



GZI Transport Limited

越秀交通有限公司

(Stock Code: 01052)

2010
Interim Report



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Financial Highlights

INCOME STATEMENT

| (RMB '000) | Six months ended 30 June | | |
|---|--------------------------|-----------|----------|
| | 2010 | 2009 | Change % |
| Revenue | 571,359 | 446,998 | 27.8 |
| Earnings before interests, tax, depreciation and amortization ("EBITDA") ⁽¹⁾ | 559,756 | 452,061 | 23.8 |
| Profit before income tax | 389,522 | 224,274 | 73.7 |
| Profit for the period | 325,220 | 179,307 | 81.4 |
| Profit attributable to: | | | |
| Equity holders of the Company | 238,133 | 155,444 | 53.2 |
| Non-controlling interests | 87,087 | 23,863 | 264.9 |
| Basic earnings per share for profit attributable to equity holders of the Company | RMB0.1423 | RMB0.0929 | 53.2 |
| Dividend per share ⁽²⁾ | RMB0.087238 | RMB0.035 | 149.3 |

(1) EBITDA excludes non-cash gains and losses

(2) 2010 interim dividend to be paid out in HK dollar at HK\$0.10 (2009 interim dividend: HK\$0.04) per share.

BALANCE SHEET

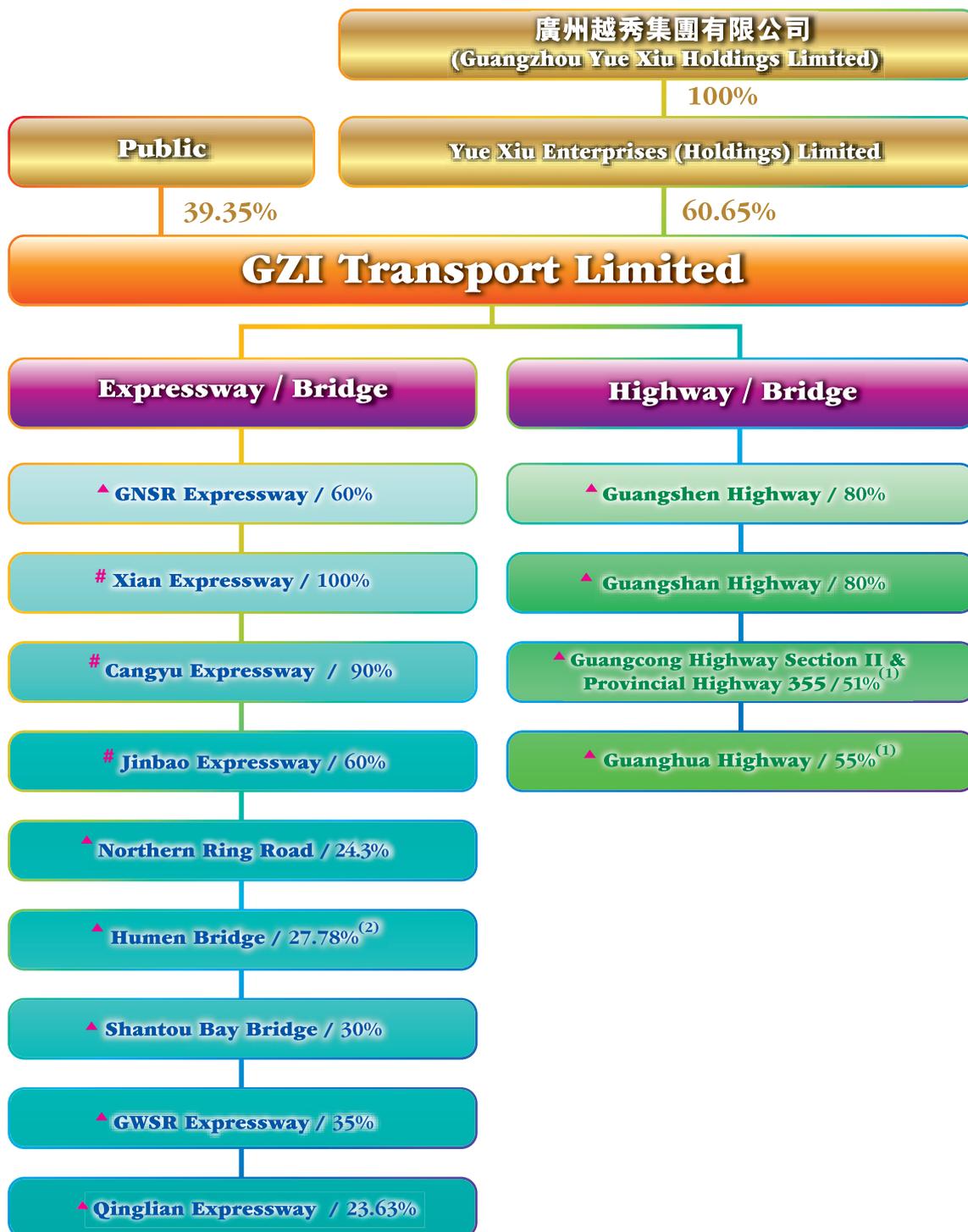
| (RMB '000) | 30 June | 31 December | Change % |
|---|------------|-------------|----------|
| | 2010 | 2009 | |
| Total Assets | 12,108,492 | 12,152,740 | -0.4 |
| Total Liabilities | 2,637,276 | 2,692,150 | -2.0 |
| Total Equity | 9,471,216 | 9,460,590 | 0.1 |
| Equity attributable to: | | | |
| Equity holders of the Company | 7,675,001 | 7,619,861 | 0.7 |
| Non-controlling interests | 1,796,215 | 1,840,729 | -2.4 |
| Net assets per share to equity holders of the Company | RMB4.59 | RMB4.55 | 0.9 |

Summary Information of Operating Toll Roads and Bridges

| | Length (km) | Width (Lanes) | Toll Station(s) | Road Type | Attributable Interest (%) | Remaining Operating Term (years) |
|---|----------------|------------------|--------------------|-------------------|---------------------------------|---|
| Subsidiaries | | | | | | |
| GNSR Expressway | 42.5 | 6 | 9 | Expressway | 60.00 | 22 |
| Xian Expressway | 20.1 | 4 | 3 | Expressway | 100.00 | 6 |
| Cangyu Expressway | 23.3 | 4 | 1 | Expressway | 90.00 | 20 |
| Jinbao Expressway | 23.9 | 4 | 3 | Expressway | 60.00 ⁽⁴⁾ | 20 |
| Guangshen Highway | 23.1 | 6 | 1 | Class 1 Highway | 80.00 | 16 |
| Guangshan Highway | 64.0 | 4 | 2 | Class 1 Highway | 80.00 | 16 |
| Guangcong Highway Section II and Provincial Highway 355 ⁽³⁾ | 33.1 | 6 | 1 | Class 1 Highway | 51.00 | 16 |
| Guanghua Highway ⁽³⁾ | 33.3 | 4 | 1 | Class 1 Highway | 51.00 | 16 |
| | 20.0 | 6 | 1 | Class 1 Highway | 55.00 | 17 |
| Associates and Jointly Controlled Entity | | | | | | |
| Humen Bridge | 15.8 | 6 | 4 | Suspension Bridge | 27.78 ⁽⁵⁾ | 19 |
| Northern Ring Road | 22.0 | 6 | 11 | Expressway | 24.30 | 13 |
| Qinglian Expressway | | | | | | |
| National Highway 107 | 253.0 | 2 | 4 | Class 2 Highway | 23.63 | 18 |
| Expressway Section ⁽¹⁾ | 215.2 | 4 | 5 | Expressway | 23.63 | 24 |
| Shantou Bay Bridge | 6.5 | 6 | 1 | Suspension Bridge | 30.00 | 18 |
| GWSR Expressway ⁽²⁾ | 42.1 | 6 | 5 | Expressway | 35.00 | Pending Approval |

- (1) The original main section of Qinglian Highway (the Fengrouling to Lianzhou section and the Fengbu to Jinkou Section) began to collect tolls based on expressway toll fare standards from 1 July 2009.
- (2) The operating term of GWSR Expressway is pending approval from the relevant regulatory authority.
- (3) The approval of the respective acquisition of additional 35.0 percent and 39.0 percent equity interests of Guanghua Highway, Guangcong Highway Section II and Provincial Highway 355 is in progress. When approved, the Group will hold 90.0 percent equity interests in each of Guanghua Highway, Guangcong Highway Section II and Provincial Highway 355.
- (4) The Group holds 60 percent of the attributable interests; during the 30-year operating period, the Group's profit sharing ratio shall be 90 percent for the first 13 years, 40 percent for the period from the 14th to the 16th years and 60 percent for the period from the 17th to the 30th years.
- (5) From the start of the Reporting Period, the Group's profit sharing ratio was adjusted from 27.78 percent to 18.446 percent in accordance to the relevant terms of the Joint Venture Contract. For details, please refer to page 109 of the Prospectus dated 21 January 1997.

Corporate Profile



- ▲ inside Guangdong Province
- # outside Guangdong Province

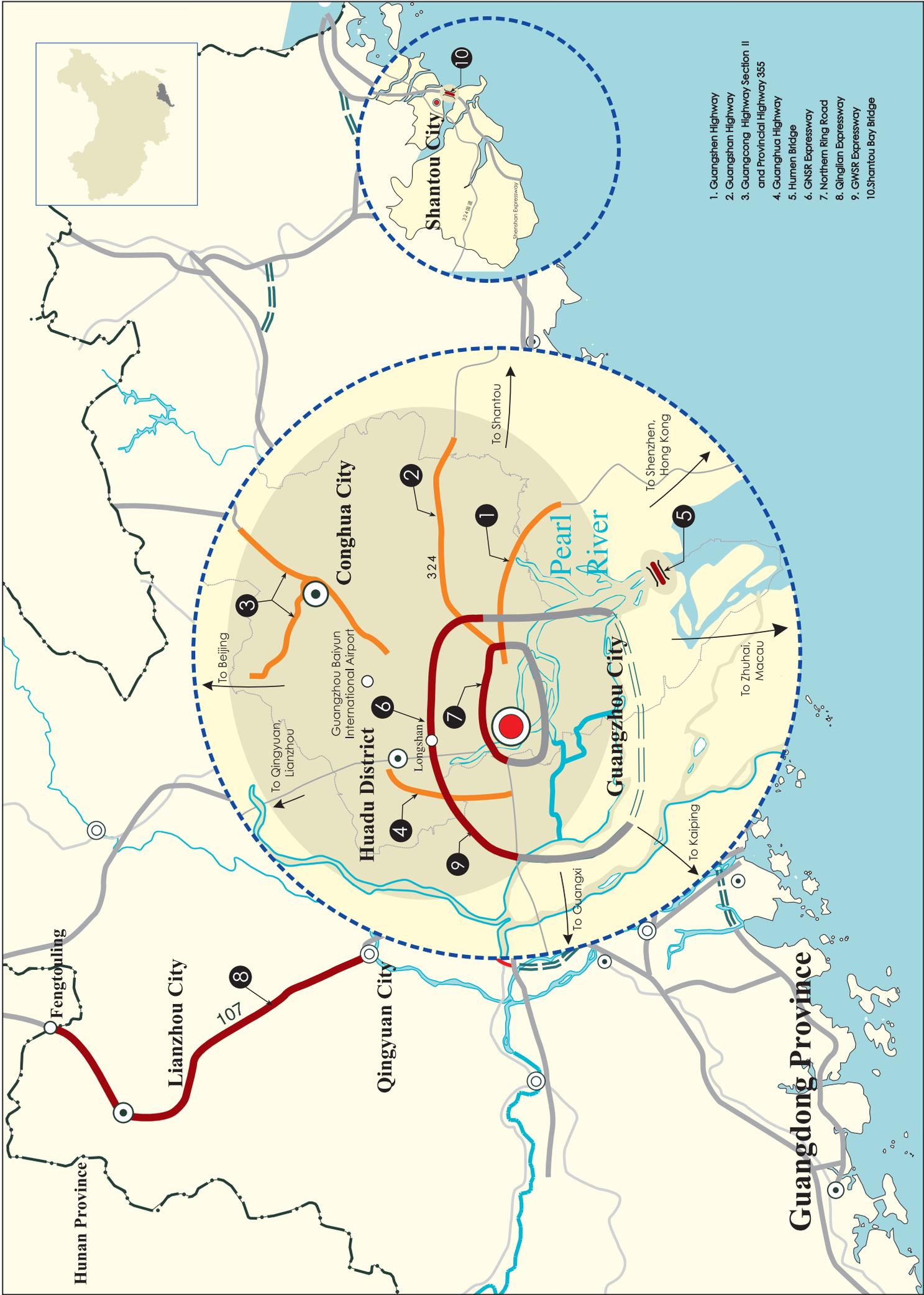
(1) Details of the Group's attributable interests in Guanghua Highway and Guangcong Highway Section II & Provincial Highway 355 are set out on page 3 (note 3).

(2) Detail of the Group's profit sharing ratio in Humen Bridge is set out on page 3 (note 5).



GZI Transport Limited (“Company”) and its subsidiaries (collectively, “Group”) are principally engaged in investment, operation and management of toll expressways, national highways and bridges mainly located in Guangdong Province.

As at 30 June 2010, the Group had a total of 13 investments in its operating toll road and bridge projects which include expressways and bridges such as Guangzhou City Northern Ring Road (“Northern Ring Road”), Guangzhou Northern Second Ring Expressway (“GNSR Expressway”), Guangzhou Western Second Ring Expressway (“GWSR Expressway”), Guangdong Humen Bridge (“Humen Bridge”) and Shantou Bay Bridge, all of which are located within Guangdong Province; Guangshen Highway Guangzhou Section (“Guangshen Highway”) which connects Guangzhou City to Shenzhen City, and toll projects passing through Guangdong, Hunan and Jiangxi provinces such as Guangshan Highway along NH324 Guangzhou section (“Guangshan Highway”); Guangcong Highway connecting Tai Ping Chang, Conghua City and Wenquan (“Guangcong Highway II and Provincial Highway 355”) along NH105 Guangzhou section and the juncture section between the crossing at Conghua City and Fogang County; Guanghua Highway; Qinglian Expressway which connects Qingyuan City and Lianzhou City (“Qinglian Expressway”) and NH107 section, as well as Xian to Lintong Expressway in Shaanxi Province (“Xian Expressway”); Cangyu Expressway in Guangxi Zhuang Autonomous Region (“Cangyu Expressway”) and Jinbao Expressway in Tianjin Municipality (“Jinbao Expressway”). Total attributable length of the Group’s toll roads and bridges as at 30 June 2010 is approximately 332.5 km.



1. Guangshen Highway
2. Guangshen Highway Section II and Provincial Highway 355
3. Guangzhou Highway
4. Guanghua Highway
5. Humen Bridge
6. GNSR Expressway
7. Northern Ring Road
8. Qinglian Expressway
9. GWSR Expressway
10. Shantou Bay Bridge



Shantou City

Conghua City

Pearl River

Guangzhou City

Huadu District

Guangzhou Baiyun International Airport

Lianzhou City

Qingyuan City

Guangdong Province

Hunan Province

Fengtouling

107

2

1

3

6

9

4

7

5

8

10

324

To Beijing

To Qingyuan, Lianzhou

Longshan

To Shantou

To Shenzhen, Hong Kong

To Zhuhai, Macau

To Kaiping

To Guangxi



1

Guangshen Highway

is a section of National Highway 107 and is one of the major roads connecting Guangzhou City and Shenzhen City. The total length is approximately 23.1 km, of which the section from Dashedi 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

GNSR Expressway

is a six-lane 42.5 km expressway with nine intersections which connects eleven provincial, national highways and expressways in the north of Guangzhou Municipality.



2

Guangshan Highway

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

Northern Ring Road

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



3

Guangdong Highway Section II & Provincial Highway 355

Guangdong Highway Section II measures approximately 33.1 km long with six lanes which connects inter-provincial traffic between Guangdong Province and provinces in Eastern China such as Jiangxi and intra-municipality traffic between Guangzhou and Conghua City in the northeast, where a hot spring resort is located. Provincial Highway 355 measures approximately 33.3 km long with four lanes which connects inter-provincial traffic between Guangdong and Hunan provinces.



8

Qinglian Expressway

consist of an expressway 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.



4

Guanghua Highway

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.



9

GWSR Expressway

is a 42.1 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.



5

Humen Bridge

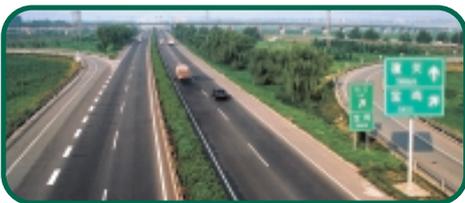
is an expressway of approximately 15.8 km long with a six-lane suspension bridge linking Panyu District of Guangzhou Municipality and Dongguan City. Its two ends are connected to the GS Superhighway and Guangzhou Zhuhai Eastern Expressway.



10

Shantou Bay Bridge

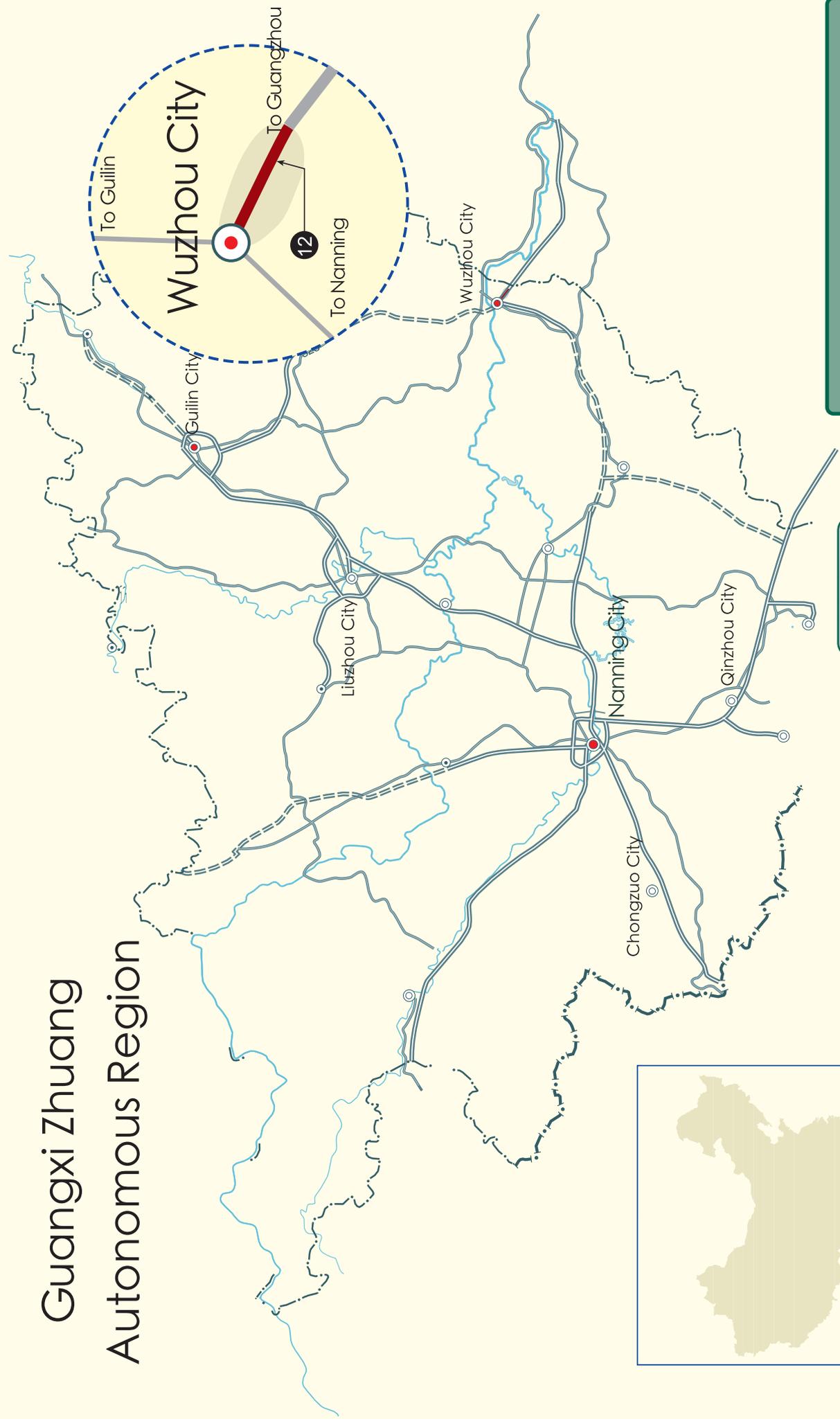
is a six-lane bridge of approximately 6.5 km long, located in the eastern entrance of Shantou Harbour which connects Shenshan Expressway in the west and stretches over Shantou Harbour Huangsha Bay Sea Route linking Shanfen Expressway.



Xian Expressway

is a section of Xian Tongguan Expressway, a part of National Highway G045 between Lianyungang and Huoerguosi with a total length of approximately 20.1km with four lanes and intersects with Rao 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.

Guangxi Zhuang Autonomous Region



12

Cangyu Expressway

is located in Cangyu County of Wuzhou City in Guangxi Zhuang Autonomous Region, linking the Cangyu County of Guangxi Zhuang Autonomous Region with the Yunan County of Guangdong Province. It also forms a part of the Guangwu Expressway (from Guangzhou to Wuzhou) of approximately 23.3 km long with four-lane dual direction.



Jinbao Expressway

13 is located in the west of Tianjin Municipality, intersecting with Hebei Province, and linking the Jinbao Expressway (Hebei section), Jinjin Expressway, Jinghu Expressway and Tianjin Waihuan Lane etc, with length of approximately 23.9 km with four-lane dual direction.

Management Discussion and Analysis

INTERIM RESULTS AND DIVIDEND

The revenue of the Group for the first half of 2010 (the “Reporting Period”) was RMB571.4 million, representing an increase of 27.8 percent over the same period in 2009; profit attributable to equity holders of the Company was RMB238.1 million, representing an increase of 53.2 percent over the same period in 2009.

The Directors resolved to declare an interim dividend for 2010 of RMB0.087238 which was equivalent to HK\$0.10 (2009: RMB0.035 which was equivalent to HK\$0.04) per share.

BUSINESS REVIEW

Toll summary of toll roads and bridges

Six months ended 30 June 2010

| Projects | Average daily toll traffic volume | | Average daily toll revenue | |
|---|--------------------------------------|----------------|------------------------------|----------------|
| | First half of 2010 (no. of vehicles) | YoY change (%) | First half of 2010 (RMB'000) | YoY change (%) |
| For subsidiaries | | | | |
| GNSR Expressway | 97,203 | 17.8% | 1,857.4 | 23.9% |
| Xian Expressway ⁽¹⁾ | 30,910 | -20.7% | 368.2 | -29.3% |
| Jinbao Expressway | 20,643 | 15.1% | 419.8 | 8.4% |
| Cangyu Expressway | 3,132 | 0.7% | 101.9 | 32.8% |
| Class 1 Highways | 50,244 | 5.8% | 409.3 | 7.3% |
| For associates and jointly controlled entity | | | | |
| Humen Bridge | 65,386 | 19.8% | 2,689.6 | 20.1% |
| Northern Ring Road | 155,210 | -1.3% | 1,562.1 | 7.3% |
| GWSR Expressway | 23,737 | 115.8% | 578.0 | 55.4% |
| Shantou Bay Bridge | 12,964 | 7.7% | 492.8 | 10.1% |
| Qinglian Expressway ⁽²⁾ | 18,040 | N/A | 1,050.4 | N/A |

(1) Xitong Expressway, which is connected to Xian Expressway in Shaanxi, has been undergoing expansion work to increase the number of lanes from four to eight since 6 November 2009. For this reason, Xitong Expressway has implemented a complete closure at certain hours which applies to certain types of vehicles. This indirectly affected the traffic volume at Xian Expressway in Shaanxi during the Reporting Period. It is expected that the traffic at Xian Expressway in Shaanxi will return to normal in October 2010.

(2) Fengtoulung to Lianzhou section and Fengbu to Jingkou section of the Qinglian Expressway began to collect tolls based on expressway toll fare standards starting from 1 July 2009, and Toll-by-Weight System was implemented for the expressway section starting from 1 November 2009.

Management Discussion and Analysis

Toll roads and bridges

Analysis of average daily toll traffic volume for the first and second quarters of 2010 is as follows:

| Projects | Average daily toll traffic volume for the first quarter (no. of vehicles) | Average daily toll traffic volume for the second quarter (no. of vehicles) |
|---|---|--|
| For subsidiaries | | |
| GNSR Expressway | 97,361 | 97,047 |
| Xian Expressway | 30,233 | 31,580 |
| Jinbao Expressway | 17,294 | 23,956 |
| Cangyu Expressway | 4,018 | 2,256 |
| Class 1 Highways | 49,343 | 51,134 |
| For associates and jointly controlled entity | | |
| Humen Bridge | 63,602 | 67,146 |
| Northern Ring Road | 152,523 | 157,866 |
| GWSR Expressway | 21,397 | 26,052 |
| Shantou Bay Bridge | 13,825 | 12,113 |
| Qinglian Expressway | 19,482 | 16,613 |

Overview of operating performance

China's domestic economic growth continued to rebound as foreign trade recovered speedily and vehicle sales increased rapidly in the first half of 2010. In the first half of the year, GDP reached RMB17,284 billion, representing a year-on-year increase of 11.1 percent.

The GDP of Guangdong Province reached RMB1,995.8 billion, up 12.7 percent over the same period last year. The growth was also above the national average. While the economy has experienced steady growth, the adjustment and upgrade of the industrial structure have achieved remarkable success in Guangdong Province. Apart from domestic demand which maintained steady growth, foreign demand also recovered. Total volume of import and export reached USD345.23 billion, up 33.9 percent. Exports reached USD195.57 billion, up 27.5 percent.

During the Reporting Period, the Toll-by-Weight System was implemented in Guangxi and northern Guangdong in July and November of 2009 respectively. Benefiting from the policy, the Group's Cangyu Expressway and Qinglian Expressway located in the above regions recorded positive growth in revenue. The impact of such favorable factors as efficiency management, toll collection policy and road network connection has contributed to a steady increase in the Group's revenue.

As a result of the favorable macroeconomic development, most of the toll roads and bridges operated by the Group showed good growth momentum. Both toll traffic volume and toll revenue of the GNSR Expressway achieved substantial growth. The newly acquired Jinbao Expressway has gone through a smooth restructuring exercise and recorded revenue growth of 8.4 percent. At the same time, cost control measures were implemented. Cangyu Expressway achieved revenue growth of 32.8 percent in the first half of 2010. The opening on 30 June 2010 of Yunwu Expressway, which connects the Yunfu Hekou to Pingtai section, means the opening of traffic on the whole Guangwu expressway which connects with Cangyu Expressway. This will enable the toll traffic volume and toll revenue of Cangyu Expressway to further increase in the second half of the year.

Xian Expressway in Shaanxi recorded no increase in toll traffic volume and toll revenue as Xitong Expressway, which is connected to Xian Expressway, implemented a complete closure at certain hours which applies to certain types of vehicles, which indirectly affected the traffic volume at Xian Expressway in Shaanxi. The closure is expected to be removed by stages in the second half of this year. This, coupled with factors such as completion of major overhaul as required for state inspection, is expected to facilitate the normalization of toll revenue at Xian Expressway in the second half of the year.

All the expressway projects under associates and jointly controlled entity achieved positive revenue growth, of which GWSR Expressway increased by 55.4 percent, Humen Bridge increased by 20.1 percent, Shantou Bay Bridge increased by 10.1 percent, and Northern Ring Road increased by 7.3 percent.

Revenue structure from 2006 to the first half of 2010

| | First half of 2010 | 2009 | 2008 | 2007 | 2006 |
|-------------------------|--------------------|------|------|------|------|
| Class 1 Highways | 9% | 10% | 18% | 22% | 27% |
| Expressways and bridges | 91% | 90% | 82% | 78% | 73% |
| Total | 100% | 100% | 100% | 100% | 100% |

(Note: Figures included revenue from subsidiaries and attributable revenue from non-controlling expressways and bridges.)

Performance of expressways and bridges

Expressways and bridges inside Guangdong Province

GNSR Expressway

During the Reporting Period, the average daily toll traffic volume was 97,203 vehicles and the average daily toll revenue was RMB1,857,000, representing an increase of 17.8 percent and 23.9 percent respectively over the first half of 2009.

GNSR Expressway, as an important part of expressway network of Guangdong Province, is also an important road linking main National Highways in the north of Guangzhou City and connecting with several expressways (such as Guangshen Expressway, Guangzhou Airport Expressway, Jingzhu Expressway) and Class 1 highways. Non-local transit vehicles can reach the Pearl River Delta (“PRD”) region directly via GNSR Expressway without passing through urban area of Guangzhou City, which greatly reduces transportation pressure of urban area of Guangzhou City. Benefiting from the sustained economic recovery in Guangdong Province, both toll volume and toll revenue of GNSR Expressway increased significantly in the first half of 2010.

GWSR Expressway

During the Reporting Period, the average daily toll traffic volume was 23,737 vehicles and the average daily toll revenue was RMB578,000, representing an increase of 115.8 percent and 55.4 percent respectively over the first half of 2009.

GWSR Expressway maintained strong growth in the first half of 2010, mainly due to marketing promotion and the opening of Heshun Overpass on 15 October 2009. On one hand, signposts on surrounding connected highways of GWSR Expressway were timely improved in response to change in road networks in the surrounding areas. On the other hand, traffic volume increased due to “Guangzhou-Foshan integration”, the opening of Heshun Overpass and the increasing familiarity and acceptance of drivers with GWSR Expressway.

Management Discussion and Analysis

Northern Ring Road

During the Reporting Period, the average daily toll traffic volume was 155,210 vehicles and the average daily toll revenue was RMB1,562,000, representing a decrease of 1.3 percent and increase of 7.3 percent over the first half of 2009.

Despite the year-on-year decrease in average daily traffic volume of Northern Ring Road in the first half of 2010, which was mainly due to the simultaneous construction of mainline from Shabei to Xunfengzhou and Shabei Overpass and Shoufeiguangchang in March 2010, toll revenue of Northern Ring Road increased by 7.3 percent during the Reporting Period over the same period last year. The increase in toll revenue was attributable to increased revenue per vehicle as the number of full journey vehicles rose so as to take advantage of the enhanced road efficiency brought about by the above-mentioned overhaul.

Humen Bridge

During the Reporting Period, the average daily toll traffic volume was 65,386 vehicles and the average daily toll revenue was RMB2,690,000, representing an increase of 19.8 percent and 20.1 percent over the first half of 2009 respectively.

Both the traffic volume and toll revenue of Humen Bridge increased significantly due to multiple factors such as economic rebound in Guangdong Province and the rapid popularization of small vehicles. In the first half of 2010, the flow of Type I cars and Type III to Type V passengers and cargo vehicles on Humen Bridge increased meaningfully, thus driving a significant growth of toll revenue.

Shantou Bay Bridge

During the Reporting Period, the average daily toll traffic volume was 12,964 vehicles and the average daily toll revenue was RMB493,000, representing an increase of 7.7 percent and 10.1 percent over the first half of 2009 respectively.

In order to attract Chaozhou businessmen from the PRD region, Taiwan and overseas to invest in Chaozhou, to integrate Chaozhou into the Economic Zones on the western coast of the Taiwan Straits, and to strengthen Shantou's position as an important harbor of the southeast coastal area, Shantou region actively encouraged economic restructuring from traditional industries to modern industries by promoting the so-called "Two-Wheel Drive" of services industry and advanced manufacturing industry. Under such conditions, Shantou Bay Bridge continued to record steady growth of toll revenue in the first half of 2010.

Qinglian Expressway

During the Reporting Period, the average daily toll traffic volume of Qinglian Expressway (expressway section) was 18,040 vehicles and the average daily toll revenue was RMB1,050,000.

Qinglian Expressway has been open to traffic since 1 July 2009, and has adopted the Toll-by-Weight System since 1 November 2009. Since then, the toll revenue of Qinglian Expressway substantially increased.

The Liannan section of the Qinglian Expressway is currently under expressway reconstruction work, which is expected to be completed at the beginning of 2011. After completion, Qinglian Expressway will open as high-speed expressway for the whole length. In addition, Yilian Expressway, which connects to Hunan Jingzhu Expressway, has commenced construction. It is expected that when the Liannan section of the Qinglian Expressway and the Yilian Expressway are open to traffic, revenue is likely to grow further.

Expressways and bridges outside Guangdong Province

Xian Expressway

During the Reporting Period, the average daily toll traffic volume was 30,910 vehicles and the average daily toll revenue was RMB368,000, representing a decrease of 20.7 percent and 29.3 percent over the first half of 2009 respectively.

In order to ensure the progress of reconstruction of Xitong Expressway (connecting with Xian Expressway) and alleviate congestion in the construction sections, Shaanxi government decided to prohibit cargo trucks from using the entire line since 6 November 2009. The measure caused a 29.3 percent decrease in average daily toll revenue at Xian Expressway in the first half of 2010 over the same period in 2009.

At the same time as Xitong Expressway was being reconstructed, Xian Expressway commenced its own improvement work in April 2010, in anticipation of an upcoming state inspection. The improvement work was completed at the end of July.

Cangyu Expressway

During the Reporting Period, the average daily toll traffic volume was 3,132 vehicles and the average daily toll revenue was RMB102,000, representing an increase of 0.7 percent and 32.8 percent over the first half of 2009 respectively.

Toll revenue of Cangyu Expressway rose significantly in the first half of 2010 as compared to the first half of 2009 which was due to favorable factors such as the recovery of Guangxi economy and the implementation of the Toll-by-Weight measure in the second half of 2009.

With the opening on 30 June 2010 of Yunwu Expressway, which connects Yunfu Hekou and Pingtai section, Guangwu Expressway is now open for the whole length. It takes only about 6 hours to drive from Nanning to Guangzhou through Wuzhou, which is 2 hours less than before. The travel time from Wuzhou to Guangzhou through Cangyu Expressway is also reduced from more than 4 hours to about 3 hours. It is expected that traffic volume of Cangyu Expressway will witness significant growth.

Jinbao Expressway

The Group completed the acquisition of Jinbao Expressway in early December 2009. During the Reporting Period, the average daily toll traffic volume was 20,643 vehicles and the average daily toll revenue was RMB420,000, representing an increase of 15.1 percent and 8.4 percent over the first half of 2009 respectively.

The acquisition of Jinbao Expressway was another successful investment after the acquisition of the Cangyu Expressway. In the first half of 2010, the Group carried out a number of measures including management reshuffling, enhanced supervision of toll stations, and improvement of the Toll-by-Weight and toll collection system, in anticipation of enhanced traffic flow at Jinbao Expressway.

Jinbao Expressway commenced in May 2010 a major overhaul in anticipation of a state inspection. During the overhaul period, traffic was regulated, which helped sustain rising toll revenue in the Reporting Period. The overhaul work progressed smoothly and construction of the main section was completed at the end of July 2010.

Management Discussion and Analysis

Class 1 Highways

Guangshen Highway, Guangshan Highway, Guangcong Highway Section II and Provincial Highway 355, Guanghua Highway

In the first half of 2010, the average daily toll traffic volume and the average daily toll revenue at Guangshen Highway was 10,369 vehicles and RMB69,000 respectively, representing a decrease of 0.4 percent and 1.2 percent respectively over the first half of 2009.

The average daily toll traffic volume and the average daily toll revenue at Guangshan Highway in the first half of 2010 was 16,156 vehicles and RMB149,000 respectively, representing an increase of 9.7 percent and 5.8 percent respectively over the first half of 2009.

The average daily toll traffic volume and the average daily toll revenue at Guangcong Highway Section II and Provincial Highway 355 in the first half of 2010 was 15,696 vehicles and RMB 127,000 respectively, representing an increase of 2.2 percent and 14.1 percent respectively over the first half of 2009.

The average daily toll traffic volume and the average daily toll revenue at Guanghua Highway in the first half of 2010 was 8,023 vehicles and RMB64,000 respectively, representing an increase of 14.8 percent and 8.2 percent respectively over the first half of 2009.

The above four Class 1 Highways are located in Guangzhou City. With the economic recovery in the first half of 2010 and the increase in traffic volume, especially Type III to Type V vehicles, toll revenue and average daily toll traffic volume at these Class 1 highways in the first half of 2010 achieved an increase of 7.3 percent and 5.8 percent respectively over the same period in 2009.

It is expected that the proportion of toll revenue from Class 1 Highways will further decrease as the Group actively seeks to increase its investment in expressways.

FINANCIAL REVIEW

Key Operating Results Figures

| | Six months ended 30 June | | |
|---|--------------------------|-----------------|-------------|
| | 2010 RMB'000 | 2009 RMB'000 | Change % |
| Revenue | 571,359 | 446,998 | 27.8 |
| Gross profit | 354,057 | 265,013 | 33.6 |
| Operating profit before impairment losses on intangible operating rights | 300,993 | 288,537 | 4.3 |
| Finance costs | 29,595 | 36,556 | -19.0 |
| Share of profits less losses of associates | 101,564 | 125,753 | -19.2 |
| Share of profit/(loss) of a jointly controlled entity | 8,508 | (10,025) | 184.9 |
| Profit attributable to equity holders of the Company | 238,133 | 155,444 | 53.2 |
| Basic earnings per share | RMB0.1423 | RMB0.0929 | 53.2 |
| Interim dividends | 145,963 | 59,022 | 147.3 |

Analysis of operating results

The operating results for the Reporting Period basically met the Group's expectation. For the Reporting Period, the Group recorded revenue of RMB571.4 million. Profit attributable to equity holders of the Company amounted to RMB238.1 million (same period in 2009: RMB155.4 million) with earnings per share of RMB0.1423, representing an increase of 53.2 percent over the same period in 2009.

The Reporting Period was marked with steady toll revenue growth. Benefitting from macroeconomic recovery, all toll projects of subsidiaries ("Controlled Toll Projects") have recorded positive growth for the Reporting Period as compared to the same period in 2009 except for Xian Expressway which recorded a temporary drop in toll revenue. Traffic flow of GNSR Expressway remained stable after the completion of Northern Ring Road's overhaul, registering a 23.9 percent growth over the same period in 2009. Finally, toll revenue of Class 1 Highways grew by 7.3 percent compared with the same period in 2009 after toll management and control were further strengthened.

During the Reporting Period, new sources of profit and income were added to the Group, i.e. the full six months' profit of RMB28.1 million generated by Jinbao Expressway, which was acquired in December 2009, was consolidated to the Group; and an investment income of RMB21.6 million was received from the Group's investment in "Available for Sale Financial Asset".

Revenues and profit after tax of the Group's associates and jointly controlled entity at their respective project companies' level performed well except for Qinglian Expressway which was still in its initial operation stage when operating loss was normally anticipated. After three years of operating losses, GWSR Expressway started to record profit in the Reporting Period. Despite its toll revenue and net profit growth at the project company level, the adoption of an adjusted profit sharing ratio from 27.78 percent to 18.446 percent pursuant to the terms stipulated in the joint venture contract, share of profit of Humen Bridge for the Reporting Period was only RMB62.4 million (if at 27.78 percent, the Group could share approximately RMB34.0 million more of the profit of Humen Bridge in the Reporting Period), which was 20.7 percent lower than the comparative figure in 2009.

With the change in the accounting policy of the Group in respect of functional currency (switched from HK dollar to RMB) in December 2009, an exchange loss of RMB13.6 million was recognized in the Reporting Period. An internal assessment on the RMB currency risk has been undertaken to minimize exchange loss. Please refer to the "Treasury Policies" section for details.

Included in the 2009 interim results of the Group were impairment losses of approximately RMB105.4 million (attributable to the Group) and disposal gains of approximately RMB46.6 million (attributable to the Group). Excluding these non-recurring factors, profit attributable to equity holders of the Company for the Reporting Period would have increased by 11.1 percent over the same period in 2009.

Management Discussion and Analysis

Revenue

The Group reported revenue of RMB571.4 million in the Reporting Period, a 27.8 percent growth over the same period in 2009.

An analysis of revenue by each controlled toll project of the Group is as follows:

| Controlled Toll Projects | Reporting Period RMB'000 | Percentage of total % | First half of 2009 RMB'000 | Percentage of total % | Change % |
|----------------------------------|-----------------------------|-----------------------------|----------------------------------|-----------------------------|-------------|
| GNSR Expressway | 336,195 | 58.8 | 271,350 | 60.7 | 23.9 |
| Xian Expressway | 66,647 | 11.7 | 94,466 | 21.1 | -29.4 |
| Jinbao Expressway ⁽¹⁾ | 75,992 | 13.3 | — | 0.0 | N/A |
| Cangyu Expressway ⁽²⁾ | 18,441 | 3.2 | 12,129 | 2.8 | 52.0 |
| Class 1 Highways | 74,084 | 13.0 | 69,053 | 15.4 | 7.3 |
| Total | 571,359 | 100.0 | 446,998 | 100.0 | 27.8 |

(1) For comparison purpose, revenue for the Reporting Period was 8.4 percent higher than first half of 2009 (RMB70.1 million).

(2) Figure for first half of 2009 represented toll revenue from date of acquisition (i.e. 19 January 2009) to 30 June 2009. For comparison purpose, toll revenue from 1 January 2009 to 30 June 2009 amounted to RMB13,885,000 by which the Reporting Period was higher by 32.8 percent.

During the Reporting Period, GNSR Expressway remained the Group's highest revenue contributor. Among the Controlled Toll Projects, GNSR Expressway contributed approximately 58.8 percent (same period in 2009: 60.7 percent) to the total revenue of the Group, amounting to RMB336.2 million and representing a 23.9 percent growth over the same period in 2009. GNSR Expressway benefited from the increase in traffic volume of cargo trucks as large cargo trucks were prohibited from using urban roads during certain periods of time and freight stations in northern Guangzhou were gradually relocated to the surrounding areas of the entire second ring expressway.

Due to a temporary decline in traffic flow of Xian Expressway, it recorded a 29.4 percent decline in toll revenue, amounting to RMB66.6 million which represented approximately 11.7 percent (same period in 2009: 21.1 percent) of the total revenue.

During the Reporting Period, subsequent to its acquisition in December 2009, Jinbao Expressway contributed its full six months' revenue to the Group, amounting to RMB76.0 million which accounted for approximately 13.3 percent to the total revenue.

Although Cangyu Expressway's contribution to the overall revenue was only 3.2 percent, it posted satisfactory revenue growth of 52.0 percent to RMB18.4 million.

Due to increased toll traffic volume, revenue of the Class 1 Highways collectively recorded a 7.3 percent growth and amounted to RMB74.1 million. As the Group implemented policies in recent years to adjust the ratio between expressways and highways, the revenue proportion of Class 1 Highways to the total revenue of the Group has been trending downward. Class 1 Highways' collective revenue represented approximately 13.0 percent (same period in 2009: 15.4 percent) of the total revenue from the Controlled Toll Projects, or 8.8 percent (same period in 2009: 10.0 percent) of the aggregated revenue from both controlled and non-controlled toll projects.

Cost of services

During the Reporting Period, cost of services for the Group's toll highways amounted to RMB217.3 million (same period in 2009: RMB182.0 million), representing an increase of RMB35.3 million or 19.4 percent over the same period in 2009. This increment was mainly due to an increase in amortization of intangible operating rights of RMB31.1 million or 36.1 percent and maintenance expenses of toll highways and bridges of RMB13.2 million or 59.4 percent (these two types of cost of services in aggregate accounted for approximately 70.3 percent of the total cost of services in the Reporting Period).

GNSR Expressway has increased its amortization of intangible operating rights to align with the increase in traffic flow under the unit of usage method of amortization and this increased the Group's cost of services by RMB10.7 million.

Due to an increase in certain operating expenses in relation to prior years with the service provider of approximately RMB14.7 million recorded in same period in 2009, Xian Expressway's cost of services for the Reporting Period has declined by RMB10.1 million comparatively.

Cost of services of Jinbao Expressway for the full six months in 2010 was consolidated, which increased the Group's cost of services by RMB28.0 million and accounted for 12.9 percent of the Group's cost of services.

Cangyu Expressway's cost of services in the Reporting Period increased by 107.3 percent or RMB5.3 million, the reasons of which included approximately a RMB2.4 million increase in amortization of intangible operating rights to align with the increase in traffic flow under the unit of usage method of amortization; and with the enhancement of the daily repair and maintenance work, its maintenance expenses increased by approximately RMB2.8 million.

The Class 1 Highways, which accounted for 22.1 percent of the Group's total cost of services, recorded a 11.2 percent decrease or RMB6.1 million as compared with the same period of last year.

An analysis of cost of services by each Controlled Toll Project of the Group is as follows:

| Controlled Toll Projects | Reporting Period RMB'000 | Percentage of total % | First half of 2009 RMB'000 | Percentage of total % | Change % |
|--------------------------|--------------------------|-----------------------|----------------------------|-----------------------|-------------|
| GNSR Expressway | 94,982 | 43.7 | 76,848 | 42.2 | 23.6 |
| Xian Expressway | 35,805 | 16.5 | 45,935 | 25.2 | -22.1 |
| Jinbao Expressway | 28,032 | 12.9 | — | 0.0 | N/A |
| Cangyu Expressway | 10,323 | 4.8 | 4,978 | 2.7 | 107.3 |
| Class 1 Highways | 48,160 | 22.1 | 54,224 | 29.9 | -11.2 |
| Total | 217,302 | 100.0 | 181,985 | 100.0 | 19.4 |

Management Discussion and Analysis

Gross profit

Given the substantial growth in revenue, gross profit during the Reporting Period increased by 33.6 percent to RMB354.1 million. Moreover, operating ratio has declined leading gross margin to increase from 59.3 percent in the first half of 2009 to 62.0 percent in the Reporting Period.

An analysis of gross profit by each Controlled Toll Project of the Group is as follows:

| Controlled Toll Projects | Reporting Period | | First half of 2009 | |
|--------------------------|-------------------------|-------------------|-------------------------|-------------------|
| | Gross Profit RMB'000 | Gross Margin % | Gross Profit RMB'000 | Gross Margin % |
| GNSR Expressway | 241,212 | 71.7% | 194,502 | 71.7% |
| Xian Expressway | 30,842 | 46.3% | 48,531 | 51.4% |
| Jinbao Expressway | 47,960 | 63.1% | — | 0.0% |
| Cangyu Expressway | 8,118 | 44.0% | 7,150 | 59.0% |
| Class 1 Highways | 25,925 | 35.0% | 14,830 | 21.5% |
| Total | <u>354,057</u> | <u>62.0%</u> | <u>265,013</u> | <u>59.3%</u> |

General and administrative expenses

The Group's general and administrative expenses for the Reporting Period amounted to RMB65.0 million (same period in 2009: RMB44.7 million), representing an increase of RMB20.3 million or 45.3 percent over the same period in 2009. Such increase was mainly attributable to the increase in staff costs (accounted for approximately 71.7 percent of the total administrative expenses) of RMB23.2 million. The main reasons for the increase in staff costs were: (1) profit-based bonus of directors as a result of the increase in profit attributable to equity holders; (2) staff costs incurred by the newly acquired Jinbao Expressway; and (3) the Group's recruitment program has commenced in the second half of 2009, therefore increase in staff costs has not yet reflected in the first half of 2009.

Finance costs

The Group's finance costs for the Reporting Period amounted to RMB29.6 million (same period in 2009: RMB36.6 million), representing a decrease of approximately 19.0 percent over the same period in 2009. While the newly acquired Jinbao Expressway has brought in additional finance costs amounting to RMB5.4 million to the Group during the Reporting Period, a decline in finance costs of GNSR Expressway of RMB7.1 million (same period in 2009: RMB21.1 million) more than offset the impact.

Share of profits less losses of associates and jointly controlled entity

The Group's share of profit less losses of associates declined by 19.2 percent for the Reporting Period to RMB101.6 million. The decline was mainly due to the decline in profit sharing ratio of Humen Bridge and the operating loss of Qinglian Expressway.

Pursuant to the terms in the Joint Venture Contract of Humen Bridge (disclosed in page 109 of the Prospectus dated 21 January 1997) which stipulates that after the joint venture has repaid all the investment costs to the shareholders, the profit sharing ratio among the shareholders will be re-adjusted. In June 2009, the joint venture had repaid all the investment costs and therefore, the Group's share of Humen Bridge's profit ratio from the Reporting Period and onward was adjusted accordingly from 27.78 percent to 18.446 percent. At the project company level, Humen Bridge recorded a 20.1 percent growth in toll revenue and 19.7 percent growth in profit after tax during the Reporting Period. With the adoption of the new profit sharing ratio, the Group's share of profit of Humen Bridge in the Reporting Period amounted to RMB62.4 million (if the ratio had remained at 27.78 percent, the Group could have incurred approximately RMB34.0 million more in profit at Humen Bridge in the Reporting Period), which was 20.7 percent lower than the comparative figure in 2009.

Upon commencement of expressway operation on 1 July 2009, toll revenue of Qinglian Expressway surged by 137.8 percent during the Reporting Period as compared to the same period in 2009. In its first year of expressway operation and in the following two to three years as well which we call the cultivation period of a toll road, Qinglian Expressway has been expected to incur operating losses as traffic flow has not yet reached its normal operating level while borrowing costs were no longer qualified for capitalization and were required to be recognized in the income statement. During the Reporting Period, the share of loss of Qinglian Expressway amounted to RMB8.4 million which was within the Group's estimation. Looking forward, with the opening of the whole section of Qinglian Expressway and improvement of its linking road network especially after the opening of Yilian Expressway in the future, it is expected that the profitability of Qinglian Expressway will further enhance to become an important contributor to the Company's profit.

Toll revenue of Northern Ring Road increased by 7.2 percent compared to same period in 2009 as traffic volume recovered speedily after the completion of a major overhaul which took place from July to November in 2009, with traffic flow level exceeding the pre-overhaul level. Share of profit of Northern Ring Road for the Reporting Period rose by 5.5 percent to RMB33.3 million.

Share of profit of Shantou Bay Bridge for the Reporting Period amounted to RMB14.3 million, represented a 22.4 percent rise as compared to same period in 2009 while its toll revenue grew by 10.1 percent.

Stepping into its fourth year of operation, GWSR Expressway started to record profit. Share of profit of GWSR Expressway for the Reporting Period amounted to RMB8.5 million (same period in 2009: loss of RMB10.0 million), an improvement of 184.9 percent from the same period in 2009. Toll revenue of GWSR Expressway for the Reporting Period amounted to RMB104.6 million, representing a 55.4 percent growth over the same period in 2009. During the Reporting Period, the income statement of GWSR Expressway has included other gains of RMB15.9 million which were related to rental income and toll road compensation income. Excluding these non-operation related gains, GWSR Expressway would still have been profitable.

Management Discussion and Analysis

A detailed analysis of share of profit less losses of associates and jointly controlled entity and their respective revenue is as follows:

| | Percentage of interests held % | Revenue ⁽¹⁾ | | Share of profit | |
|----------------------------------|-----------------------------------|-----------------------------|-----------------|-----------------------------|-----------------|
| | | Reporting Period RMB'000 | YoY change % | Reporting Period RMB'000 | YoY change % |
| Associates | | | | | |
| Humen Bridge | 18.446 ⁽²⁾ | 486,886 | 20.1 | 62,416 | -20.7 |
| Northern Ring Road | 24.3 | 283,193 | 7.2 | 33,256 | 5.5 |
| Shantou Bay Bridge | 30.0 | 89,190 | 10.1 | 14,283 | 22.4 |
| Qinglian Expressway | 23.63 | 197,226 | 137.8 | (8,391) | -316.9 |
| Sub-total | | <u>1,056,495</u> | 26.8 | <u>101,564</u> | -19.2 |
| Jointly controlled entity | | | | | |
| GWSR Expressway | 35.0 | <u>104,604</u> | 55.4 | <u>8,508</u> | 184.9 |
| Total | | <u><u>1,161,099</u></u> | 28.9 | <u><u>110,072</u></u> | -4.9 |

Note: (1) Represented figures at the respective project companies' level.

(2) From 1 January 2010 and onwards, according to Joint Venture Contract, the profit sharing ratio of the Group has been adjusted from 27.78 percent in 2009 to 18.446 percent.

Income tax expense

Total income tax expense of the Group for the Reporting Period amounted to RMB64.3 million, representing an increase of RMB19.3 million. Income tax expense of the newly acquired Jinbao Expressway amounted to approximately RMB8.8 million during the Reporting Period. During the five year transition period provided by the New Corporate Income Tax Law ("CITL") of the PRC, income tax rate applicable to the Group's PRC subsidiaries and associates in the Reporting Period was increased to 22.0 percent from 20.0 percent in 2009.

Included in the total income tax expense was withholding tax provided on distributable dividends from PRC toll projects which has increased by 32.0 percent or RMB5.3 million to RMB21.7 million for the Reporting Period. The increase was mainly attributable to the increased provision made for Shantou Bay Bridge, GNSR Expressway and the newly acquired Jinbao Expressway of RMB2.6 million, RMB1.7 million and RMB1.5 million respectively.

Profit attributable to equity holders of the Company

The Group reported profit attributable to equity holders for the Reporting Period of RMB238.1 million, an increase of 53.2 percent over the same period in 2009.

An analysis of profit attributable to equity holders of the Company is set out below:

| | Reporting Period RMB'000 | Percentage of total % | First half of 2009 RMB'000 | Percentage of total % | Change % |
|---|---|-----------------------------|----------------------------------|-----------------------------|-------------|
| Profit from Controlled Toll Projects | 169,109 | 60.6 | 138,963 | 54.6 | 21.7 |
| Profit from non-controlled toll projects ⁽¹⁾ | 110,072 | 39.4 | 115,728 | 45.4 | -4.9 |
| Total profit from all toll projects | 279,181 | 100.0 | 254,691 | 100.0 | 9.6 |
| Withholding tax on PRC dividends | (21,689) | | (16,428) | | 32.0 |
| Corporate income and expenses | (40,959) | | (16,418) | | 149.5 |
| Investment income | 21,600 | | — | | N/A |
| Expenses in respect of cessation of toll operation | — | | (7,574) | | N/A |
| Profit before impairment losses and disposal gains | 238,133 | | 214,271 | | 11.1 |
| Impairment losses | — | | (105,390) | | N/A |
| Gain on disposal of toll operating rights | — | | 46,563 | | N/A |
| Profit attributable to equity holders of the Company | 238,133 | | 155,444 | | 53.2 |

(1) Representing associates and jointly controlled entity

From the above analysis, net profit derived from toll projects amounted to RMB279.2 million for the Reporting Period which represented a 9.6 percent growth over the same period in 2009. Among the toll projects, profit from Controlled Toll Projects accounted for 60.6 percent (same period in 2009: 54.6 percent) while non-controlled toll projects accounted for 39.4 percent (same period in 2009: 45.4 percent) in the Reporting Period.

Management Discussion and Analysis

Among the Controlled Toll Projects, GNSR Expressway accounted for 42.3 percent with its profit attributable to the Group amounting to RMB118.1 million (growth of 30.9 percent over the same period in 2009); Xian Expressway's net profit (accounted for 6.9 percent) has dropped by 43.0 percent in the Reporting Period to RMB19.3 million due to temporary revenue decline; the newly acquired Jinbao Expressway added RMB28.1 million (accounted for 10.1 percent) to the net profit of the Group during the Reporting Period.

Among the non-controlled toll projects, Humen Bridge, Northern Ring Road, Shantou Bay Bridge and GWSR Expressway accounted for 22.4 percent (same period in 2009: 30.9 percent), 11.9 percent (same period in 2009: 12.4 percent), 5.1 percent (same period in 2009: 4.6 percent) and 3.0 percent respectively.

Interim dividend

The Directors resolved to declare an interim dividend for 2010 of RMB0.087238 which was equivalent to HK\$0.10 (2009: RMB0.035 which was equivalent to HK\$0.04) per share payable on 20 October 2010 to shareholders whose names appear on the register of members on 5 October 2010. Interim dividend payout ratio was 61.3 percent (2009: 38.0 percent).

Dividend payable to shareholders will be paid in Hong Kong dollars. The exchange rate adopted by the Company for its dividend payable is the average middle rate of Hong Kong dollars to Renminbi, as announced by the People's Bank of China, for the five business days preceding the date of declaration of dividends.

Key financial position figures

| | (Unaudited) 30 June 2010 RMB'000 | 31 December 2009 RMB'000 | Change % |
|---|---|--------------------------------|-------------|
| Total assets | 12,108,492 | 12,152,740 | -0.4 |
| Total liabilities | 2,637,276 | 2,692,150 | -2.0 |
| Cash and cash equivalents | 2,038,756 | 1,954,238 | 4.3 |
| Total borrowings | 1,517,264 | 1,538,840 | -1.4 |
| Bank borrowings | 1,119,500 | 1,145,500 | -2.3 |
| Current ratio (excluding assets/liabilities held for sale) | 4.6 times | 4.0 times | |
| Interest coverage | 19 times | 15.0 times | |
| Capital and reserves attributable to the Company's equity holders | 7,675,001 | 7,619,861 | 0.7 |

Analysis of financial position

Assets, Liabilities and Equity

The Group's total assets comprise mainly intangible operating rights of RMB7.1 billion (31 December 2009: RMB7.2 billion) and investments in jointly controlled entity and associates of RMB2.0 billion (31 December 2009: RMB2.1 billion). As at 30 June 2010, the Group's total assets amounted to RMB12.1 billion which represented a decrease of 0.4 percent over the balance as at 31 December 2009.

As at 30 June 2010, the Group's total liabilities amounted to RMB2.6 billion (31 December 2009: RMB2.7 billion), of which bank borrowings amounted to RMB1.1 billion (31 December 2009: RMB1.1 billion); loans from non-controlling interests amounted to RMB397.8 million (31 December 2009: RMB393.3 million); and deferred income tax liabilities amounted to RMB943.9 million (31 December 2009: RMB943.3 million). Movement in deferred income tax liabilities during the Reporting Period included payments made in the Reporting Period in respect of PRC distributable dividend tax of RMB19.1 million.

As at 30 June 2010, the Group's total equity amounted to RMB9.5 billion (31 December 2009: RMB9.5 billion), of which amount attributable to the equity holders of the Company amounted to RMB7.7 billion (31 December 2009: RMB7.6 billion), representing an increase of 0.7 percent over the end of 2009. This was mainly attributable to the increase in net profit for the Reporting Period after deduction of final dividend distributed for 2009 of RMB175.2 million.

Management Discussion and Analysis

An analysis of major assets, liabilities and equity items is as follows:

| Items | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 | Change % |
|---|----------------------------|--------------------------------|-------------|
| Total assets | 12,108,492 | 12,152,740 | -0.4 |
| Approximately 90.0% of which: | | | |
| Intangible operating rights | 7,087,474 | 7,193,211 | -1.5 |
| Investments in jointly controlled entity and associates | 2,014,469 | 2,055,666 | -2.0 |
| Cash and cash equivalents | 2,038,756 | 1,954,238 | 4.3 |
| Total liabilities | 2,637,276 | 2,692,150 | -2.0 |
| Approximately 90.0% of which: | | | |
| Bank borrowings – current portion | 306,980 | 312,980 | -1.9 |
| – long term portion | 812,520 | 832,520 | -2.4 |
| Loans from non-controlling interests | 397,764 | 393,340 | 1.1 |
| Deferred income tax liabilities | 943,885 | 943,312 | 0.1 |
| Total equity | 9,471,216 | 9,460,590 | 0.1 |
| Of which: | | | |
| Attributable to equity holders of the Company | 7,675,001 | 7,619,861 | 0.7 |

Cash flows

The Group's cash and cash equivalents as at 30 June 2010 amounted to approximately RMB2.04 billion which was 4.3 percent higher than the level at 31 December 2009.

Net cash generated from operating activities during the period ended 30 June 2010 amounted to approximately RMB280.6 million (30 June 2009: RMB271.1 million) which was after deduction of interest expenses of approximately RMB35.6 million (30 June 2009: RMB44.2 million) and PRC enterprise income tax of approximately RMB56.2 million (30 June 2009: RMB22.0 million).

Net cash inflow from investing activities during the period ended 30 June 2010 amounted to approximately RMB137.9 million (30 June 2009: net cash used RMB126.3 million). On the outflow side, capital expenditures amounted to approximately RMB33.2 million (30 June 2009: RMB231.3 million). On the inflow side, investment returns from associates amounted to approximately RMB151.3 million (30 June 2009: RMB95.8 million); bank interest income amounted to approximately RMB19.8 million (30 June 2009: RMB8.5 million).

Net cash used in financing activities during the period ended 30 June 2010 amounted to approximately RMB334.1 million (30 June 2009: RMB213.0 million). Cash used in financing activities was mainly repayments of bank loans amounting to RMB26.0 million (30 June 2009: RMB20.0 million); investment returns to non-controlling interests of subsidiaries of RMB133.0 million (30 June 2009: RMB79.8 million); and dividends paid of RMB175.2 million (30 June 2009: RMB118.0 million).

Current ratio

Excluding the assets and liabilities classified as held for sale, the current ratio (current assets over current liabilities) as at 30 June 2010 was 4.6 times (31 December 2009: 4.0 times). Cash and cash equivalents are the major components of the Group's current assets. Included in the Group's current liabilities as at 30 June 2010 was a short term bank borrowing (i.e. maturity within one year) of approximately RMB307.0 million (31 December 2009: RMB313.0 million). In the opinion of the management, with such a large amount of cash sitting on the balance sheet at 30 June 2010 coupled with a stable stream of operating cash flow and steady cash return from investments, liquidity risk is not an issue for the Group.

Interest coverage

The interest coverage is measured by the ratio of earnings before interests, tax, depreciation and amortisation ("EBITDA") to interest expenses (with cashflow effect). With the decrease in gross finance costs, interest coverage for the six months ended 30 June 2010 was 19 times (31 December 2009: 15 times).

Capital expenditures and investments

Subsequent to the completion of acquisition of 60.0 percent equity interest in Jinbao Expressway in December 2009, a balance payment was paid amounting to RMB16.8 million. Apart from this, no material investment funds were paid during the Reporting Period (31 December 2009: RMB611.4 million). Additions to interests in toll highways and bridges and other fixed assets during the Reporting Period amounted to RMB16.5 million (31 December 2009: RMB32.4 million).

Capital structures

| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
|---|----------------------------|--------------------------------|
| Bank borrowings | 1,119,500 | 1,145,500 |
| Loans from non-controlling interests of certain subsidiaries | 397,764 | 393,340 |
| Total borrowings | 1,517,264 | 1,538,840 |
| Capital and reserves attributable to the Company's equity holders | 7,675,001 | 7,619,861 |
| Total capitalization | 9,192,265 | 9,158,701 |
| Gross gearing ratio (total borrowings/total capitalization) | 16.5% | 16.8% |

Note: If the Group deducted its cash and cash equivalents as at 30 June 2010 of RMB2.04 billion (31 December 2009: RMB1.95 billion) from total borrowings, the Group would have been in a net cash position.

Bank borrowings of the Group as at 30 June 2010 amounted to approximately RMB1.1 billion which were RMB floating rate loans obtained in mainland China and secured by way of pledge of the respective toll collection rights of subsidiaries holding the toll expressways. About 27.4 percent of total bank borrowings amounting to approximately RMB307.0 million are repayable within one year and about 72.6 percent or approximately RMB812.5 million are long term. The effective interest rate of these bank borrowings as at 30 June 2010 was 5.4 percent (31 December 2009: 6.49 percent) per annum.

Management Discussion and Analysis

Loans from non-controlling interests are part of capital contributions made by non-controlling interests of certain subsidiaries in respect of their respective equity shareholdings in accordance with the terms of the relevant joint venture agreements to set up those subsidiaries. These loans are unsecured and denominated in RMB. During the Reporting Period, the Group arrived at a mutual agreement with the non-controlling interests of the joint venture to waive the interest commitment of both the shareholders of the joint venture, i.e. the non-controlling interests and the Group (through a holding company wholly owned by the Group) in respect of the interest bearing shareholders' loan (RMB129.0 million). Except for this, the rest were by contract interest-free loans stated at fair values.

As at 30 June 2010, the capital and reserves attributable to the Company's equity holders amounted to RMB7.7 billion, which accounted for 83.5 percent of the Group's total capitalisation. As at 31 December 2009, the capital and reserves attributable to the Company's equity holders amounted to RMB7.6 billion, which accounted for 83.2 percent of the Group's total capitalisation. Capital and reserves attributable to the Company's equity holders as at 30 June 2010 was 0.7 percent higher than the balance at 31 December 2009, which was due to the increase in net profit retained for the period after appropriation of 2009 final dividend.

TREASURY POLICIES

The Group's treasury policies have primarily been focused on preventing risk and enhancing liquidity. Cash is managed conservatively and investments and utilization of financial products are evaluated thoroughly.

The Group's businesses are principally conducted in the PRC. All of its revenue is derived from the PRC and denominated in RMB. At the same time, most of its expenses are incurred in the PRC and denominated in RMB, except that certain fund-raising exercises are conducted in Hong Kong. As a result, there is a natural and high degree of match between the Group's revenue and expenses in terms of currency.

As at 30 June 2010, the amount of cash and cash equivalents dominated in Hong Kong Dollar and US Dollar was approximately HK\$1.5 billion. This high level of cash and cash equivalent in HKD poses a meaningful currency risk amid the market expectation of an appreciating RMB. At the same time, given that the Group has switched its functional currency to RMB in December 2009, the high HKD holding is introducing heightened volatility risk to the Group's income statement as movements of RMB against HKD, which is pegged to USD, will have to be reflected accordingly. Therefore, the Group is now actively looking to manage such currency risk with reasonable costs by exploring the following means: (1) speeding up the pace of acquisition of RMB assets; (2) speeding up the injection of share capital into the recently established investment company in PRC while the Group continues to explore potential investment opportunities; (3) taking advantage of the further relaxation measures provided in the RMB business in Hong Kong and (4) employing appropriate hedge mechanisms.

All of the Group's borrowings are incurred in the PRC. At the moment, the Group considers the risk of re-financing and interest rate risk to be minimal. As the Group continues to develop and venues of financing grow, management of such risk will become more critical.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had no material capital commitments and significant contingent liabilities as at 30 June 2010.

EMPLOYEES

As at 30 June 2010, the Group had approximately 1,399 employees of which about 1,159 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 would award its employees according to the performance of the Group and individual employees.

FUTURE PROSPECTS

Review of the First Half of 2010

Management improvement

During the Reporting Period, through further enhancement in various aspects, such as operating management, projects cost control, financial management, internal audit and supervision, the Group managed to register a double-digit growth in toll revenue, which was a new high for the Group since listing.

Enhancement of disclosure

With reference to the best practice within the industry, the Group published monthly reports of traffic volume and toll revenue (unaudited) of the Controlled Toll Projects, and of the associates and jointly controlled entity. The reports detail movement of toll revenue during the period with explanatory notes.

Outstanding operating growth in Guangzhou and the PRD Region

During the Reporting Period, with continuous economic development in Guangzhou area, the traffic arrangement of the adjacent road network of Guangzhou area gradually improved. The GNSR Expressway and GWSR Expressway of the Group have played an increasingly important role as the main boundary crossings within this area and recorded significant growth in traffic volume in the first half of 2010.

Future Prospects of the Second Half of 2010

Improving traffic and revenue performance

With the prospect of continuous economic growth in Mainland China, and through persistent fine-tuning of operation and management procedures, it is expected that the toll operation will continue to develop steadily with sustainable profit growth in the second half of 2010.

In view of the current operation status, projects including GNSR Expressway, Humen Bridge, Northern Ring Road, Shantou Bay Bridge are still the sources of steady profit and cash flow; Jinbao Expressway, acquired at the end of 2009, is becoming an increasingly important growth driver; Cangyu Expressway and GWSR Expressway are expected to maintain rapid profit growth and become a profit driver in the near term; Qinglian Expressway is expected to sustain revenue growth and may become a profit driver in the long term.

Management Discussion and Analysis

In the second half of 2010, with the completion of the overhaul of the Xian Expressway and the resumption of bi-directional movements of trucks at the point connecting Xian Expressway and the “Four Lanes to Eight Lanes” project of the Xitong Expressway, it is expected that Xian Expressway’s performance will improve in the second half of the year. At the same time, traffic volume is likely to increase at Cangyu Expressway as a result of the opening at the end of June this year of the Yunwu Expressway, which connects Yunfu Hekou and Pingtai section. The opening cuts the travel time from Wuzhou to Guangzhou via Cangyu Expressway by 1 hour to 3 hours.

Accelerating investments

The projects invested by the Group in 2009 performed better than expectation.

The Group will continue to make full use of its ample cash to strengthen investment in high quality expressways and seriously consider opportunities such as infrastructure projects which have no limit on operating term. The Group will continue to focus on: (1) the Central region with considerably mature economy and benefitting from the economic development due to Wuguang Railway, (2) the Western provinces which are benefitting from the development of ASEAN Free Trade Area, (3) the PRD region with highly mature economic development.

We will further conduct investigation and explore projects in target areas with a mature environment for investment, and explore and invest timely in new projects with expected satisfactory return and good prospects, so as to enhance the overall asset size, profitability, and risk profile of the Group.

The management will also continue to fine-tune the Group’s asset portfolio and capital structure so as to promote the best interest of our shareholders.

The Influence of Guangzhou Asian Games on the Group

In November 2010, Guangzhou will hold the Asian Games, and the Guangzhou government has already issued the so-called ‘odd-even license plate’ rules, which regulate traffic volume in its adjacent road networks.

In light of the accessibility of the Group’s projects in the Guangzhou region, it is estimated that Northern Ring Road and four Class 1 Highways will be affected to some extent. However, the Group is cautiously optimistic about the impact on GNSR Expressway and GWSR Expressway.

By order of the Board

Zhang Zhaoxing

Chairman

Hong Kong, 10 August 2010

Report on Review of Interim Financial Information



羅兵咸永道會計師事務所

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF GZI TRANSPORT LIMITED

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 32 to 51, which comprises the condensed consolidated balance sheet of GZI Transport Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2010 and the related condensed consolidated statements of income, comprehensive income and changes in equity and cash flow statement for the six months then ended, a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 August 2010

Condensed Consolidated Income Statement

For the six months ended 30 June 2010

| | | (Unaudited) | |
|---|------|--------------------------|-----------------------------|
| | | Six months ended 30 June | |
| | Note | 2010 RMB'000 | Restated 2009 RMB'000 |
| Revenue | 5 | 571,359 | 446,998 |
| Cost of services | 7 | <u>(217,302)</u> | <u>(181,985)</u> |
| Gross profit | | 354,057 | 265,013 |
| Construction income of toll highways and bridges upgrade services | | 11,806 | 1,400 |
| Other income | | 22,341 | 1,317 |
| Other (losses)/gains - net | 6 | (10,448) | 72,040 |
| Construction cost of toll highways and bridges upgrade services | | (11,806) | (1,400) |
| General and administrative expenses | 7 | (64,988) | (44,717) |
| Profit/(loss) for the period of disposal group | 16 | <u>31</u> | <u>(5,116)</u> |
| Operating profit before impairment losses on intangible operating rights | | 300,993 | 288,537 |
| Impairment losses on intangible operating rights | 11 | <u>—</u> | <u>(151,863)</u> |
| Operating profit | | 300,993 | 136,674 |
| Finance income | | 8,052 | 8,428 |
| Finance costs | | (29,595) | (36,556) |
| Share of profits less losses of associates | | 101,564 | 125,753 |
| Share of profit/(loss) of a jointly controlled entity | | <u>8,508</u> | <u>(10,025)</u> |
| Profit before income tax | | 389,522 | 224,274 |
| Income tax expense | 8 | <u>(64,302)</u> | <u>(44,967)</u> |
| Profit for the period | | <u><u>325,220</u></u> | <u><u>179,307</u></u> |
| Profit attributable to: | | | |
| Equity holders of the Company | | 238,133 | 155,444 |
| Non-controlling interests | | <u>87,087</u> | <u>23,863</u> |
| | | <u><u>325,220</u></u> | <u><u>179,307</u></u> |
| Earnings per share for profit attributable to equity holders of the Company | | RMB per share | RMB per share |
| – Basic and diluted | 9 | <u><u>0.1423</u></u> | <u><u>0.0929</u></u> |
| | | RMB'000 | RMB'000 |
| Interim dividend | 10 | <u><u>145,963</u></u> | <u><u>59,022</u></u> |

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

| | (Unaudited) | |
|--|--------------------------|----------------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Profit for the period | 325,220 | 179,307 |
| Other comprehensive income | | |
| Fair value losses on available-for-sale financial assets, net of tax | (7,665) | — |
| Currency translation differences | (167) | (4,153) |
| | <u>317,388</u> | <u>175,154</u> |
| Total comprehensive income for the period | <u>317,388</u> | <u>175,154</u> |
| Total comprehensive income attributable to: | | |
| Equity holders of the Company | 230,301 | 151,291 |
| Non-controlling interests | 87,087 | 23,863 |
| | <u>317,388</u> | <u>175,154</u> |

Condensed Consolidated Balance Sheet

As at 30 June 2010

| | Note | (Unaudited) As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|---|------|--|---|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible operating rights | 12 | 7,087,474 | 7,193,211 |
| Leasehold land | 12 | 557 | 570 |
| Property, plant and equipment | 12 | 78,564 | 81,224 |
| Investment properties | 12 | 8,768 | 8,849 |
| Investment in jointly controlled entity | | 298,599 | 290,091 |
| Investments in associates | | 1,715,870 | 1,765,575 |
| Available-for-sale financial assets | | 136,436 | 146,656 |
| Other non-current receivables | 13 | 154,987 | 158,696 |
| Goodwill | 14 | 185,053 | 187,334 |
| | | <u>9,666,308</u> | <u>9,832,206</u> |
| Current assets | | | |
| Trade receivables | 15 | 16,090 | 17,084 |
| Other receivables, deposits and prepayments | | 132,851 | 94,568 |
| Cash and cash equivalents | | 2,038,756 | 1,954,238 |
| | | <u>2,187,697</u> | <u>2,065,890</u> |
| Assets classified as held for sale | 16 | <u>254,487</u> | <u>254,644</u> |
| Total assets | | <u><u>12,108,492</u></u> | <u><u>12,152,740</u></u> |

Condensed Consolidated Balance Sheet

As at 30 June 2010

| | Note | (Unaudited) As at 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|---|------|--|---|
| EQUITY | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | 17 | 147,322 | 147,322 |
| Reserves | | 7,527,679 | 7,472,539 |
| | | <u>7,675,001</u> | <u>7,619,861</u> |
| Non-controlling interests | | 1,796,215 | 1,840,729 |
| Total equity | | <u>9,471,216</u> | <u>9,460,590</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | 18 | 1,210,284 | 1,225,860 |
| Deferred income tax liabilities | 19 | 943,885 | 943,312 |
| | | <u>2,154,169</u> | <u>2,169,172</u> |
| Current liabilities | | | |
| Trade and other payables and accrued charges | 20 | 134,964 | 136,381 |
| Amount due to non-controlling interests of subsidiaries | | 12,997 | 49,110 |
| Amounts due to holding companies | | 856 | 2,128 |
| Current income tax liabilities | | 22,366 | 17,435 |
| Borrowings due within one year | 18 | 306,980 | 312,980 |
| | | <u>478,163</u> | <u>518,034</u> |
| Liabilities classified as held for sale | 16 | 4,944 | 4,944 |
| Total liabilities | | <u>2,637,276</u> | <u>2,692,150</u> |
| Total equity and liabilities | | <u>12,108,492</u> | <u>12,152,740</u> |
| Net current assets | | <u>1,709,534</u> | <u>1,547,856</u> |
| Total assets less current liabilities | | <u>11,630,329</u> | <u>11,634,706</u> |

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2010

| | (Unaudited) | |
|--|--------------------------|------------------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Net cash generated from operating activities | 280,632 | 271,064 |
| Net cash generated from/(used in) investing activities | 137,884 | (126,261) |
| Net cash used in financing activities | (334,140) | (212,963) |
| Increase/(decrease) in cash and cash equivalents | 84,376 | (68,160) |
| Cash and cash equivalents at 1 January | 1,964,134 | 2,097,950 |
| Cash and cash equivalents at 30 June | <u>2,048,510</u> | <u>2,029,790</u> |
| Analysis of the balances of cash and cash equivalents: | | |
| Cash and cash equivalents in the condensed consolidated balance sheet | 2,038,756 | 2,007,156 |
| Cash and cash equivalents classified as assets held for sale (note 16) | 9,754 | 22,634 |
| Cash and cash equivalents at 30 June | <u>2,048,510</u> | <u>2,029,790</u> |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

| | (Unaudited) | | | | | | | | | |
|---|---|---------------|-----------------|------------------------------|--------------------|--|-------------------|----------------------------------|---------------------------|-----------|
| | Attributable to equity holders of the Company | | | | | | | | | |
| | Share capital | Share premium | Capital reserve | Exchange fluctuation reserve | Statutory reserves | Available-for sale financial assets fair value reserve | Retained Earnings | Asset revaluation reserve (note) | Non-controlling interests | Total |
| RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2010 | 147,322 | 2,375,743 | 1,501,711 | 602,819 | 45,020 | 49,398 | 2,339,598 | 558,250 | 1,840,729 | 9,460,590 |
| Comprehensive income | | | | | | | | | | |
| Profit for the period | — | — | — | — | — | — | 238,133 | — | 87,087 | 325,220 |
| Other comprehensive income | | | | | | | | | | |
| Decrease in fair value of available-for-sale financial assets | — | — | — | — | — | (10,220) | — | — | — | (10,220) |
| Deferred tax on decrease in fair value of available for sale financial assets | — | — | — | — | — | 2,555 | — | — | — | 2,555 |
| Currency translation differences | — | — | — | (167) | — | — | — | — | — | (167) |
| Total comprehensive income for the period ended 30 June 2010 | — | — | — | (167) | — | (7,665) | 238,133 | — | 87,087 | 317,388 |
| Transactions with owners: | | | | | | | | | | |
| Transfer | — | — | — | — | 24,254 | — | (24,254) | — | — | — |
| 2009 dividend | — | — | — | — | — | — | (175,161) | — | (131,601) | (306,762) |
| | — | — | — | — | 24,254 | — | (199,415) | — | (131,601) | (306,762) |
| At 30 June 2010 | 147,322 | 2,375,743 | 1,501,711 | 602,652 | 69,274 | 41,733 | 2,378,316 | 558,250 | 1,796,215 | 9,471,216 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

(Unaudited)

| | Attributable to equity holders of the Company | | | | | | | | | |
|--|---|---------------|-----------------|------------------------------|--------------------|---|-------------------|----------------------------------|---------------------------|-----------|
| | Share capital | Share premium | Capital reserve | Exchange fluctuation reserve | Statutory reserves | Available-for-sale financial assets reserve | Retained Earnings | Asset revaluation reserve (note) | Non-controlling interests | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2009 | 147,556 | 2,379,521 | 1,504,078 | 705,284 | 32,722 | 38,539 | 2,027,283 | 572,722 | 1,457,487 | 8,865,192 |
| Comprehensive income | | | | | | | | | | |
| Profit for the period | — | — | — | — | — | — | 155,444 | — | 23,863 | 179,307 |
| Other comprehensive income | | | | | | | | | | |
| Currency translation differences | — | — | — | (4,153) | — | — | — | — | — | (4,153) |
| Total comprehensive income for the period ended 30 June 2009 | — | — | — | (4,153) | — | — | 155,444 | — | 23,863 | 175,154 |
| Transactions with owners: | | | | | | | | | | |
| Acquisition of a subsidiary | — | — | — | — | — | — | — | — | 15,063 | 15,063 |
| Transfer | — | — | — | — | 7,642 | — | (1,415) | (6,227) | — | — |
| 2008 dividend | — | — | — | — | — | — | (118,045) | — | (79,819) | (197,864) |
| | — | — | — | — | 7,642 | — | (119,460) | (6,227) | (64,756) | (182,801) |
| At 30 June 2009 | 147,556 | 2,379,521 | 1,504,078 | 701,131 | 40,364 | 38,539 | 2,063,267 | 566,495 | 1,416,594 | 8,857,545 |

Note: The asset revaluation reserve represents fair value adjustment of the 40% equity interest in Guangzhou Northern Second Ring Expressway Co., Ltd. ("GNSR Expressway Limited") held by the Group as a result of further acquisition of 20% additional equity interest in GNSR Expressway Limited in 2007.

Notes to the Condensed Consolidated Interim Financial Information

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 in Hong Kong is 23rd 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 (the “Stock Exchange”).

These financial statements are presented in Renminbi thousand dollars unless otherwise stated. This interim financial information was approved for issue by the Board of Directors of the Company on 10 August 2010.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the Group’s annual financial statements for the year ended 31 December 2009, except for changes in accounting policies as mentioned below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) Change in presentation currency

The Group continually reviews the appropriateness of accounting policies adopted. Effective from 1 January 2010, the Group has changed its presentation currency for the preparation of its interim financial information from Hong Kong dollars to Renminbi (“RMB”). The Board considers the change will result in a more appropriate presentation of the Group’s operation in the PRC in the interim financial information and the presentation will be consistent with the current industry practice. The comparative figures in this financial information are translated from Hong Kong dollars to RMB using the rates that approximate the closing rates for balance sheet items and average rates for the period under review for income statement items.

The change in presentation currency has no significant impact on the financial position of the Group as at 31 December 2009 and 30 June 2010 or the results and cash flows of the Group for the six months ended 30 June 2010 and 2009.

Notes to the Condensed Consolidated Interim Financial Information

3 ACCOUNTING POLICIES (CONTINUED)

(b) Change in presentation format

The Group has elected to present its condensed consolidated income statement by function of expense with effect from 1 January 2010. The Board considers that it is more appropriate for the Group to present the condensed consolidated income statement by function of expense.

As a result of the changes in presentation format of the condensed consolidated income statement, the comparative information has been reclassified to conform to the current period's presentation.

The following new standards and amendments to standards relevant to its operations are mandatory for adoption for the financial year beginning 1 January 2010 for the Group.

| | |
|---------------------|--|
| HKAS 1 (amendment) | Presentation of Financial Statements |
| HKAS 7 (amendment) | Cash Flow Statements |
| HKAS 17 (amendment) | Leases |
| HKAS 18 (amendment) | Revenue |
| HKAS 27 (revised) | Consolidated and Separate Financial Statements |
| HKAS 36 (amendment) | Impairment of Assets |
| HKAS 38 (amendment) | Intangible Assets |
| HKAS 39 (amendment) | Financial Instruments: Recognition and Measurement |
| HKFRS 3 (revised) | Business Combinations |
| HKFRS 5 (amendment) | Non-current Assets Held for Sale and Discontinued Operations |

The adoption of these new standards and amendments to standards does not have significant impact on the Group's interim financial information.

The following new standards and amendments to standards relevant to its operations have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

| | | Effective for accounting periods beginning on or after |
|---------------------|------------------------------------|---|
| HKAS 24 (revised) | Related Parties Disclosures | 1 January 2011 |
| HKAS 34 (amendment) | Interim Financial Reporting | 1 January 2011 |
| HKFRS 3 (amendment) | Business Combinations | 1 July 2010 |
| HKFRS 7 (amendment) | Financial Instruments: Disclosures | 1 January 2011 |
| HKFRS 9 | Financial Instruments | 1 January 2013 |

Management is in the process of making an assessment of the impact of these new standards and amendments to standards and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

Notes to the Condensed Consolidated Interim Financial Information

4 SIGNIFICANT 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.

Amortisation of intangible operating rights

Amortisation of intangible operating rights 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 varies from 0% to 66%. Traffic volumes of certain toll highways and bridges of the Group have become saturated; while traffic growth rate of a toll highway in Guangxi is forecasted to be significant due to the rapid economic development in Guangxi.

Current income tax and deferred income tax

The Group is subject to income tax in the PRC. 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.

Impairment of intangible operating rights

The Group tests whether intangible operating right has suffered any impairment if such indicator exists. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit to which the intangible operating right belongs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, impairment loss may arise.

As at 30 June 2010, there was no additional impairment indicator identified for the intangible operating rights of the Group during the period. For the period ended 30 June 2009, impairment losses of RMB151.9 million were charged to the condensed consolidated income statement in accordance with HKAS 36 "Impairment of Assets" (note 11) as a result of the continuation of the adverse market conditions.

Notes to the Condensed Consolidated Interim Financial Information

5 REVENUE

Revenue recognised for the period represents toll revenue on highways and bridges.

The chief operating decision-maker has been identified as the Board of Directors of the Company. The Board of Directors reviews the Group's internal reporting in order to assess performance of the Group's sole operating segment - Toll highways and bridges projects in the PRC. The Board of Directors assesses the performance of this sole operating segment based on a measure of consolidated profit for the period.

No segment analysis of the Group's revenue and contribution to operating profit is presented as the Group's consolidated interim financial information already provides the Board of Directors information for the assessment of performance of the Group.

6 OTHER (LOSSES)/GAINS - NET

| | Six months ended 30 June | |
|---|---------------------------------|---------------|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Exchange (loss)/gain | (13,586) | 322 |
| Waiver of bank loan interest expenses | — | 13,640 |
| Gain on disposal of an intangible operating right (note 13) | — | 58,078 |
| Others | 3,138 | — |
| | (10,448) | 72,040 |

7 EXPENSES BY NATURE

Expenses included in cost of services and general and administrative expenses are analysed as follows:

| | Six months ended 30 June | |
|--|---------------------------------|--------------|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Business tax | 18,962 | 15,260 |
| Amortisation of intangible operating rights (note 12) | 117,542 | 86,386 |
| Amortisation of prepaid operating lease payments (note 12) | 8 | 8 |
| Depreciation of property, plant and equipment (note 12) | 7,222 | 4,956 |
| Impairment losses on goodwill (note 14) | 2,281 | 1,300 |
| Toll highways and bridges maintenance expenses | 53,024 | 49,131 |
| Staff costs (including Directors' remuneration) | | |
| – Wages and salaries | 56,163 | 40,210 |
| – Pension costs (defined contribution plans) | 2,445 | 2,433 |
| – Social security costs | 3,250 | 3,815 |
| – Staff welfare | 12,549 | 6,588 |

Notes to the Condensed Consolidated Interim Financial Information

8 INCOME TAX EXPENSE

- (a) No provision for Hong Kong profits tax has been made for the period as the Group has no income assessable to Hong Kong profits tax during the period (2009: Nil).
- (b) During the six months ended 30 June 2010, the PRC's enterprises income tax was provided on the profits of the Group's subsidiaries, associates and jointly controlled entity in the PRC in accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law"), under which all domestic-invested enterprises and foreign-invested enterprises are subject to a standard corporate income tax rate of 25% with effect from 1 January 2008. The Group's principal income tax rate is gradually increased to the standard rate of 25% over a period of 5 years starting from 1 January 2008. The applicable principal income tax rate for the six months ended 30 June 2010 is 22% (2009: 20%).

In addition, dividend distribution out of profit of foreign-invested enterprises earned after 1 January 2008 is subject to withholding income tax at a tax rate of 5% or 10%. During the period, withholding income tax was provided for undistributed profit of the Group's subsidiaries and associates in the PRC at tax rates of 5% or 10% (2009: 5% or 10%).

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

| | Six months ended 30 June | |
|---------------------------|--------------------------|-----------------|
| | 2010 RMB'000 | 2009 RMB'000 |
| Current income tax | | |
| PRC enterprise income tax | 42,059 | 25,841 |
| Deferred income tax | 22,243 | 19,126 |
| | 64,302 | 44,967 |
| | 64,302 | 44,967 |

9 EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|--|--------------------------|-----------|
| | 2010 | 2009 |
| Profit attributable to equity holders of the Company (RMB'000) | 238,133 | 155,444 |
| Weighted average number of ordinary shares in issue ('000) | 1,673,162 | 1,673,162 |
| Basic and diluted earnings per share (RMB) | 0.1423 | 0.0929 |

The diluted earnings per share for the six months ended 30 June 2010 equal to the basic earnings per share as there were no potential dilutive ordinary shares in issue during the period.

Notes to the Condensed Consolidated Interim Financial Information

10 DIVIDEND

| | Six months ended 30 June | |
|---|--------------------------|---------------|
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Interim, proposed, of RMB0.087238 equivalent to HK\$0.10 (2009: RMB0.035 equivalent to HK\$0.04) per share | <u>145,963</u> | <u>59,022</u> |

The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

11 IMPAIRMENT LOSSES ON INTANGIBLE OPERATING RIGHTS

As at 30 June 2009, with the continuation of the adverse market conditions, the Directors assessed the carrying value of the toll operating rights of Class I highways held by the Group, and identified impairment indicators in respect of certain toll operating rights of Class I highways, including Guangcong Highway Section I, Guangcong Highway Section II and Provincial Highway 355, Guanghua Highway and Guangshen Highway. Impairment losses of RMB151.9 million, with reference to an independent valuation using value-in-use basis, were recognised in the condensed consolidated income statement for the period ended 30 June 2009, resulting in the carrying amount of these toll operating rights being written down to their recoverable amounts.

There were no additional impairment indicators identified for the intangible operating rights of the Group during the period.

Notes to the Condensed Consolidated Interim Financial Information

12 INTANGIBLE ASSETS AND CAPITAL EXPENDITURE

| | Note | Intangible operating rights RMB'000 | Leasehold land RMB'000 | Property, plant and equipment RMB'000 | Investment properties RMB'000 |
|---|------|--|------------------------------|--|-------------------------------------|
| Opening net book value at 1 January 2010 | | 7,193,211 | 570 | 81,224 | 8,849 |
| Additions | | 11,805 | — | 4,654 | — |
| Disposals | | — | — | (13) | — |
| Amortisation/depreciation charge | | (117,542) | (8) | (7,222) | — |
| Exchange differences | | — | (5) | (79) | (81) |
| Closing net book value at 30 June 2010 | | 7,087,474 | 557 | 78,564 | 8,768 |
| Opening net book value at 1 January 2009 | | 6,215,852 | 586 | 33,185 | 7,761 |
| Additions | | 1,400 | — | 4,294 | — |
| Acquisition of a subsidiary | | 578,872 | — | 21,734 | — |
| Disposals | | (126,713) | — | (822) | — |
| Amortisation/depreciation charge | | (86,386) | (8) | (4,956) | — |
| Provision for impairment loss | | (151,863) | — | — | — |
| Transfer to assets classified as held for sale | 16 | (244,611) | — | (93) | — |
| Closing net book value at 30 June 2009 | | 6,186,551 | 578 | 53,342 | 7,761 |

13 OTHER NON-CURRENT RECEIVABLES

Non-current receivable represents the non-current portion of present value of consideration receivable, discounted at the rate of 5.32% in relation to the disposal of the Group's toll operating right of Xiang Jiang Bridge II in 2009. The total consideration was RMB183.2 million and carrying amount of the intangible operating right was RMB125.1 million. The gain on disposal recognised in 2009 was RMB58.1 million.

As at 30 June 2010, the total remaining balance of the consideration receivable was RMB161.9 million which will be settled by 23 half yearly installments until end of the concessionary period, i.e. 30 November 2021. RMB155.0 million (2009: RMB158.7million) will be received after 30 June 2011 according to the receipt schedule.

Notes to the Condensed Consolidated Interim Financial Information

14 GOODWILL

| | 2010 RMB'000 | 2009 RMB'000 |
|-----------------------------|-----------------|-----------------|
| At 1 January | 187,334 | 111,114 |
| Acquisition of a subsidiary | — | 27,912 |
| Exchange differences | — | (23) |
| Impairment losses | (2,281) | (1,300) |
| | <hr/> | <hr/> |
| At 30 June | <u>185,053</u> | <u>137,703</u> |

Goodwill is attributable to the recognition of deferred tax liabilities on fair value gain arising from the acquisition of 20% additional interest in GNSR Expressway Co., Ltd. in 2007, 90% interest in Cangwu Guihai Cangyu Expressway Co., Ltd. (“Cangyu Expressway Co., Ltd.”) and 60% interest in Tianjin Jinfu Expressway Co., Ltd., Tianjin Yuanhong Expressway Co., Ltd. and Tianjin Langdao Expressway Co. Ltd. (collectively “Tianjin Expressway Limited”) in 2009.

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management.

Key assumptions and considerations used for the value-in-use calculations included estimated toll increase, vehicle types of the toll highways and bridges operation and expected gross domestic product growth rate.

Management determined estimated toll increase, vehicles types and expected gross domestic product growth rate based on past performance and its expectations on the market development. The discount rates used are pre-tax and reflect specific risks relating to the toll highways bridges operator industry.

15 TRADE RECEIVABLES

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

16 DISPOSAL GROUP

The Taihe toll station of Guangcong Highway Section I, a Class I highway held by Guangzhou Taihe Highways Development Company Limited (“Taihe Highways Limited”), was closed down in January 2009 for relocation at the request of the Guangzhou Municipal People’s Government (“GZ Government”). On 1 December 2009, the PRC joint venture partner of Taihe Highways Limited, namely, Guangzhou Highways Development Company (“GHDC”) and the Group entered into several compensation agreements whereby GHDC would acquire the Group’s entire 80% equity interest in and net receivable from Taihe Highways Limited at an aggregate consideration comprising additional equity interests of 35% and 39% in Guangzhou Xinguang Highways Development Company Limited (“Xinguang”) and Guangzhou Tailong Highways Development Company Limited (“Tailong”) respectively and assignment of debts of RMB107.4 million (approximately HK\$121.8 million) and RMB65.1 million (approximately HK\$73.8 million) due from Xinguang and Tailong respectively to the Group.

As at 30 June 2010, the aforementioned transaction has been approved by the Bureau of Foreign Trade and Economic Cooperation of Guangzhou Municipality, but it is subject to approvals from the other relevant regulatory authorities of Guangdong Province.

Notes to the Condensed Consolidated Interim Financial Information

16 DISPOSAL GROUP (CONTINUED)

The results of Taihe Highways Limited for the period since it was classified as a disposal group are as follows:

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2010 RMB'000 | 2009 RMB'000 |
| Income | 76 | 323 |
| Expenses | (45) | (5,439) |
| Profit/(loss) for the period of disposal group | <u>31</u> | <u>(5,116)</u> |

The major classes of assets and liabilities of Taihe Highways Limited are as follows:

| | As at | |
|---|----------------------------|--------------------------------|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Assets | | |
| Intangible operating right | 244,611 | 244,611 |
| Property, plant and equipment | 93 | 93 |
| Other receivables, deposits and prepayments | 29 | 44 |
| Cash and cash equivalents | 9,754 | 9,896 |
| Assets classified as held for sale | <u>254,487</u> | <u>254,644</u> |
| Liabilities | | |
| Deferred income tax liabilities | 4,889 | 4,889 |
| Trade and other payables and accrued charges | 55 | 55 |
| Liabilities classified as held for sale | <u>4,944</u> | <u>4,944</u> |
| Net assets classified as held for sale | <u>249,543</u> | <u>249,700</u> |

Notes to the Condensed Consolidated Interim Financial Information

17 SHARE CAPITAL

| | As at | |
|---|----------------------------|--------------------------------|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Authorised: | | |
| 2,000,000,000 ordinary shares of RMB 0.08805 each | <u>176,100</u> | <u>176,100</u> |
| Issued and fully paid: | | |
| 1,673,162,295 ordinary shares of RMB 0.08805 each | <u>147,322</u> | <u>147,322</u> |

18 BORROWINGS

| | As at | |
|---|----------------------------|--------------------------------|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Long-term bank borrowings | 1,119,500 | 1,145,500 |
| Loans from non-controlling interests of certain subsidiaries | <u>397,764</u> | <u>393,340</u> |
| Total borrowings denominated in RMB | 1,517,264 | 1,538,840 |
| Less: Amounts due within one year shown under current liabilities | <u>(306,980)</u> | <u>(312,980)</u> |
| | <u>1,210,284</u> | <u>1,225,860</u> |

- (a) Interest expenses on borrowings for the six months ended 30 June 2010 amounted to RMB 29,595,000 (2009: RMB 36,556,000).
- (b) The bank loans are secured by intangible operating rights of the Group and the effective interest rate of bank loans at 30 June 2010 was 5.35 % (2009: 6.42%).
- (c) The loans from non-controlling interests of certain subsidiaries are unsecured, not repayable within one year and interest-free except for an amount of RMB 129,000,000 (2009: RMB 129,000,000) which bears interest at a rate of 5.94% (2009: 5.94% per annum). Pursuant to an agreement between the Group and the non-controlling interest, the interest expenses on borrowing were fully waived in current period. The carrying amounts of the interest-free loans from non-controlling interests of certain subsidiaries approximate their fair values which are calculated based on cash flows discounted using a rate of 5.31% (2009: 5.31%) per annum.
- (d) The carrying amounts of borrowings approximate their fair values as the impact of discounting is not significant. The borrowings are denominated in RMB. The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are within one year (2009: within one year).

Notes to the Condensed Consolidated Interim Financial Information

19 DEFERRED INCOME TAX LIABILITIES

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

| | As at | |
|---|----------------------------|--------------------------------|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Deferred income tax liabilities | | |
| – accelerated depreciation | 141,550 | 131,298 |
| – available-for-sale financial assets | 13,911 | 16,466 |
| – fair value gains on interests in toll highways arising from acquisition of subsidiaries | 729,877 | 739,575 |
| – fair value of investment properties | 12 | 12 |
| – undistributed profits of associates | 58,535 | 55,961 |
| | <u>943,885</u> | <u>943,312</u> |

20 TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

| | As at | |
|------------------------------------|----------------------------|--------------------------------|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| Trade payables | 48,369 | 55,635 |
| Other payables and accrued charges | 86,595 | 80,746 |
| | <u>134,964</u> | <u>136,381</u> |

Trade payables represent construction costs payable to contractors.

The ageing analysis of trade payables is as follows:

| | As at | |
|--------------|----------------------------|--------------------------------|
| | 30 June 2010 RMB'000 | 31 December 2009 RMB'000 |
| 0 – 30 days | 2,451 | 55,635 |
| 31 – 90 days | 491 | — |
| Over 90 days | 45,427 | — |
| | <u>48,369</u> | <u>55,635</u> |

Payables are denominated in RMB and the carrying amounts of these payables approximate their fair values.

Notes to the Condensed Consolidated Interim Financial Information

21 COMMITMENTS

The Group's future aggregate minimum lease payments/receipts under non-cancellable operating leases of premises are as follows:

| | 30 June 2010 RMB'000 | As at 31 December 2009 RMB'000 |
|---|-------------------------------------|---|
| Lease payments | | |
| Not later than one year | 467 | 472 |
| Later than one year and not later than five years | 234 | 472 |
| | <u>701</u> | <u>944</u> |
| Lease receipts | | |
| Not later than one year | 206 | 330 |
| Later than one year and not later than five years | — | 43 |
| | <u>206</u> | <u>373</u> |

22 RELATED PARTY TRANSACTIONS

(a) Related parties

The Company's directors regard 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited) (incorporated in PRC) 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 had significant transactions during the period, and their relationship with the Company as at 30 June 2010:

| Significant related party | Relationship with the Company |
|---|---|
| Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu") | A wholly-owned subsidiary of ultimate holding company |
| Yuexiu Property Company Limited ("Yuexiu Property") | An associate of ultimate holding company |
| Guangzhou Western Second Ring Expressway Co., Ltd. | A jointly controlled entity |
| 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 |

Notes to the Condensed Consolidated Interim Financial Information

22 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties

| | Six months ended 30 June | |
|---|--------------------------|-------------------|
| | 2010 RMB'000 | 2009 RMB'000 |
| Administrative service fees paid to Yuexiu Property | 567 | 573 |
| Gain on disposal of a toll operating right of Xiang Jiang Bridge II to a state-owned enterprise | — | 58,078 |
| Rental expenses paid to Yue Xiu | — | 158 |
| Rental expenses paid to a fellow subsidiary | 234 | — |
| Interest expense paid to a non-controlling interest of a subsidiary | — | 3,737 |
| | <u> </u> | <u> </u> |

(c) Key management compensation

| | Six months ended 30 June | |
|--|--------------------------|-------------------|
| | 2010 RMB'000 | 2009 RMB'000 |
| Salaries and other short-term benefits | 12,533 | 8,158 |
| | <u> </u> | <u> </u> |

23 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

Other Information

Interests of Directors

As at 30 June 2010, 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 of Hong Kong Limited (“Stock Exchange”) were as follows:

Long positions in shares of the Company:

| Name of Director | Nature of interest | Beneficial interest in shares | Approximate % of interest |
|--------------------------|--------------------|-------------------------------|---------------------------|
| Mr Liang Ningguang | Personal | 34,950 | 0.002 |
| Mr Liu Yongjie | Personal | 61,650 | 0.004 |
| Mr Li Xinmin | Personal | 200,000 | 0.012 |
| Mr Qian Shangning | Personal | 200,000 | 0.012 |
| Mr Lau Hon Chuen Ambrose | Personal | 195,720 | 0.012 |

Save as disclosed herein, as at 30 June 2010, 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.

Discloseable Interests of Shareholders under the Securities and Futures Ordinance

As at 30 June 2010, 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 |
|--|------|----------------------------|------------------------------|
| 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited) | (a) | 1,014,796,050 | 60.65 |
| Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu”) | (a) | 1,014,796,050 | 60.65 |
| Grace Lord Group Limited | (a) | 578,428,937 | 34.57 |
| First Dynamic Limited | (a) | 367,500,000 | 21.96 |
| Housemaster Holdings Limited | (a) | 367,500,000 | 21.96 |
| Mr Cheah Cheng Hye | (b) | 98,211,000 | 5.86 |
| Hang Seng Bank Trustee International Limited | (b) | 98,211,000 | 5.86 |
| Cheah Company Limited | (b) | 98,211,000 | 5.86 |
| Cheah Capital Management Limited | (b) | 98,211,000 | 5.86 |
| Value Partners Group Limited | (b) | 98,211,000 | 5.86 |
| Value Partners Limited | (b) | 98,211,000 | 5.86 |
| Ms To Hau Yin | (b) | 98,211,000 | 5.86 |

Notes:

- (a) The entire issued share capital of Yue Xiu was beneficially wholly-owned by Guangzhou Yue Xiu Holdings Limited. Yue Xiu held 8,653 shares in the Company as beneficial owner and deemed interest in the balance of 1,014,787,397 shares through its wholly-owned subsidiaries, namely, Grace Lord Group Limited, Housemaster Holdings Limited, Yue Xiu Finance Company Limited, Dragon Year Industries Ltd. and Greenwood Pacific Limited.
- (b) Value Partners Limited held these shares as investment manager. Mr Cheah Cheng Hye, being the founder of The C H Cheah Family Trust, is deemed to be interested in 98,211,000 shares by virtue of the SFO. Hang Seng Bank Trustee International Limited, the trustee of The C H Cheah Family Trust, holds 100% interest in Cheah Company Limited which holds 100% interest in Cheah Capital Management Limited, which holds a 31.23% interest in Value Partners Group Limited, which in turn holds 100% interest in Value Partners Limited.

Ms To Hau Yin is the spouse of Mr Cheah Cheng Hye and is deemed to be interested in the shares held by Mr Cheah Cheng Hye.

Other Information

Share Options

On 25 June 2002, the shareholders of the Company approved the resolutions relating to the termination of an old share option scheme and the adoption of a new share option scheme ("2002 Share Option Scheme"). The 2002 Share Option Scheme complies with the amendments to Chapter 17 of the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Pursuant to the 2002 Share Option Scheme, the board of directors of the Company ("Board") may grant to any person being an employee, officer, director, agent, consultant or representative of 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% 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% 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%; and (ii) 60 % (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 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 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. As at 30 June 2010, no such options have been granted to any person since its adoption as required to be disclosed under the Listing Rules.

Corporate Governance

The Company has complied with the code provisions of the Code on Corporate Governance Practices ("Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2010, except for the following deviation:

Code Provision A.4.1

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 and have been re-elected during the past three years.

Review of Interim Results

The results of the Group for the six months ended 30 June 2010 have been reviewed by the Audit Committee and by the Company's auditor in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("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 six months ended 30 June 2010.

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

Changes in Directors' Biographical Details

Changes in directors' biographical details since the date of 2009 Annual Report of the Company, which are required to be disclosed pursuant to Rules 13.51(2) and 13.51B of the Listing Rules, are set out below.

Mr Fung Ka Pun

New appointment

Hao Tian Resources Group Limited (director and vice chairman)

Cessation of appointment

CIAM Group Limited (director and vice chairman)

Purchase, Sale or Redemption of the Company's Shares

The Company has not redeemed any of its shares during the six months ended 30 June 2010. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 29 September 2010 to Tuesday, 5 October 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Share Registrar, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 28 September 2010.

Corporate and Investor Relations Information

BOARD OF DIRECTORS

Executive directors

Mr Zhang Zhaoxing (*Chairman*)
Mr Li Xinmin
Mr Liang Ningguang
Mr Liu Yongjie
Mr Qian Shangning
Mr Wang Shuhui

Independent non-executive directors & audit committee members

Mr Fung Ka Pun
Mr Lau Hon Chuen Ambrose
Mr Cheung Doi Shu

COMPANY SECRETARY

Mr Yu Tat Fung

QUALIFIED ACCOUNTANT

Ms Chan Kam Ting Sharon

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

23rd Floor
Yue Xiu Building
160 Lockhart Road
Wanchai
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR

Tricor Abacus 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.irasia.com/listco/hk/gzitransport>
<http://www.hkexnews.hk>