



BUSINESS REVIEW

Toll Projects Summary

The Group is principally engaged in investment, operation and management of toll expressways and national highways and bridges mainly located in Guangzhou area. As at 31 December 2006, the Group's investments in toll road and bridge projects include Guangzhou City Northern Ring Road, Guangzhou Northern Second Ring Expressway, Guangzhou Western Second Ring Expressway, Humen Bridge and Shantou Bay Bridge which are located within Guangdong Province; Guangshen Highway, Guangshan Highway, Guangcong Highway Sections I and II, Guanghua Highway and Qinglian Highways all of which connect the traffic hub of Guangzhou City and inter-provincial traffic between Guangdong, Hunan and Jiangxi provinces; Xian Expressway in Shaanxi Province and Xiang Jiang Bridge II in Xiangtan City of Hunan Province both are located outside Guangdong Province.

Summary Information of Operating Toll Roads and Bridges

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

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



Overview of Operating Performance

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

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

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



GWSR Expressway



Average Daily Toll Traffic Volume and Average Daily Toll Revenue

Year ended 31 December 2006

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

Performance of Expressways and Bridges

Xian Expressway in Shaanxi Province (“Xian Expressway”)

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

Humen Bridge

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



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

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

Guangzhou Northern Second Ring Expressway (“GNSR Expressway”)

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

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

Shantou Bay Bridge

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

Guangzhou Western Second Ring Expressway (“GWSR Expressway”)

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

Performance of Class I and II Highways and Bridges

Guangshen Highway Guangzhou Section (“Guangshen Highway”)

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



Guangshan Highway Guangzhou Section (“Guangshan Highway”)

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

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

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

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

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

Guanghua Highway

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

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

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

Qinglian Highways

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

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

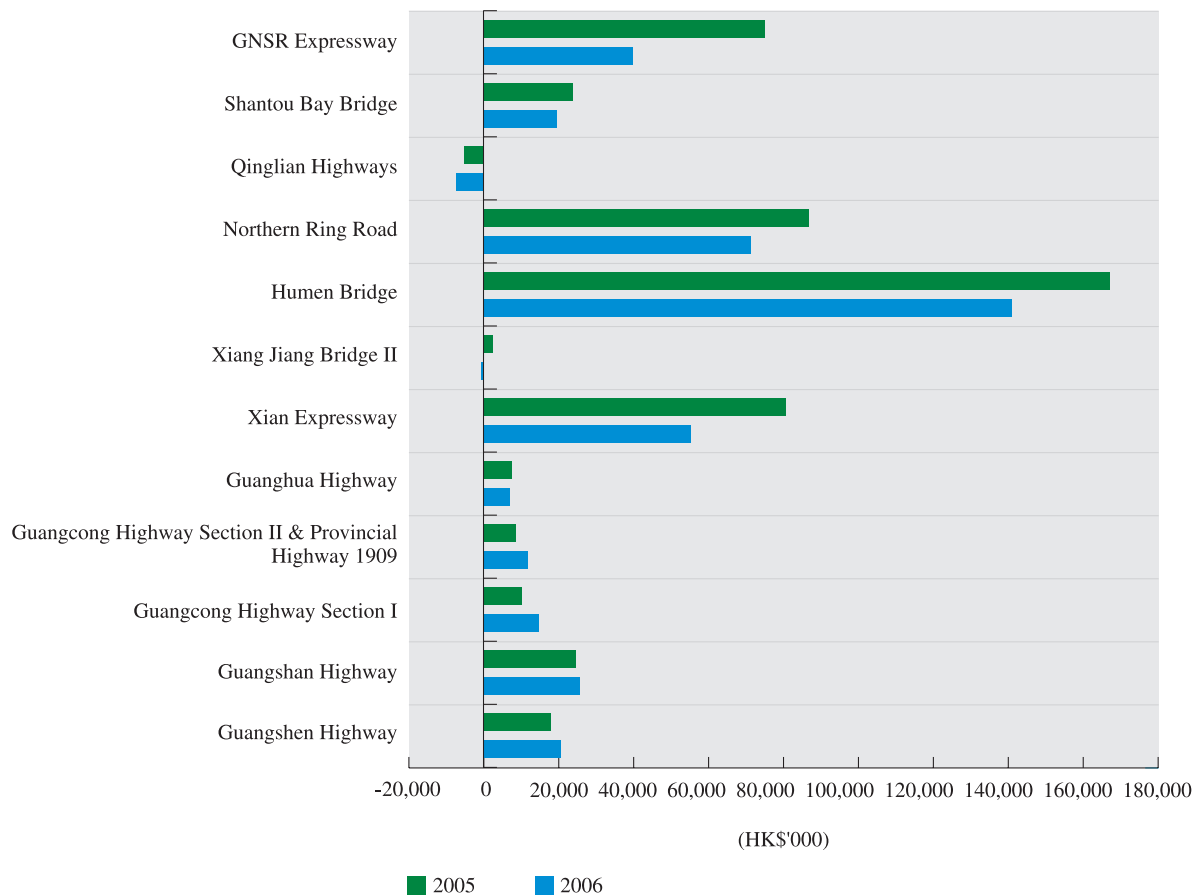


FINANCIAL REVIEW

Results Highlights

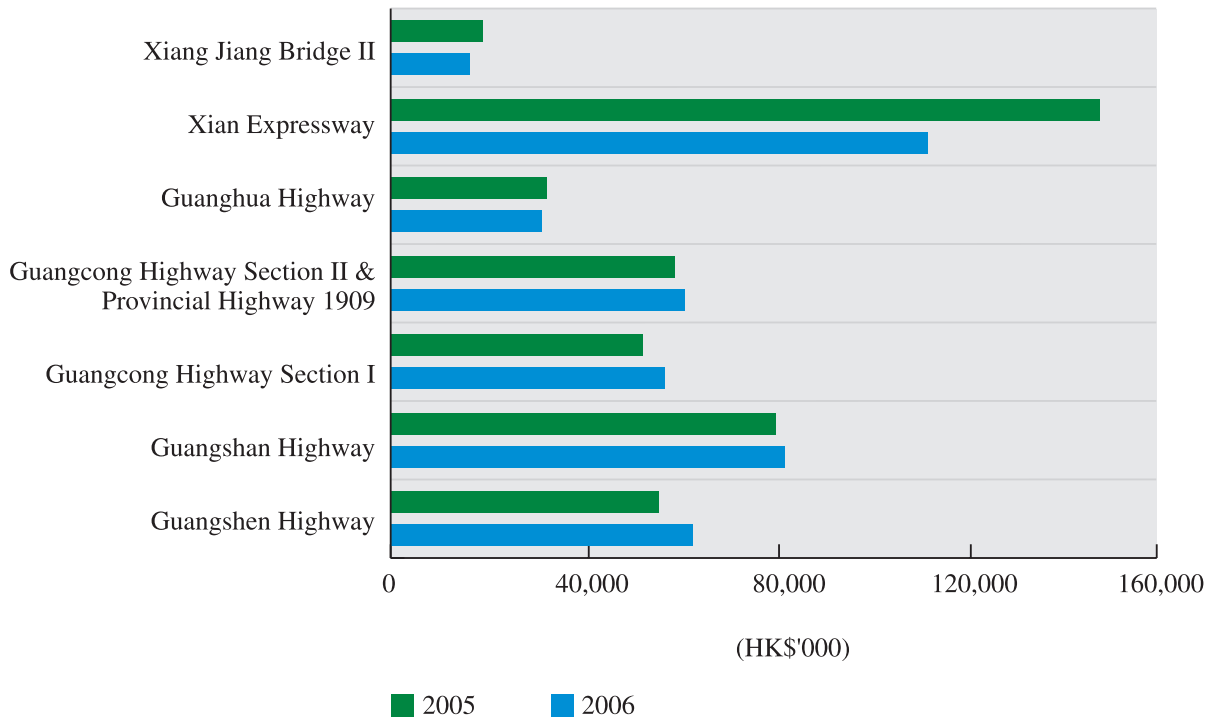
	2006	2005	Change
	HK\$'000	HK\$'000	
Profit attributable to equity holders of the Company	461,157	305,898	50.8%
Toll revenue	448,531	424,845	5.6%
Operating profit	184,819	130,647	41.5%
Profit after income tax and interest income from associates and jointly controlled entity	347,547	264,527	31.4%
Interest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

Profit attributable to equity holders of the Company by toll projects

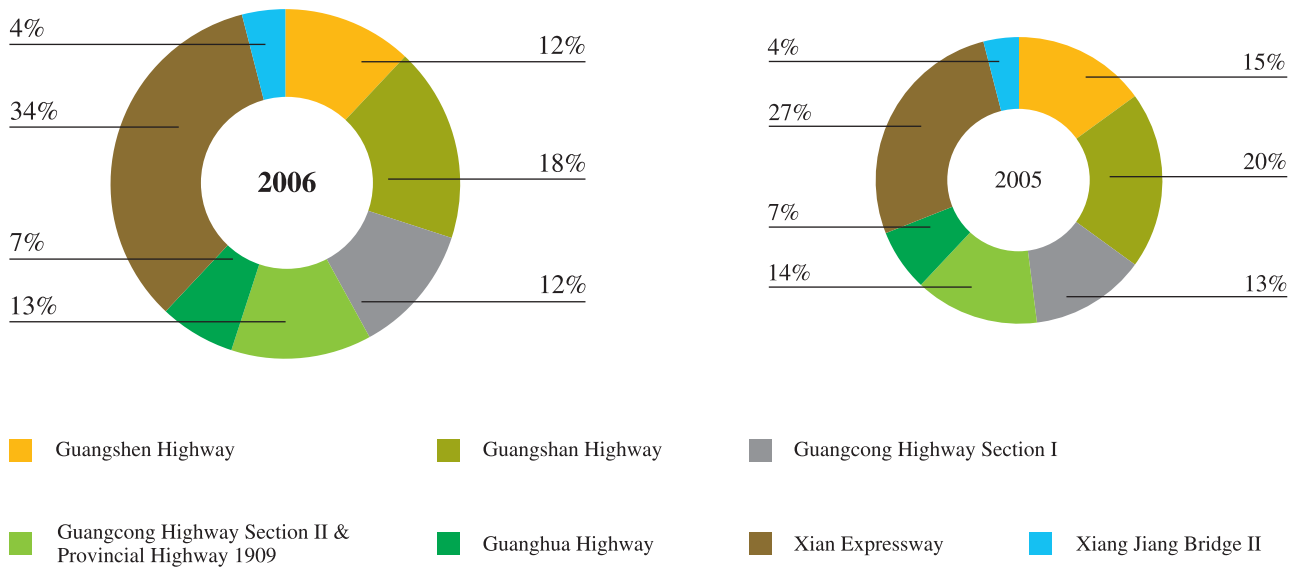




Toll Revenue of Subsidiaries

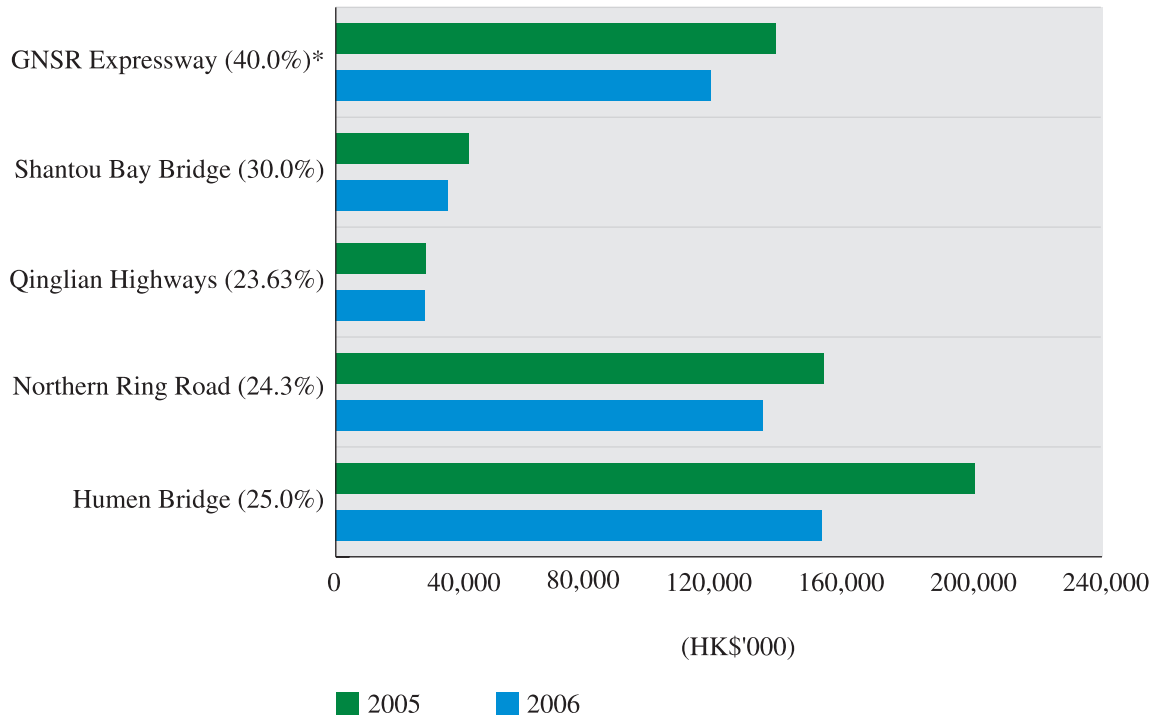


Analysis of Toll Revenue of Subsidiaries

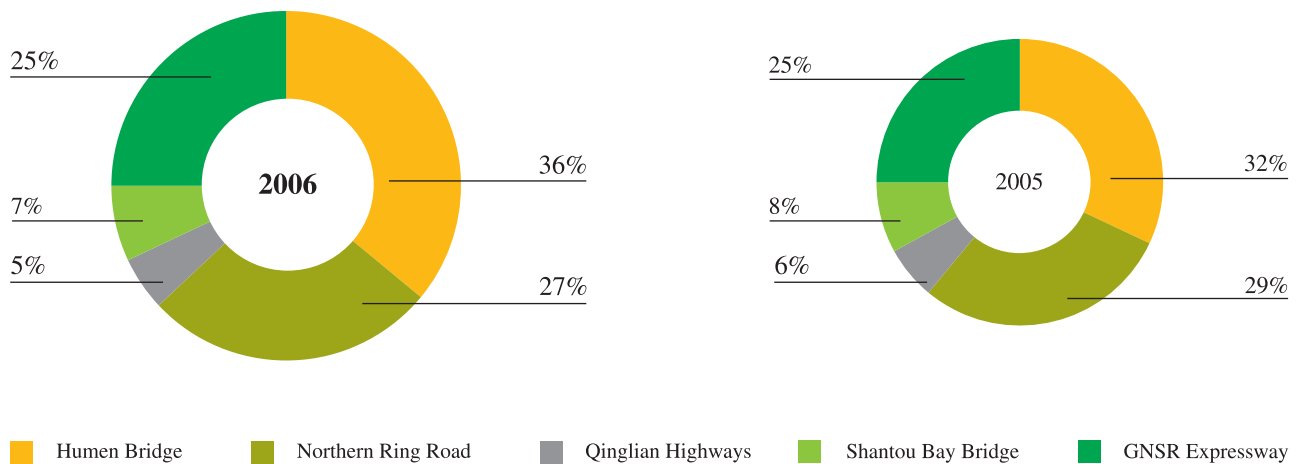




Toll Revenue of Associates & Jointly Controlled Entity (Attributable to the Group)



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



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



Analysis of Results

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

Revenue

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

Other gains - net

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

Amortisation / depreciation of interests in toll highways and bridges

Except for one subsidiary which adopts the unit of usage method of depreciation, the rest adopt the straight-line method. The Group's amortisation / depreciation of interests in toll highways and bridges for the year ended 31 December 2006 amounted to HK\$111.6 million which was 5.3 per cent higher than 2005.

Toll highways and bridges maintenance expenses

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

General and administrative expenses

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

Finance costs - net

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

Management Discussion and Analysis



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

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

Share of profit of a jointly controlled entity

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

Income tax expense

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

Interest Coverage

The interest coverage is measured by the ratio of earnings before interests, tax, depreciation and amortisation ("EBITDA") to interest expenses. For the year ended 31 December 2006, interest coverage was 275 times (2005: 53 times) due to increase in EBITDA and decline in interest expenses.

Final Dividend

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

LIQUIDITY AND FINANCIAL RESOURCES

Financial Highlights

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



Cash flows

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

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

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

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

Bank borrowings

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

Current ratio

The current ratio (current assets over current liabilities) as at 31 December 2006 was 524.0 per cent (2005: 190.0 per cent). The management is of the opinion that with adequate cash balance, stable stream of operating cash flow and steady cash return from investments, liquidity risk is not an imminent issue of the Group.

Capital expenditures and investments

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



Capital Structure

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

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

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

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

Loans from minority shareholders are part of capital contributions made by minority shareholders in respect of their respective equity shareholdings in certain subsidiaries in accordance with the terms of the relevant shareholders' agreements to set up those subsidiaries. These loans are unsecured and denominated in RMB. Except for one subsidiary which minority shareholder's loan is interest bearing, the rest are non-interest bearing. The interest-free loans are stated at fair values based on cash flows discounted by a borrowing rate of 5.2 per cent. During 2006, the Group had repaid approximately HK\$1.6 million of the interest-free loans.

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



Treasury Policies

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

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

Capital Commitments and Contingent Liabilities

As at 31 December 2006, the Group had a committed equity capital balance payable to a jointly controlled entity, GWSR Expressway Co. of RMB105.0 million (equivalent to approximately HK\$105.0 million). This balance would be paid by stages in such amount and by such date as to be determined by the board of directors of GWSR Expressway Co.

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

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

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

Employees

As at 31 December 2006, the Group has approximately 828 employees of which about 669 were directly engaging in the daily operation, management and supervision of toll projects. The Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. The Group has also adopted a share option scheme which awards its employees according to the performance of the Group and individual employees.