equity capital to be injected to two jointly controlled entities of approximately HK\$648,800,000 (2005: one jointly controlled entity of approximately HK\$198,558,000), of which HK\$543,800,000 relates to an acquisition as disclosed as subsequent event in note 36.

At 31 December 2006, the Group's share of capital commitments of a jointly controlled entity not included in the above approximates to HK\$243,600,000 (2005: HK\$599,200,000).

At 31 December 2006, the Group's future aggregate minimum lease payments/receipts under non-cancellable operating leases of premises are as follows:

	2006	2005
	HK\$'000	HK\$'000
Lease payments		
Not later than one year	294	202
Later than one year and not later than five years	294	—
	<u>588</u>	<u>202</u>
Lease receipts		
Not later than one year	391	293
Later than one year and not later than five years	361	29
	<u>752</u>	<u>322</u>

The Company had no commitments at 31 December 2006 and 2005.



35 RELATED PARTY TRANSACTIONS

(a) Related parties

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

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. The table set forth below summarises the names of related parties, with whom the Group has significant transaction during the year, and their relationship with the Company as at 31 December 2006:

Significant related party	Relationship with the Company
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu")	A substantial shareholder of ultimate holding company (2005: ultimate holding company)
Guangzhou Investment Company Limited ("GZI")	Ultimate holding company (2005: an intermediate holding company)
Guangzhou Northern Second Ring Expressway Co., Ltd. ("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

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

	2006 HK\$'000	2005 HK\$'000
Administrative service fees shared with GZI	1,300	1,300
Rental expenses paid to Yue Xiu	202	202
	<u>1,502</u>	<u>1,502</u>

(c) Key management compensation

	2006 HK\$'000	2005 HK\$'000
Salaries and other short-term benefits	24,271	16,071
	<u>24,271</u>	<u>16,071</u>



36 SUBSEQUENT EVENT

On 20 November 2006, the Group entered into an agreement (the “agreement”) with Guangzhou Development Infrastructure Investments Co., Ltd., to acquire an additional 20% equity interest in a jointly controlled entity, Guangzhou Northern Second Ring Expressway Co., Ltd., for a consideration of RMB666,200,000. A deposit of HK\$132,580,000 (equivalent to approximately RMB133,906,000) was paid on 20 November 2006. The acquisition was completed in March 2007 and was financed by a 5-year unsecured bank loan and internal funds.

37 APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board on 10 April 2007.

38 GROUP STRUCTURE

As at 31 December 2006, 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 2006 and 2005		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	—	100	Investment holding in Guangzhou Northern Second Ring Expressway Co., Limited
Fortune Success Group Ltd.	British Virgin Islands	1 Ordinary share of US\$1	—	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



38 GROUP STRUCTURE (continued)

	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 2006 and 2005		Principal activities
			Direct	Indirect	
Principal subsidiaries					
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.
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



38 GROUP STRUCTURE (continued)

	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 2006 and 2005		Principal activities
			Direct	Indirect	
Principal subsidiaries					
Guangzhou Yue Peng Information Ltd.	People's Republic of China, limited liability company	Rmb260,000,000	—	100	Investment holding
Hunan Yue Tung Highway and Bridge Development Company Limited	People's Republic of China, limited liability company	Rmb21,000,000	—	75	Development and management of Xiang Jiang Bridge II in Hunan Province
Ickleton Limited	British Virgin Islands	1 Ordinary share of US\$1	—	100	Investment holding in Guangzhou Taihe Highways Development Company Limited
Kam Cheong Limited	British Virgin Islands	1 Ordinary share of US\$1	—	100	Investment holding
Kinleader Co., Ltd.	British Virgin Islands	1 Ordinary share of US\$1	—	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	—	100	Investment holding in Guangdong Humen Bridge Co., Ltd.
Profit Optima Ltd.	British Virgin Islands	1 Ordinary share of US\$1	—	100	Investment holding
Proterall Limited	British Virgin Islands	1 Ordinary share of US\$1	—	100	Investment holding in Guangzhou Qiaowei Highways Development Company Limited



38 GROUP STRUCTURE (continued)

	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 2006 and 2005		Principal activities
			Direct	Indirect	
Principal subsidiaries					
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	—	100	Investment holding in Guangdong Shantou Bay Bridge Co., Ltd.
Superfield Limited	British Virgin Islands	1 Ordinary share of US\$1	—	100	Investment holding in Guangzhou Nanxin Highways Development Company Limited
Teckstar Limited	British Virgin Islands	1 Ordinary share of US\$1	—	100	Investment holding in Guangzhou Weian Highways Development Company Limited
Top Global Holdings Ltd.	British Virgin Islands	1 Ordinary share of US\$1	—	100	Investment holding in Guangzhou Xinguang Highways Development Company Limited
Unionwin Investment Limited	British Virgin Islands	1 Ordinary share of US\$1	—	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



38 GROUP STRUCTURE (continued)

	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., Ltd.	People's Republic of China	Rmb900,000,000	40	—	40	Development and management of Guangzhou Northern Second Ring Expressway in Guangzhou
Guangzhou Western Second Ring Expressway Co., Ltd.	People's Republic of China	Rmb1,000,000,000	33	—	35	Development and management of Guangzhou Western Second Ring Expressway in Guangzhou
	Place of establishment and operation	Issued and fully paid up share capital/registered capital	Percentage of attributable interest held by the Company 2006 and 2005		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	



Board of Directors

Executive Directors

Mr Ou Bingchang (*Chairman*)
Mr Li Xinmin
Mr Qian Shangning (appointed on 12 April 2007)
Mr Liang Ningguang
Mr Liang Yi
Mr Cai Tielong (appointed on 12 April 2007)
Mr He Zili
Ms Yuan Hongping (appointed on 12 April 2007)
Mr Chen Guanzhan (appointed on 12 April 2007)
Mr Zhang Siyuan
Mr Luo Jinbiao (appointed on 12 April 2007)
Mr Zhang Huping

Non-executive Directors

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

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

Company Secretary

Mr Yu Tat Fung

Qualified Accountant

Ms 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:
Ms 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>

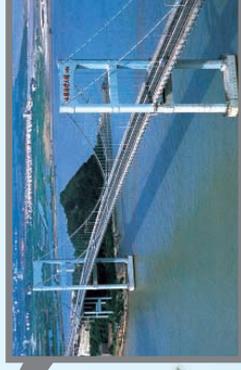
廣東省內項目位置圖

Location Map of Toll Road Projects inside Guangdong Province



汕頭
Shantou

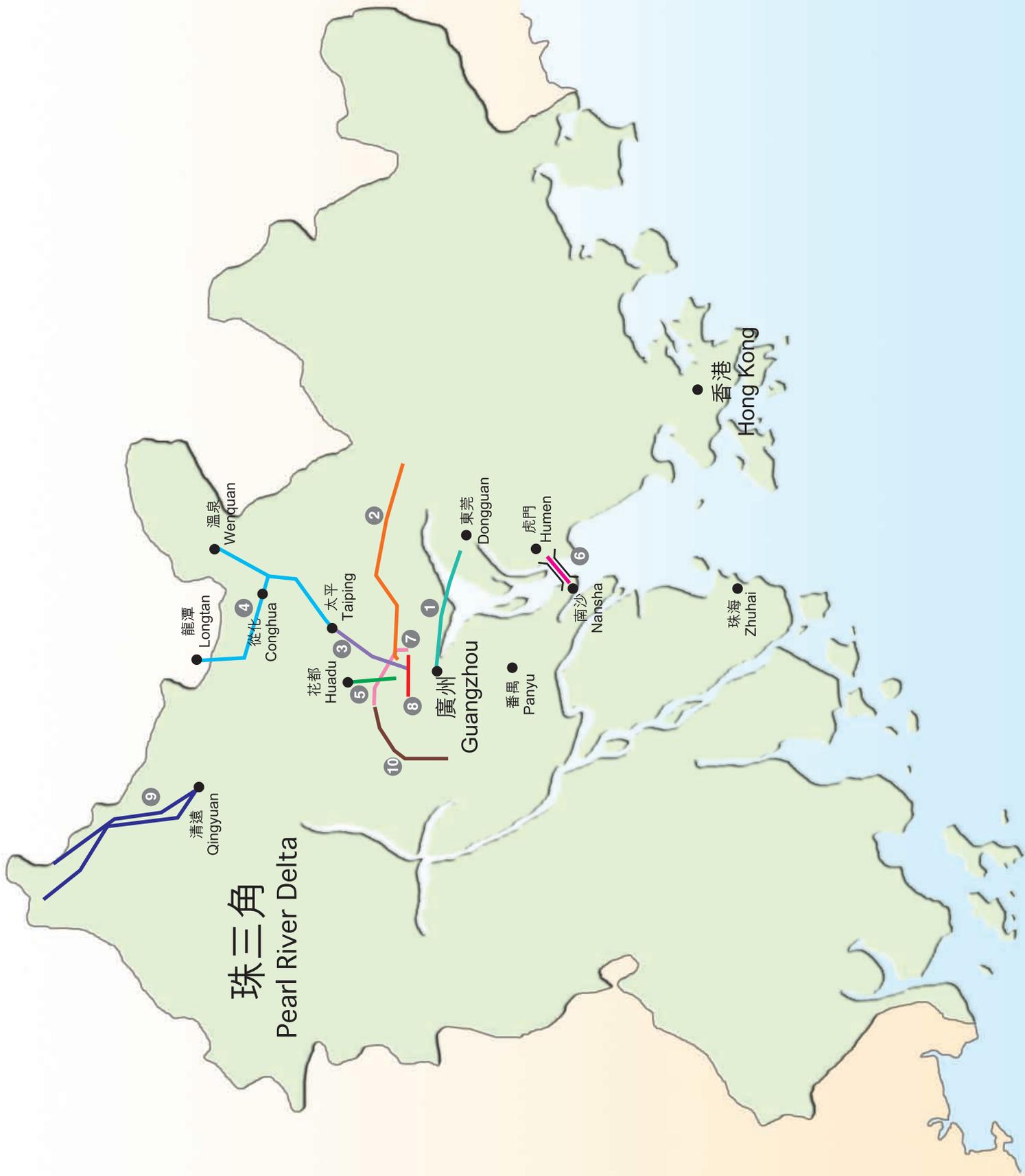
海灣大橋 Bay Bridge



汕頭海灣大橋 Shantou Bay Bridge

位於汕頭港東部出入口處，西接深汕高速公路，橫跨汕頭港黃沙灣主航道與汕汾高速公路相接，六線行車道，全長約6.5公里。

A six-lane bridge of approximately 6.5 km long, located in the eastern entrance of Shantou Harbour which connects Shenshan Expressway in the west and stretches over Shantou Harbour Huangsha Bay Sea Route linking Shantou Expressway.



珠三角
Pearl River Delta

香港
Hong Kong

廣州
Guangzhou

清遠
Qingyuan

龍潭
Longtan

溫泉
Wenquan

從化
Conghua

花都
Huadu

太平
Taiping

東莞
Dongguan

虎門
Humen

南沙
Nansha

珠海
Zhuhai

番禺
Panyu

9

4

3

2

1

7

8

10

6

廣東省內項目位置圖

Location Map of Toll Road Projects inside Guangdong Province



1 廣深公路 Guangshen Highway

屬 107 國道其中一段，是連接廣州市和深圳市的主要公路之一。全長約 23.1 公里，其中黃埔大沙地至南崗為六線行車道，長約 11.7 公里，南崗至新塘為四線行車道，長約 11.4 公里。

It 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 23.1 km, of which the section from Dashadi in Huangpu to Nangang measures approximately 11.7 km long with six lanes and the section from Nangang to Xintang measures approximately 11.4 km long with four lanes.



6 虎門大橋 Humen Bridge

全長約 15.8 公里六線行車之高速公路懸索橋，連接廣州市番禺區和東莞市，兩端連接廣深高速公路及廣珠東線高速公路。

An expressway of approximately 15.8 km long with a six-lane suspension bridge linking Panyu District of Guangzhou Municipality and Dongguan City. Its two ends are connected to the Guangzhou Shenzhen Expressway and Guangzhou Zhuhai Eastern Expressway.



2 廣汕公路 Guangshan Highway

為 324 國道其中一段，長約 64.0 公里，四線行車道，是連接廣州市和粵東地區的主要公路之一。

It is a section of National Highway 324 with a total length of approximately 64.0 km with four lanes and is one of the major highways connecting Guangzhou Municipality and the eastern region of Guangdong Province.



7 北二環高速公路 GNSR Expressway

全長 42.4 公里，六線行車道上設有九座互通立交，連接廣州市北部共十一條省道、國道和高速公路。

A six-lane 42.4 km expressway with nine interchanges which connects eleven provincial, national highways and expressways in the north of Guangzhou Municipality.



8 北環高速公路 Northern Ring Road

全長約 22.0 公里，六線行車道，位於廣州市市區，東連廣深高速公路，西接廣佛高速公路。

It is located in the urban area of Guangzhou City with total length of approximately 22.0 km with six lanes. It links the Guangzhou Shenzhen Expressway in the east and the Guangzhou Foshan Expressway in the west.



9 清連公路 Qingjian Highways

位於廣東省西北部，是連接廣東和湖南兩省地區的一條重要通道，其中包括一級公路約 215.2 公里，四線行車道和二級公路約 253.0 公里，二線行車道。

Consist of a Class I-Highway of approximately 215.2 km long with four lanes and a Class II Highway of approximately 253.0 km long with two lanes. They are located in the northwestern part of Guangdong Province and is a major access connecting Guangdong Province and Hunan Province.



5 廣花公路 Guanghua Highway

全長約 20.0 公里，六線行車道，連接廣州市市區及廣州新機場所在地的花都區的主要公路之一。

It measures approximately 20.0 km with six lanes which is one of the major highways connecting the urban area of Guangzhou City and the suburb of Huadu District where the New Guangzhou Airport is located.



10 西二環高速公路 GWSR Expressway

全長約 39.6 公里，雙向六車道，與廣州市北二環高速、京珠高速、廣花高速、新機場高速、廣三高速以及國道 324、321、105、106、107 等公路連接。

A 39.6 km expressway with six lanes in dual direction which connected to GNSR Expressway, Jingzhu Expressway, Guanghua Expressway, New Airport Expressway, Guangsan Expressway and National Highways 324, 321, 105, 106, 107.

廣東省外項目位置圖

Location Map of Toll Road Projects outside Guangdong Province



陝西省西臨高速公路 Xian Expressway in Shaanxi Province

是西安至潼關高速公路的一段，亦屬國道幹線G045連雲港到霍爾果斯的一部份，全長約20.1公里，四線行車道，並與繞城高速公路互通。貫通西安市與世界知名歷史古跡兵馬俑、華清池等風景名勝區的重要通道。

A section of Xian Tongguan Expressway, a part of National Highway G045 between Lianyungang and Huerqunosi with a total length of approximately 20.1 km with four lanes and intersects with Yao Cheng Expressway. It is also a major access connecting Xian City to the world famous historical relics and scenic spots such as Terra-Cotta Warriors and Huaqing Hot Spring.

湖南省湘江二橋 Xian Jiang Bridge II in Hunan Province

位於湖南省湘潭市，全長約1.8公里，四線行車道，是連接湘江南北河岸107國道上的橋樑，主要連接廣東省及湖南省之間的省際交通。

It is located in Xiang Tan City of Hunan Province with a total length of approximately 1.8 km long with four lanes and a part of National Highway 107 linking the northern and southern banks of Xiang Jiang. It primarily connects inter-provincial traffic between Guangdong Province and Hunan Province.