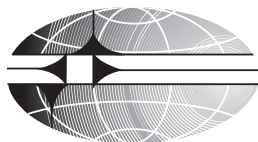


If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Shenzhen Expressway Company Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was affected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



深圳高速公路股份有限公司
SHENZHEN EXPRESSWAY COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 548)

MAJOR AND CONNECTED TRANSACTION
PROPOSED ACQUISITION OF WUHUANG EXPRESSWAY

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Financial Adviser to the Company

GD Guangdong Securities Limited

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



HANTEC CAPITAL LIMITED

A letter from the Independent Board Committee is set out on page 28 of this circular. A letter from Hantec Capital, the independent financial adviser, is set out on pages 29 to 42 of this circular.

A notice convening an extraordinary general meeting ("EGM") of Shenzhen Expressway Company Limited (the "Company") to be held at the meeting room of the Company at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, the People's Republic of China at 3:00 p.m. on 3 June 2005 (Friday) is set out on pages 141 to 144 of this circular. A form of proxy is also enclosed. Whether or not you intend to attend the said meeting, you are requested to complete the proxy in accordance with the instructions printed thereon and return the same to the registrar of H shares of the Company, Hong Kong Registrars Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or to the Company at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, the People's Republic of China as soon as possible and in any event not less than 24 hours before the holding of the EGM. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the EGM or any adjourned meeting(s) should you so wish.

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisitions”	the Project Company Acquisition and the Jade Emperor Acquisition
“Acquisition Agreements”	the Project Company Acquisition Agreement and the Jade Emperor Acquisition Agreement
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Bank Undertaking”	an undertaking to be issued by the Undertaking Bank pursuant to the Project Company Acquisition Agreement
“Board”	the board of Directors
“Business Day”	a day on which banks are open for business in Hong Kong
“Company”	Shenzhen Expressway Company Limited (深圳高速公路股份有限公司), a joint stock limited company incorporated in the PRC with limited liability and the H shares of which are listed on the Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange
“Completion”	Completion of the Acquisitions
“Deposit”	the amount of HK\$21,250,000 to be paid by the Purchasers into the Nominated Accounts pursuant to the Jade Emperor Acquisition Agreement
“Designated Account”	the account opened in a bank in Hong Kong by Jade Emperor for payment of consideration by the Company under the Project Company Acquisition Agreement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, PRC at 3:00 p.m. on 3 June 2005 (Friday) for the purpose of considering, and if thought fit, approving the Acquisitions contemplated thereunder
“Enlarged Group”	the Group as enlarged by the Acquisitions upon Completion

DEFINITIONS

“First Guarantor”	Lee San Choon, a Malaysian national who owns 33% of the shares of the First Vendor. Mr. Lee is the non-executive chairman of the board of directors of Sunrise Berhad, an award winning property company listed on the main board of Kuala Lumpur Stock Exchange. He is also the chairman of the following Malaysian companies with limited liability: Lee & Mok Sendirian Berhad, Magerk Sendirian Berhad and Worldspan Travel (M) Sendirian Berhad
“First Vendor”	Hubei Investment Limited, a company incorporated in Hong Kong with limited liability and owned by the First Guarantor as to 33% and indirectly by the Second Guarantor as to 67%
“Flywheel”	Flywheel Investments Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of SZ International
“Group”	the Company and its subsidiaries
“Guangdong Securities”	Guangdong Securities Limited, a licensed corporation to carry on Types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities for the purpose of SFO, being the financial adviser to the Company in relation to the Acquisitions
“Guarantors”	the First Guarantor, the Second Guarantor and the Third Guarantor. Each of them guarantees the due and timely performance by the respective Vendor pursuant to the Acquisition Agreements. In the event of any Vendor’s default, the respective Guarantor will perform such obligations in place of the Vendor and will indemnify the Purchasers against such default
“Hantec Capital”	Hantec Capital Limited, a licensed corporation to carry on Types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities for the purpose of SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisitions
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK\$ Redemption Account”	the HK\$ account of Malayan Banking Berhad, Hong Kong Branch maintained in the HK\$ Clearing House Automated Transfer System

DEFINITIONS

“HK\$ Redemption Amount”	all of the RM (Malaysian currency) principal and interest owed by the Third Vendor to Maybank Kota Kinabalu and all the bank charges and fees owed by the Third Vendor to Maybank Kota Kinabalu in respect of the same, all expressed as a HK\$ amount
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Directors comprising all the independent non-executive Directors, namely Messrs. Ho Pak Cho, Denis Morgie, Li Zhi Zheng, Zhang Zhi Xue and Poon Kai Leung, James
“Independent Shareholders”	Shareholders other than Xin Tong Chan and its associates
“Independent Third Party” or “Independent Third Parties”	person(s) who, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are third party/parties independent of and is/are not connected person(s) of the Company and its subsidiaries, its directors, chief executive, promoters, supervisors or substantial shareholders or their respective associates
“Initial Instalment”	the initial instalment of RMB20,000,000 payable by the Company into the Instalment Account pursuant to the Project Company Acquisition Agreement
“Instalment Account”	an account opened by the Project Company on behalf of Jade Emperor in a bank within the PRC for the purpose of the Initial Instalment
“Jade Emperor”	Jade Emperor Limited, a company incorporated in the Cayman Islands with limited liability, the share capital of which is held by the First Vendor (56.30%), the Second Vendor (21.85%) and the Third Vendor (21.85%)
“Jade Emperor Acquisition”	the acquisition of the Jade Emperor Sale Shares by the Purchasers from the Vendors and the repurchase of the Repurchase Shares by Jade Emperor pursuant to the Jade Emperor Acquisition Agreement
“Jade Emperor Acquisition Agreement”	the agreement entered into on 19 March 2005 between the Company, Mei Wah, Flywheel, the Vendors, the Guarantors and Jade Emperor relating to the acquisition of the Jade Emperor Sale Shares by the Purchasers and the repurchase of the Repurchase Shares by Jade Emperor

DEFINITIONS

“Jade Emperor Completion Date”	the 21st Business Day next following the day on which all conditions precedent in the Jade Emperor Acquisition Agreement have been either satisfied or waived or such other later Business Day as the Purchasers, Jade Emperor and the Vendors may so agree
“Jade Emperor Sale Shares”	238,000,000 ordinary issued shares out of the 280,000,000 ordinary issued shares of US\$0.10 each in the share capital of Jade Emperor respectively held by the Vendors to be sold to the Purchasers
“Latest Practicable Date”	15 April 2005, being the latest practicable date before the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long-Stop Date”	the first Business Day next following the day which is the 85th day after the date of the Jade Emperor Acquisition Agreement or alternatively if the Purchasers have before the expiration of such 85 days served on the Vendors a joint written request for an extension of 30 days then the first Business Day next following the day which is the 115th day after the date of the Jade Emperor Acquisition Agreement, or in further alternative such other later Business Day as they may so agree
“Maybank Kota Kinabalu”	the branch of Malayan Banking Berhad, a licensed bank in Malaysia, which is located in Kota Kinabalu in Sabah, East Malaysia
“Mei Wah”	Mei Wah Industrial (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and wholly-owned by the Company
“Nominated Accounts”	an account in the name of the First Vendor opened in a bank in Hong Kong for the purpose of holding its portion of the Deposit and an account in the name of the Second Vendor opened in a bank in Hong Kong for the purpose of holding the portions of the Deposit for the Second Vendor and the Third Vendor
“PBA”	Parsons Brinckerhoff (Asia) Limited, an independent traffic consultant engaged by the Company
“PricewaterhouseCoopers”	PricewaterhouseCoopers, Certified Public Accountants registered in Hong Kong

DEFINITIONS

“PRC”	the People’s Republic of China which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and the Taiwan region
“Project Company”	湖北馬鄂高速公路經營有限公司 (Hubei Magerk Expressway Management Private Limited), a wholly-foreign owned enterprise established in the PRC by Jade Emperor, with a total registered capital of US\$28 million
“Project Company Acquisition”	the acquisition of Project Company Equity by the Company from Jade Emperor pursuant to the Project Company Acquisition Agreement
“Project Company Acquisition Agreement”	the agreement entered into on 19 March 2005 between Jade Emperor, the Company and the Guarantors relating to the acquisition of the Project Company Equity by the Company
“Project Company Equity”	15% of the entire equity interest in the Project Company held by Jade Emperor to be sold to the Company
“Project Company Net Consideration”	HK\$176,850,000 which is the consideration for the Project Company Acquisition, i.e. HK\$178,263,228 after deduction of a pro rata 15% share of the payment to the Subcontractor in accordance with the percentage of equity interests being acquired
“Purchasers”	Mei Wah and Flywheel
“Repurchase”	the repurchase of the Repurchase Shares by Jade Emperor pursuant to the Jade Emperor Acquisition Agreement by applying the consideration received under the Project Company Acquisition Agreement
“Repurchase Shares”	all the remaining 42,000,000 shares (representing 15% share capital in Jade Emperor) held by the Third Vendor in Jade Emperor after the sale of the Jade Emperor Sales Shares to the Purchasers under the Jade Emperor Acquisition Agreement
“RMB”	renminbi, the lawful currency of the PRC
“Sallmanns”	Sallmanns (Far East) Limited, an independent valuer in respect of the Acquisitions

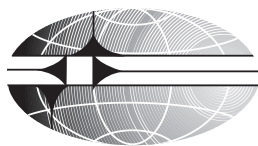
DEFINITIONS

“Scheduled Completion Date”	being the 85th day from the date of the Project Company Acquisition Agreement; and in the event there is no completion of the Project Company Acquisition Agreement by then and at the request of the Company, be postponed to 30 days after
“Second Guarantor”	Tan Leong Min, a Malaysian national who indirectly owns 67% of the shares of the First Vendor. He is the founder and senior adviser of Mahajaya Berhad, a property development company listed on the Kuala Lumpur Stock Exchange
“Second Vendor”	Wong Chik Lim Holdings (H.K.) Limited, a company incorporated in Hong Kong with limited liability and wholly-owned by the Third Guarantor and his wife
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of the Company
“Shareholder(s)”	holder(s) of Share(s) of the Company
“Shenzhen SAFE”	Shenzhen Branch Bureau of the State Administration of Foreign Exchange (中國國家外匯管理局深圳分局)
“Specified Account”	the account specified by the Company for the refund of Initial Instalment by Jade Emperor pursuant to the Project Company Acquisition Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subcontractor”	Hubei Wuhuang Expressway Management Co. Ltd. (湖北武黃高速公路經營有限公司), the current subcontractor responsible for toll collection and management of Wuhuang Expressway in substitute of Hubei Bureau for the Administration of Higher Class Public Roads (湖北省高等級公路管理局) and its subsequent substitutes
“SZ International”	Shenzhen International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange. Its wholly-owned subsidiary Xin Tong Chan is a substantial shareholder of the Company
“SZ International Group”	SZ International and its subsidiaries

DEFINITIONS

“Third Guarantor”	Wong Chik Lim, a Malaysian national who, with his family, indirectly owns all the shares of the Second Vendor and the Third Vendor. He is the chairman of the Wong Chik Lim Holdings Sendirian Berhad and Capital Timber Holdings Sendirian Berhad, both are companies incorporated in Malaysia
“Third Vendor”	Sabagaya Sendirian Berhad, a company incorporated in Malaysia with limited liability and indirectly wholly-owned by the Third Guarantor and his family
“Undertaking Bank”	Shenzhen branch of The Industrial and Commercial Bank of China (中國工商銀行深圳分行)
“US\$	United States dollar(s), the lawful currency of the United States of America
“Vendors”	the First Vendor, the Second Vendor and the Third Vendor
“Wuhuang Expressway”	Wuhuang Expressway (武黃高速), an expressway class dual four-lane expressway measuring 70.3 kilometers running from the Southern Ring Railway Bridge at Guanshan First Road in the city of Wuhan (武漢市關山一路南環鐵路橋) to Huangshi Yangtze River Bridge (黃石長江大橋)
“Xin Tong Chan”	新通產實業開發(深圳)有限公司 (Xin Tong Chan Development (Shenzhen) Co. Ltd.), a wholly-owned subsidiary of SZ International and a substantial shareholder of the Company holding 30.03% of the equity interest of the Company
“%”	Per cent.

Note: For the purpose of this circular, foreign currency amounts have been converted into Hong Kong dollars using an exchange rate of HK\$1 = RMB1.06 and HK\$7.80 = US\$1.



深圳高速公路股份有限公司

SHENZHEN EXPRESSWAY COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 548)

Directors:

Yang Hai (*Chairman*)
Wu Ya De
Zhang Rong Xing
Lin Xiang Ke
Zhang Yang
Chiu Chi Cheong, Clifton
Li Jing Qi
Wang Ji Zhong

Independent non-executive Directors:

Ho Pak Cho, Denis Morgie
Li Zhi Zheng
Zhang Zhi Xue
Poon Kai Leung, James

Legal Address:

19/F., Tower A
United Plaza
5022 Binhe Road North
Shenzhen 518033
PRC

Place of business in Hong Kong:

Suites 2911-2912
29th Floor
Two International Finance Centre
No. 8 Finance Street
Central
Hong Kong

18 April 2005

To the Shareholders

Dear Sirs or Madams,

**MAJOR AND CONNECTED TRANSACTION
PROPOSED ACQUISITION OF WUHUANG EXPRESSWAY**

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

INTRODUCTION

The Directors jointly announced with the directors of SZ International on 22 March 2005 that the Company, its wholly-owned subsidiary Mei Wah and Flywheel (a wholly-owned subsidiary of SZ International) had entered into the Project Company Acquisition Agreement and the Jade Emperor Acquisition Agreement on 19 March 2005 to acquire effectively 100% of the equity interest of the Project Company for an aggregate consideration of HK\$1,188,421,519.

LETTER FROM THE BOARD

The sole business of the Project Company is the operation and management of Wuhuang Expressway under an operating right granted for a period of 25 years commencing on 23 September 1997 and expiring on 22 September 2022. Wuhuang Expressway is an asphalt-paved, dual four-lane public road in Hubei Province, PRC that runs for 70.3 kilometers from Wuhan city (武汉市), passing through Ezhou city (鄂州市) and ending in Huangshi city (黄石市).

The Project Company is currently wholly-owned by Jade Emperor. The Acquisitions consist of an acquisition of a 15% equity interest in the Project Company, i.e. the Project Company Acquisition by the Company, and the acquisition of all the shares in Jade Emperor, i.e. the Jade Emperor Acquisition (representing indirectly the remaining 85% of the equity interest in the Project Company) by Mei Wah and Flywheel.

Pursuant to the Project Company Acquisition Agreement, the Company will acquire the Project Company Equity from Jade Emperor. The Project Company Equity represents 15% of the entire equity interest in the Project Company. Pursuant to the Jade Emperor Acquisition Agreement, Jade Emperor will apply the proceeds received from the sale of the Project Company Equity for the Repurchase so as to repurchase 15% of its own share capital from the Third Vendor.

Pursuant to the Jade Emperor Acquisition Agreement, the Purchasers, i.e. Mei Wah and Flywheel, will simultaneously with the Repurchase, acquire the Jade Emperor Sale Shares from the Vendors. The Jade Emperor Sale Shares represent 85% of the existing issued share capital of Jade Emperor (i.e. the remaining shares after the Repurchase). The Jade Emperor Sale Shares also indirectly represent 85% of the entire equity interest in the Project Company after the sale of the Project Company Equity.

As between the Purchasers, the Jade Emperor Sale Shares will be acquired by Mei Wah as to 47.06% (representing an indirect interest in the Project Company of 40%) and by Flywheel as to 52.94% (representing an indirect interest in the Project Company of 45%). The aggregate interest of the Company in the Project Company will be 55%, comprising its direct stake of 15% in the Project Company and its indirect stake of 40% held through Mei Wah.

The consideration of the Project Company Acquisition will be HK\$178,263,228 and the consideration of Jade Emperor Acquisition will be HK\$1,010,158,291, of which HK\$475,368,608 represents Mei Wah's portion of the consideration for the Jade Emperor Sale Shares and HK\$534,789,683 represents Flywheel's portion of the consideration for the Jade Emperor Sale Shares. The total consideration for the Acquisitions is HK\$1,188,421,519 and the aggregate consideration of the Company and Mei Wah is HK\$653,631,836. All the considerations will be satisfied in cash except to the extent of set-off in accordance with the provisions of the Project Company Acquisition Agreement and the Jade Emperor Acquisition Agreement. In the event of successful completion of the Jade Emperor Acquisition Agreement, the net profits of the Project Company with respect to the financial period commencing on 1 September 2004 and ending on the Jade Emperor Completion Date will be attributed to the Company and the Purchasers. Such profit will be allocated as to 55% to Mei Wah and as to 45% to Flywheel.

The consideration for each of the Acquisitions together with all the other terms of the Acquisitions have been arrived at after arm's length negotiations among the relevant parties, taking into account the estimated valuation of the Project Company of approximately HK\$1.21 billion as at 31 December 2004 provided by Sallmanns.

LETTER FROM THE BOARD

The Acquisitions constitute a major transaction for the Company under the Listing Rules. Since Xin Tong Chan, a wholly-owned subsidiary of SZ International is a substantial shareholder of the Company holding 30.03% equity interest in the Company, SZ International is a connected person of the Company. By virtue of SZ International's interest in the Jade Emperor Acquisition, the Acquisitions also constitute a connected transaction for the Company under Rule 14A.13(1)(b)(i) of the Listing Rules and are therefore subject to Independent Shareholders' approval in general meeting. Xin Tong Chan and its associates will abstain from voting at the EGM on the relevant resolution(s) approving the Acquisitions. As far as the Directors are aware, except for Xin Tong Chan and its associates, no other Shareholder has a material interest in the Acquisitions and would therefore be required to abstain from voting at the relevant general meeting of the Company on the relevant resolution(s) approving the Acquisitions.

The EGM will be convened by the Company at which resolution(s) will be proposed to seek approval of the Independent Shareholders for the Acquisitions. The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the Acquisitions. Hantec Capital has been appointed as the independent financial adviser advising the Independent Board Committee and the Independent Shareholders whether the Acquisitions are fair and reasonable so far as the Independent Shareholders and the Company are concerned.

The purpose of this circular is to provide you with further information relating to the Acquisitions and the Acquisition Agreements entered into in connection therewith, the business valuation carried out by Sallmanns and the traffic forecast report prepared by PBA, to set out the recommendations of the Independent Board Committee and Hantec Capital and to give you notice of the EGM for the purpose of seeking your approval of the Acquisitions.

PROJECT COMPANY ACQUISITION AGREEMENT

Date of the agreement

19 March 2005

Parties

Purchaser: the Company

Vendor: Jade Emperor

Guarantors for the vendor: (1) First Guarantor
(2) Second Guarantor
(3) Third Guarantor

LETTER FROM THE BOARD

Project Company Equity

The Company will acquire from Jade Emperor 15% of the equity interest in the Project Company, free and clear of all encumbrances. The sole business of the Project Company is the operation and management of Wuhuang Expressway under an operating right granted for a period of 25 years commencing on 23 September 1997.

The Project Company will be converted from a wholly-foreign owned enterprise to a Sino-foreign joint venture enterprise upon transfer of the aforesaid equity interest. The board of directors of the Project Company comprises five directors. At time of transfer of the Project Company Equity, Jade Emperor will remove all the directors that had been nominated by it from the board of directors of the Project Company. It will then nominate four members while the Company will nominate one member to form a new board of directors. The Company will also nominate the legal representative (chairman) of the Project Company.

Consideration

- (1) The consideration for acquisition of the Project Company Equity payable by the Company to Jade Emperor is HK\$178,263,228 and will be satisfied entirely in cash. The Company will finance the consideration by internal resources and external loan financing;
- (2) On top of the consideration to be paid to Jade Emperor, the Company will also be responsible for payment of the profit tax arising from the gain on disposal of the Project Company Equity to the PRC tax authority. It is estimated by the Company that the amount of such profit tax payable is about RMB15,442,611 (approximately HK\$14,568,501). The parties to the Project Company Acquisition Agreement will apply for assessment of the profit tax within 5 working days upon completion of the registration procedures for the transfer of the Project Company Equity with the relevant tax authority. The Company will be obliged to pay the profit tax within 15 working days after the exact amount of profit tax payable is ascertained by the relevant tax authority;
- (3) Within 5 working days upon signing of the Project Company Acquisition Agreement, the parties to the Project Company Acquisition Agreement will apply for approval from the original approving authority, namely Department of Commerce of Hubei Province (湖北省商務廳) for (i) the transfer of the Project Company Equity under the Project Company Acquisition Agreement, (ii) the conversion of the Project Company to a Sino-foreign joint venture enterprise and (iii) the replacement of directors and legal representative of the Project Company. As at the Latest Practicable Date, the parties to the Project Company Acquisition Agreement are still preparing documents for the aforesaid items (i) to (iii). The Directors believe that the parties to the Project Company Acquisition Agreement will formally submit application for the aforesaid items (i) to (iii) by May 2005;

LETTER FROM THE BOARD

- (4) The Initial Instalment of RMB20,000,000 (approximately HK\$18,867,925) is payable by the Company into the Instalment Account within 5 working days upon (i) granting of the approval certificate (批准證書) by the original approving authority to effect the conversion of the Project Company to a Sino-foreign joint venture enterprise or (ii) granting of approval by the Shareholders in general meeting on the Project Company Acquisition Agreement, whichever is the later;
- (5) Within 5 working days upon completion of the registration procedures regarding matters referred to in subsection (3) above, the Company will provide Jade Emperor with the Bank Undertaking, to undertake that within 15 working days upon granting of approval by Shenzhen SAFE to the Company for the purchase of foreign currency (the Company will purchase and remit HK\$ outside China for payment of the consideration) for payment under the Project Company Acquisition Agreement and the refund of the Initial Instalment to the Specified Account by Jade Emperor, the Company will remit the full amount of the consideration for the Project Company Acquisition into the Designated Account, otherwise the Undertaking Bank will be liable to pay for the foreign currency equivalence to Jade Emperor;
- (6) Within 3 working days of the Company's tendering of the consent given by Shenzhen SAFE for the purchase of foreign currency for payment under the Project Company Acquisition Agreement together with a written notification regarding details of the Specified Account, Jade Emperor will refund the Initial Instalment to the Company by remitting the same into the Specified Account; and
- (7) Within 15 working days of approval by Shenzhen SAFE to the Company for the purchase of foreign currency for payment under the Project Company Acquisition Agreement and the refund of the Initial Instalment to the Specified Account by Jade Emperor, the Company will remit the full amount of consideration for acquisition of the Project Company Equity into the Designated Account, subject to agreed set-offs pursuant to the Project Company Acquisition Agreement.

Conditions Precedent

The Project Company Acquisition Agreement is conditional upon:

- (a) approval by the Shareholders in its general meeting on the Project Company Acquisition Agreement and the approval by the shareholders of SZ International in its general meeting on the Jade Emperor Acquisition Agreement within 85 days of signing of the Project Company Acquisition Agreement;
- (b) all other necessary third party consents and approvals for the Project Company Acquisition Agreement including but not limited to those from Hubei Communications Bureau (湖北省交通廳), the original approving and registering authorities of the Project Company, Shenzhen SAFE as well as the Stock Exchange; and

LETTER FROM THE BOARD

- (c) the Company notifying Jade Emperor in writing that it is satisfied with the due diligence results on the financial, taxation, business and other legal aspects of the Project Company and the status of the equity interest in the Project Company held by Jade Emperor within 60 days of signing of the Project Company Acquisition Agreement.

Condition precedent (a) is to be fulfilled within 85 days of signing. Condition precedent (c) is to be fulfilled within 60 days of signing. There is no specific date for condition precedent (b) and this should be fulfilled within a reasonable time. Should any of the conditions precedent not be fulfilled, the Project Company Acquisition Agreement will be terminated. The Project Company Acquisition Agreement is not conditional upon the Jade Emperor Acquisition Agreement. Apart from the obligations of Jade Emperor to return the Initial Instalment of RMB20,000,000 (approximately HK\$18,867,925) to the Company and the Company to transfer the Project Company Equity back to Jade Emperor (if approval for the transfer of the Project Company Equity have been obtained or registered and the transfer back procedures have not been completed), the parties do not bear any obligation to each other.

Completion

The transfer of the Project Company Equity shall be completed on or before the Scheduled Completion Date and on the condition that Jade Emperor has received the consideration for the Project Company Equity. If there is no occurrence of completion on or before the Scheduled Completion Date, either party has the right to rescind the Project Company Acquisition Agreement. Any party in breach of the Project Company Acquisition Agreement shall be liable for the default accordingly.

Save and except the following two circumstances, each party will bear its own costs and expenses in case the transfer of the Project Company Equity cannot be completed:

- (1) If notice has been given by the Company to Jade Emperor indicating that it is satisfied with the due diligence result as described in subsection (c) under the paragraph headed “Conditions Precedent” above, and the failure to achieve successful completion is caused by the default of the Company, the Company will be liable to pay RMB1,000,000 (approximately HK\$943,396) to Jade Emperor;
- (2) If notice has been given by the Company to Jade Emperor indicating that it is satisfied with the due diligence exercise as described in subsection (c) under the paragraph headed “Conditions Precedent” above, and the failure to achieve successful completion is caused by the default of Jade Emperor, Jade Emperor will be liable to pay RMB1,000,000 (approximately HK\$943,396) to the Company.

Retransfer of Project Company Equity

If the Company fails to remit the consideration for acquisition of the Project Company Equity to Jade Emperor according to the terms of the Project Company Acquisition Agreement, as specified in subsection (7) under the paragraph headed “Consideration” above, for whatever reason, the Company shall retransfer the Project Company Equity to Jade Emperor and will be liable to pay for the consequential losses.

LETTER FROM THE BOARD

Jade Emperor will refund the Initial Instalment to the Company if the retransfer of the Project Company Equity occurs.

Guarantors

The Guarantors guarantee performance of the Project Company Acquisition Agreement by Jade Emperor.

JADE EMPEROR ACQUISITION AGREEMENT

Date of the agreement

19 March 2005

Parties

Purchasers: (1) Mei Wah
(2) Flywheel

Vendors: (1) First Vendor
(2) Second Vendor
(3) Third Vendor

Guarantors for the Vendors: (1) First Guarantor
(2) Second Guarantor
(3) Third Guarantor

Other parties: (1) the Company
(2) Jade Emperor

Acquisition of Jade Emperor Sale Shares and repurchase of Repurchase Shares

Mei Wah will acquire from the Vendors 112,000,000 Jade Emperor shares, representing 40% of the existing issued capital in Jade Emperor before the Repurchase, whereas Flywheel will acquire from the Vendors 126,000,000 Jade Emperor shares, representing 45% of the existing issued capital in Jade Emperor before the Repurchase, free and clear of all encumbrances. Jade Emperor's sole business is acting as the sole foreign investor in the Project Company, the sole business of which is the operation and management of Wuhuang Expressway under an operating right granted for a period of 25 years commencing on 23 September 1997. The par value of the Jade Emperor shares is US\$0.10 each.

LETTER FROM THE BOARD

For simultaneous completion with the sale and purchase of the Jade Emperor Sale Shares, the Third Vendor will sell its remaining 42,000,000 shares (representing 15% of the existing issued capital in Jade Emperor before the Repurchase), i.e. the Repurchase Shares, at Project Company Net Consideration, back to Jade Emperor for cancellation by Jade Emperor subsequent to the Repurchase. Upon completion of the Jade Emperor Acquisition, the total number of Jade Emperor Shares will be 238,000,000 and the shareholding of Mei Wah and Flywheel in Jade Emperor will be approximately 47.06% and 52.94%, respectively. Through the Repurchase, the existing shareholders of Jade Emperor will be able to receive the proceeds from the sale of the Project Company Equity. The following is a breakdown of the acquisition of Jade Emperor Sale Shares and the Repurchase:

Vendor	No. of Jade Emperor shares held	No. of Jade Emperor shares to be acquired by Mei Wah	No. of Jade Emperor shares to be acquired by Flywheel	No. of Jade Emperor shares to be repurchased
First Vendor	157,640,000 (56.30%)	74,183,530 (26.50%)	83,456,470 (29.80%)	—
Second Vendor	61,180,000 (21.85%)	28,790,588 (10.28%)	32,389,412 (11.57%)	—
Third Vendor	61,180,000 (21.85%)	9,025,882 (3.22%)	10,154,118 (3.63%)	42,000,000 (15%)
Total:	280,000,000 (100%)	112,000,000 (40%)	126,000,000 (45%)	42,000,000 (15%)

Upon completion of the Jade Emperor Acquisition^(Note):

Total:	238,000,000 (100%)	112,000,000 (47.06%)	126,000,000 (52.94%)
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Note: After cancellation of the Repurchase Shares, the entire share capital of Jade Emperor will be composed of 238,000,000 shares of US\$0.10 each.

All of the 61,180,000 shares in Jade Emperor to be sold by the Third Vendor to the Purchasers and Jade Emperor are as at the date of the Jade Emperor Acquisition Agreement subject to an undischarged assignment of dividends made in favor of Maybank Kota Kinabalu, to be discharged when full payment of HK\$ Redemption Amount is received. In this connection, Maybank Kota Kinabalu has confirmed in writing that it will release all its security rights over the aforesaid 61,180,000 shares upon receipt of the HK\$ Redemption Amount via the HK\$ Redemption Account which will take place on Jade Emperor Completion Date. In the event of successful completion of the Jade Emperor Acquisition Agreement, the net profit of the Project Company with respect to the financial period commencing on 1 September 2004 and ending on the Jade Emperor Completion Date will be attributed to the Company and the Purchasers. Such profit will be allocated as to 55% to Mei Wah and as to 45% to Flywheel.

LETTER FROM THE BOARD

Consideration

- (1) The consideration for the acquisition of the Jade Emperor Sale Shares payable to the Vendors is HK\$1,010,158,291 (HK\$475,368,608 by Mei Wah and HK\$534,789,683 by Flywheel) and will be satisfied entirely by cash and by set-off in accordance with the provisions of the Jade Emperor Acquisition Agreement, of which HK\$669,081,315 is the consideration for the 157,640,000 Jade Emperor Sale Shares to be sold by the First Vendor, HK\$259,670,102 is the consideration for the 61,180,000 Jade Emperor Sale Shares to be sold by the Second Vendor and HK\$81,406,874 is the consideration for the 19,180,000 Jade Emperor Sale Shares to be sold by the Third Vendor;
- (2) According to the Jade Emperor Acquisition Agreement, the Deposit in the amount of HK\$21,250,000 will be paid by the Purchasers (HK\$10,000,000 by Mei Wah and HK\$11,250,000 by Flywheel) into the Nominated Accounts not later than the close of business on the third Business Day immediately following the date of the Jade Emperor Acquisition Agreement and will be applied towards the consideration for acquisition of the Jade Emperor Sale Shares upon successful completion or in the event successful completion shall fail to occur be returned to the Purchasers. The respective portions of Deposit for the Vendors are:

Payee	Portion of Deposit
First Vendor	HK\$14,075,000
Second Vendor	HK\$5,462,500
Third Vendor	<u>HK\$1,712,500</u>
Total	<u><u>HK\$21,250,000</u></u>

The Directors confirm that the portion of Deposit payable by Mei Wah has been duly paid into the Nominated Accounts within the stipulated time by Mei Wah.

- (3) On Jade Emperor Completion Date, the Purchasers will pay the balance of the consideration, i.e. HK\$988,908,291 (HK\$465,368,608 by Mei Wah and HK\$523,539,683 by Flywheel) to each of the Vendors the amounts set out below (subject to agreed set-offs pursuant to the Jade Emperor Acquisition Agreement to adjust for sums already distributed out of the Project Company to the Vendors and other items to be borne by the Vendors):

Payee	Amount payable
First Vendor	HK\$655,006,315
Second Vendor	HK\$254,207,602
Third Vendor	<u>HK\$79,694,374</u>
Total	<u><u>HK\$988,908,291</u></u>

LETTER FROM THE BOARD

- (4) The consideration for the Repurchase of the Repurchase Shares from the Third Vendor to be paid by Jade Emperor will be the Project Company Net Consideration, i.e. HK\$176,850,000 and will be funded by the proceeds received by Jade Emperor under the Project Company Acquisition Agreement and the Repurchase is inter-conditional with the acquisition of Jade Emperor Sale Shares; and
- (5) On Jade Emperor Completion Date, the consideration for the Repurchase will be paid to the Third Vendor after deducting the HK\$ Redemption Amount, which will then be remitted to the HK\$ Redemption Account, with the related bank charges for the release of the assignment of dividends in respect of all the 61,180,000 shares in Jade Emperor held by the Third Vendor, by Maybank Kota Kinabalu.

Conditions Precedent

The Jade Emperor Acquisition Agreement is conditional upon:

- (a) all necessary approvals of the Shareholders and the shareholders of SZ International being given in each case for the respective participation by the Company and SZ International in the Jade Emperor Acquisition;
- (b) the due and proper registration of the change of legal representative and directors of the Project Company in accordance with the terms of the Project Company Acquisition Agreement;
- (c) the formal approval of the Shenzhen SAFE for the purchase of the Project Company Net Consideration and for the remittance of the Project Company Net Consideration out of China; and
- (d) the Purchasers notifying the Vendors in writing within 60 days from the date of the Jade Emperor Acquisition Agreement that they are satisfied upon inspection and investigation as to the respective financial, corporate, taxation, trading and legal positions of Jade Emperor and the Project Company.

The Purchasers may waive any of the conditions precedent described in (a), (b) or (d) above although the Directors confirm that Mei Wah have no intention as at the date of this circular to waive any of the aforesaid conditions.

If these conditions shall not have been fulfilled or waived by the Long-Stop Date, the parties to the Jade Emperor Acquisition Agreement shall, without prejudice to the liability of any party to the other party in respect of any earlier breaches and any obligations which are intended to survive termination, cease to be bound to proceed to completion. As such, the Jade Emperor Acquisition Agreement will be conditional upon the completion of the Project Company Acquisition Agreement.

LETTER FROM THE BOARD

Completion

The completion of the Jade Emperor Acquisition will take place on the Jade Emperor Completion Date. In the event there is no successful completion, the Deposit will be returned to the Purchasers and none of the parties hereto shall have any claim or right as against any other parties except for the following two circumstances:

- (1) If notice has already been given under the Project Company Acquisition Agreement indicating that the Company is satisfied with the due diligence results under the Project Company Acquisition Agreement and the failure to achieve successful completion is caused by the default of the Purchasers or the Company, the Purchasers and the Company will jointly and severally be liable to pay HK\$5,000,000 by way of liquidated damages in full and final settlement of all loss and expense, etc. of the Vendors, Jade Emperor and the Guarantors in relation to the Jade Emperor Acquisition Agreement and the Project Company Acquisition Agreement; and
- (2) If notice has already been given under the Project Company Acquisition Agreement indicating that the Company is satisfied with the due diligence results under the Project Company Acquisition Agreement and the failure to achieve successful completion is caused by the default of the Vendors, Jade Emperor or the Guarantors, the Vendors, Jade Emperor and the Guarantors will be jointly and severally liable to pay HK\$5,000,000 by way of liquidated damages in full and final settlement of all loss and expenses, etc. of the Purchasers and the Company in relation to the Jade Emperor Acquisition Agreement or the Project Company Acquisition Agreement.

Guarantors

The Guarantors guarantee performance of the Jade Emperor Acquisition Agreement by the Vendors and Jade Emperor.

BASIS OF THE CONSIDERATION

The consideration for the Acquisitions together with other terms of the Acquisitions have been arrived at after arm's length negotiations among the relevant parties. The Directors have in such negotiations taken into account the independent professional valuation of the Project Company of approximately HK\$1.21 billion as at 31 December 2004, which has been prepared by Sallmanns based on the discounted cash flow method. Summary of Sallmanns' valuation report is set out in Appendix I of this circular. The Directors have considered the bases and assumptions adopted by Sallmanns for the purpose of their valuation, as well as the underlying factual information made available by the Vendors and the Guarantors to arrive at such bases and assumptions, carried out such due diligence procedures with respect to underlying factual matters as is within their ability to verify, and accepted the professional opinion of Sallmanns as to the appropriateness of such bases and assumptions.

LETTER FROM THE BOARD

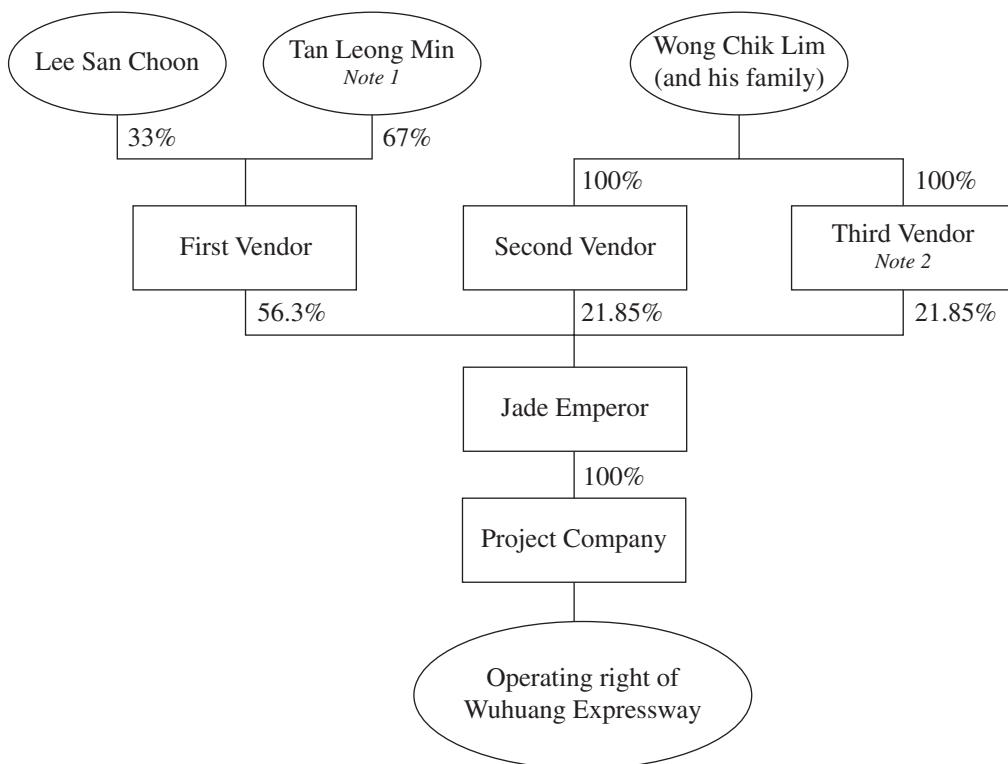
Upon completion of the Acquisitions, the equity interests of the Company in the Project Company will be approximately 55% whereas that of SZ International, through its shareholding in Flywheel, will be approximately 45%. Based on the estimated valuation, the valuations of the 55% equity interest of the Project Company is approximately HK\$666 million. The considerations payable by the Company is HK\$653,631,836 (of which HK\$178,263,228 represents the Project Company Acquisition and HK\$475,368,608 represents Mei Wah's portion of the consideration of Jade Emperor Acquisition), which represents approximately 2% discount to the estimated fair market value of the Project Company. The Directors believe that the terms of the Acquisitions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The considerations for the Acquisitions are to be satisfied entirely in cash. The Company and Mei Wah will finance the Acquisitions from their internal resources and external funding arrangement.

SHAREHOLDING STRUCTURE OF THE PROJECT COMPANY

The shareholding structure of the Project Company before and after completion of the Acquisitions is depicted below:

Before completion of the Acquisitions:

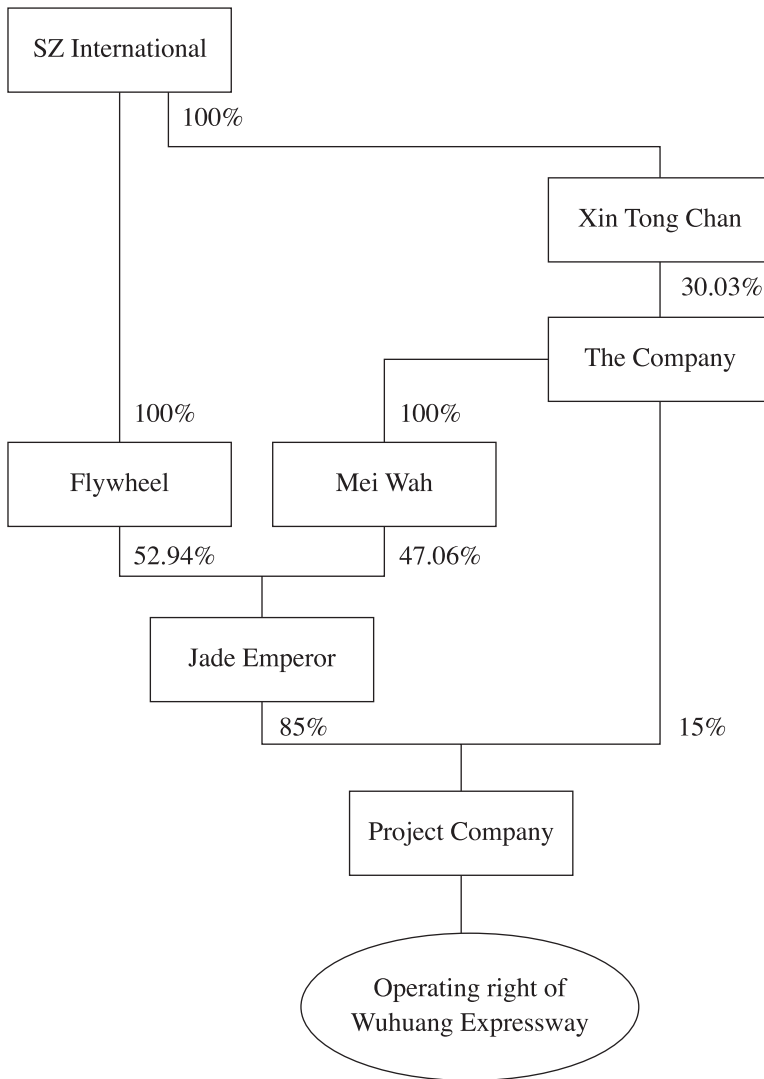


Notes:

1. The First Vendor is indirectly held by Tan Leong Min.
2. The Third Vendor is indirectly held by Wong Chik Lim (and his family).

LETTER FROM THE BOARD

After completion of the Acquisitions:



Note: The effective interests of Mei Wah and Flywheel in the Project Company will be 40% and 45%, respectively. The equity interests of the Company and SZ International (through its shareholding in Flywheel only) in the Project Company will be approximately 55% and 45%, respectively.

LETTER FROM THE BOARD

INFORMATION ON JADE EMPEROR

Jade Emperor is an investment holding company established by the Vendors in the Cayman Islands on 8 January 1997 for the purpose of holding the Project Company.

Jade Emperor's sole business is acting as the sole foreign investor in the Project Company.

It is the intention of the Directors and the directors of SZ International that Mei Wah and Flywheel will have the first right of refusal for any purported sale of an equity interest in Jade Emperor by the other party upon completion of the Jade Emperor Acquisition. In addition, it is intended that Mei Wah and Flywheel will each appoint two directors to the board of directors of Jade Emperor upon completion of the Acquisitions.

INFORMATION ON THE PROJECT COMPANY

The Project Company was established on 11 August 1995 as a wholly-foreign owned enterprise in the PRC for a term of 25 years. Its registered capital is US\$28 million and its sole business is the operation and management of Wuhuang Expressway under an operating right granted for a period of 25 years commencing on 23 September 1997.

Upon Completion, the new board of directors of the Project Company will be composed of five members, four to be nominated by Jade Emperor and one by the Company. Amongst the four directors to be nominated by Jade Emperor, the Company and SZ International will each nominate two directors. Accordingly, the Company will nominate a total of three directors and SZ International will nominate two directors into the new board of directors of the Project Company. The Company will also nominate the legal representative (chairman) of the Project Company.

Wuhuang Expressway is an asphalt-paved, dual four-lane expressway, measuring 70.3 kilometers. It originates from the Southern Ring Railway Bridge at Guanshan First Road in the city of Wuhan (武漢市關山一路南環鐵路橋) to Huangshi Yangtze River Bridge (黃石長江大橋). With its whole route running within the Hubei Province, Wuhuang Expressway is one of the earliest expressways in Hubei Province. It was formerly a class one highway which commenced operation since 1991. In 1996, the highway was reconstructed into an expressway. In 2002 to 2003, Wuhuang Expressway underwent further reconstruction and the road surface was reconstructed as with an asphalt-paved surface.

In the east, Wuhuang Expressway links up with Huangshi Yangtze River Bridge (黃石長江大橋) and Huangshi - Huangmei Expressway (黃石 - 黃梅高速公路). Through the surrounding highway network, it further extends to Hefei - Gaohebu - Jiezidun Expressway (合肥 - 高河埠 - 界子墩高速公路) in Anhui, Nanchang - Jiujiang Expressway (南昌 - 九江高速公路) and Jiujiang - Jingdezhen Expressway (九江 - 景德鎮高速公路) in Jiangxi. In the west, Wuhuang Expressway connects with Yichang - Wuhan Expressway (宜昌 - 武漢高速公路). It also intersects with Beijing-Zhuhai Expressway (北京 - 珠海高速公路) and National Highway 107 (107國道) and is connected into a well-established network with the surrounding highways. Furthermore, it is a major route connecting Wuhan and Huangshi (two cities within Hubei Province) and constitutes a major part of Hurong National Highway (滬蓉國道).

LETTER FROM THE BOARD

Since commencement of operation, Wuhuang Expressway has recorded growth in terms of traffic flows and toll revenue. In recent years, the significant growth in traffic flows and toll revenue were mainly attributable to the rapid economic growth of Hubei Province and its surrounding provinces, which thereby increased the need for high-quality infrastructure, especially toll-road projects, as well as the increased investments in infrastructure by the general society aiming at perfecting the network. As a result, the average daily toll traffic and toll revenues of Wuhuang Expressway increased from approximately 14,672 per day and RMB158,037,020 in 2001 to approximately 20,837 per day and RMB227,698,656 in 2004 respectively, representing an increase of approximately 42.02% and 44.08% respectively.

Pursuant to an agreement dated 7 June 1995, the Project Company acquired the operating right of Wuhuang Expressway from the Hubei Provincial Government for twenty-five (25) years commencing on 23 September 1997 for a consideration of the foreign currency equivalent of RMB580 million and executed a management contract in favor of the Hubei Bureau for the Administration of Higher Class Public Roads (湖北省高等級公路管理局) as sub-contractor. Under the aforesaid management contract dated 7 June 1995 together with subsequent amendments, the toll collection of Wuhuang Expressway and the utilisation, management, protection, maintenance and repair of the affiliated facilities are entrusted to the Hubei Bureau for the Administration of Higher Class Public Roads (湖北省高等級公路管理局) throughout the entire operating period of Wuhuang Expressway. An annual commission equivalent to 25% of the annual toll revenues, net of all business taxes, is payable to Hubei Bureau for the Administration of Higher Class Public Roads (湖北省高等級公路管理局) together with an additional 1% of gross toll revenues before business taxes by way of management fee. Hubei Wuhuang Expressway Management Co. Ltd. (湖北武黃高速公路經營有限公司) is the current sub-contractor responsible for toll collection and management of Wuhuang Expressway in substitute of Hubei Bureau for the Administration of Higher Class Public Roads (湖北省高等級公路管理局) and its subsequent substitutes.

The following financial information is extracted and recomputed from the accountants' report of Jade Emperor as set out in Appendix III in the circular (prepared in accordance with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Institute of Certified Public Accountants) for the three years ended 31 December 2004:

	For the year ended 31 December					
	2002		2003		2004	
	<i>RMB'000</i>	<i>HK\$'000</i> <i>equivalent</i>	<i>RMB'000</i>	<i>HK\$'000</i> <i>equivalent</i>	<i>RMB'000</i>	<i>HK\$'000</i> <i>equivalent</i>
Turnover	159,572	150,540	189,553	178,824	216,314	204,070
Profit before taxation	67,889	64,046	94,307	88,969	116,843	110,229
Profit attributable to shareholders	62,796	59,242	80,345	75,797	99,454	93,825
Net asset value	255,174	240,730	279,411	263,595	255,897	241,412
Total assets	516,456	487,223	501,716	473,317	457,437	431,544

To the best of the Directors' knowledge, information and belief, the Directors had no intention to commit a substantial capital expenditure for the Project Company as at the Latest Practicable Date.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP

The Group is principally engaged in the investment, construction, operation and management of toll highways and roads in the PRC.

INFORMATION ON SZ INTERNATIONAL GROUP

SZ International is an investment holding company. The SZ International Group is principally engaged in the provision of total logistics and transportation ancillary services as well as investment, operation and management of related assets and projects.

INFORMATION ON VENDORS AND GUARANTORS

The First Vendor is a company incorporated in Hong Kong with limited liability. It is an investment holding company and provides management services in facilitating its investment in Jade Emperor.

The Second Vendor is a company incorporated in Hong Kong with limited liability. It is an investment holding company and provides management services in facilitating its investment in Jade Emperor.

The Third Vendor is a company incorporated in Malaysia with limited liability. It is an investment holding company controlling several subsidiaries in Malaysia, whose main businesses and investments are property development including warehouses, terrace houses and multi-storey flats, etc.

The Guarantors guarantee performance of the Project Company Acquisition Agreement and the Jade Emperor Acquisition Agreement by Jade Emperor and the Vendors.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries and save to the extent disclosed in this circular, the Vendors and the Guarantors as ultimate beneficial owners of the Vendors are all Independent Third Parties.

FINANCIAL EFFECTS OF THE ACQUISITIONS

Net tangible assets value

As at 31 December 2004, the audited adjusted consolidated net tangible assets of the Group was approximately RMB6,004 million. Based on the Appendix V of this circular, the unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group immediately after the Completion will remain the same at approximately RMB6,004 million, since the investment cost on the Acquisitions will be offset by the respective consideration payable.

LETTER FROM THE BOARD

Earnings

The Group recorded an audited consolidated net profit of approximately RMB419 million for the year ended 31 December 2004. Based on Appendix III to this circular, the audited consolidated net profits of Jade Emperor for the three years ended 31 December 2004 were approximately RMB62.8 million, RMB80.3 million and RMB99.4 million, respectively. Based on such consistent historical earnings record and positive future prospect of Wuhuang Expressway (for details, please refer to the sections “Reasons for the Acquisitions” and “Future Prospects” below), the Directors believe that Jade Emperor will continue to demonstrate positive earnings and generate additional financial contributions to the Group. Given the earnings ability and prospects of Jade Emperor, the Directors consider the Acquisitions could benefit the results of the Enlarged Group.

REASONS FOR THE ACQUISITIONS

In light of the continuous and rapid economic growth of the PRC, especially due to the government policies for western development, it is expected that the logistics industry in the PRC will grow dramatically, thereby increasing the demand for high-quality infrastructure.

The Directors are optimistic on the toll highway industry in the PRC and consider that the proposed Acquisitions present a viable business opportunity to acquire high-quality expressway at low cost, with acquisition cost amounting to about HK\$17,000,000 per kilometer, and the Acquisitions will provide decent investment returns to the Shareholders. In particular, if the Acquisitions could be successfully concluded, the Company and SZ International will hold a 100% stake in Wuhuang Expressway. Upon completion of the Acquisitions, the Jade Emperor group of companies will become jointly controlled entities of the Company. The Company will proportionally consolidate the financial statements of the Jade Emperor group of companies according to its respective shareholdings, which will further strengthen the asset base and profit source.

In addition, the Project Company Acquisition and Jade Emperor Acquisition are consistent with the Company’s overall business strategies to invest in toll highways. The Directors believe that such kind of transaction shall benefit the Company to gain experience and expertise in investing and managing projects in other economically developed regions in the PRC which will improve future profitability and cashflow of the Company’s business by mergers and acquisitions.

FUTURE PROSPECTS

As stated in the annual report of the Group for the year ended 31 December 2004, the Group adheres to the development and investment strategies of focusing on toll highways operation as its core business and expanding towards the Pearl River Delta and other economically developed regions in the PRC. Wuhuang Expressway is one of the earliest expressway in Hubei province. Since it extends to other expressways (e.g. Huangshi - Huangmei Expressway, Hefei - Gaohebu - Jiezhidun Expressway and Yichang - Wuhan Expressway, etc.), it is a major route connecting Wuhuang and Huangshi (two cities within Hubei Province) and constitutes a major part of Hurong National Highway. Since commencement of operation, Wuhuang Expressway has recorded growth in terms of traffic flows and toll revenues. The average daily traffic flow and toll revenues of Wuhuang Expressway increased from approximately 14,672 per day and RMB158,037,020 in 2001 to

LETTER FROM THE BOARD

approximately 20,837 per day and RMB227,698,656 in 2004 respectively, representing an increase of approximately 42.02% and 44.08% respectively. With the continued development of the PRC economy, the Directors believe that traffic flows and the resulting toll revenues will continue to grow in the foreseeable future, thereby contributing significant returns to the shareholders of the Group. Proven by the acquisition of Wuhuang Expressway, the Group will continue to look for attractive investment opportunities in the PRC with an aim to capture new market share and to build new income bases and satisfactory growth in the existing business.

LISTING RULES MATTERS

The Acquisitions constitute a major transaction for the Company under the Listing Rules. Since Xin Tong Chan, a wholly-owned subsidiary of SZ International is a substantial shareholder of the Company holding 30.03% equity interest in the Company, SZ International is a connected person of the Company. By virtue of SZ International's interest in the Jade Emperor Acquisition, the Acquisitions also constitute a connected transaction for the Company under Rule 14A.13(1)(b)(i) of the Listing Rules and are therefore subject to Independent Shareholders' approval in general meeting. Xin Tong Chan and its associates will abstain from voting at the EGM on the relevant resolution(s) approving the Acquisitions. As far as the Directors are aware, except Xin Tong Chan and its associates, no other Shareholder has a material interest in the Acquisitions and would therefore be required to abstain from voting at the relevant general meeting of the Company on the relevant resolution(s) approving the Acquisitions.

As the valuation is prepared on the basis of discounted cash flow method, the valuation has been deemed profit forecasts. Pursuant to Rules 14.62 and 14.71 of the Listing Rules, the Company has commissioned PricewaterhouseCoopers to review the calculations for the business valuation. In addition, the Company has received a letter from Guangdong Securities stating that they have satisfied themselves that the business valuation performed by Sallmanns has been stated after due and careful enquiry by the Directors.

An Independent Board Committee has been established to advise the Independent Shareholders in relation to the Acquisitions. Hantec Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders whether the Acquisitions are fair and reasonable so far as the Independent Shareholders and the Company are concerned.

EGM

The EGM will be held at the meeting room of the Company at 19/F, Tower A, United Plaza, No.5022 Binhe Road North, Shenzhen, PRC at 3:00 p.m. on 3 June 2005 (Friday), a notice of which is set out on pages 141 to 144 of this circular. Ordinary resolution(s) will be proposed at the EGM for the Independent Shareholders to approve the Acquisitions by poll contemplated thereunder. Xin Tong Chan and its associates are required to refrain from voting at the EGM.

LETTER FROM THE BOARD

Enclosed is a form of proxy for use at the EGM. Whether or not you attend the said meeting, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the registrar for H Shares of the Company, Hong Kong Registrars Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or to the Company at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, PRC as soon as possible and in any event, not less than 24 hours before the holding of the EGM. Completion and return of proxy form will not preclude you from subsequently attending and voting at the EGM or any adjourned meeting(s) should you so wish.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Wong Kam Ling ("Mr. Wong") is nominated to be the independent non-executive director of the Company. Apart from this, Mr. Wong does not hold or intends to hold any other position in the Company or the Company's group.

Mr. Wong, aged 56, was graduated from the Hong Kong Polytechnic University. Mr. Wong is a fellow member of the Chartered Association of Certified Accountants (FCCA), an associate member of the Institute of Chartered Secretaries & Administrators (ACIS), a fellow member of the CPA Australia (FCPA (Aust.)) and a certified public accountant of the Hong Kong Institute of Certified Public Accountants (CPA). Mr. Wong had held financial and management positions in various companies prior to February 1987. Between February 1987 and September 1991, he had been the chief accountant of the group of China Dyeing Holdings Ltd. (a company formerly listed on the Stock Exchange) and Captronic Group Ltd. (a company formerly listed on the Stock Exchange). Between September 1991 and December 2004 before his retirement, Mr. Wong had been the financial controller and financial consultant of Bel Fuse Ltd. (a subsidiary of the Bel Fuse Inc., a company listed on NASDAQ). Apart from duties in relation to financial control, Mr. Wong was also responsible for the establishment of the system and procedures for corporate governance. Mr. Wong has substantial experience in financial management, accounting and corporate governance.

Save as disclosed above, Mr. Wong does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company. He has no interests in the shares of the Company within the meaning of Part XV of the SFO.

The appointment of Mr. Wong will be for a term from the date of appointment till 31 December 2005. The director's fee of Mr. Wong is proposed to be HK\$150,000 per annum, to be calculated according to the exact date of appointment. Save as disclosed herein, there are no other matters that need to be brought to the attention of the shareholders of the Company.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors consider that the Acquisition Agreements were entered into in the ordinary course of business and on normal commercial terms and the terms of the Acquisitions are fair and reasonable so far as the Company and the Shareholders are concerned and the Acquisition Agreements are in the interests of the Company and the Shareholders as a whole and accordingly recommend that all Independent Shareholders should vote in favour of the resolution(s) to be proposed at the EGM to approve the Acquisition Agreements and the Acquisitions contemplated thereunder.

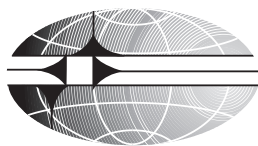
The Directors also consider that appointment of Mr. Wong Kam Ling as the independent non-executive director of the Company is in the best interests of the Company and its Shareholders and accordingly recommend that all Shareholders should vote in favour of the relevant resolution to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the letter of advice from the Independent Board Committee and the letter from Hantec Capital containing its recommendations to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisitions set out on page 28 and pages 29 to 42 of this circular respectively.

Your attention is also drawn to the additional information set out in the appendices to this circular and the notice of the EGM.

By Order of the Board of
Shenzhen Expressway Company Limited
Yang Hai
Chairman



深圳高速公路股份有限公司

SHENZHEN EXPRESSWAY COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 548)

18 April 2005

To the Independent Shareholders

Dear Sirs or Madams,

**MAJOR AND CONNECTED TRANSACTION
PROPOSED ACQUISITION OF WUHUANG EXPRESSWAY**

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisitions, details of which are set out in the letter from the Board in the circular dated 18 April 2005 (the "Circular") to the Shareholders. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of Hantec Capital in respect of the Acquisitions as set out in the letter from the independent financial adviser in the Circular.

Recommendation

We have considered the principal factors taken into account by Hantec Capital in arriving at its opinion in respect of the Acquisition Agreements. We concur with the views of Hantec Capital that the terms of the Acquisition Agreements are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Acquisitions are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution(s) at the EGM.

Yours faithfully,

Ho Pak Cho, Denis Morgie

Li Zhi Zheng

Zhang Zhi Xue

Poon Kai Leung, James

Independent Board Committee

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter prepared by Hantec Capital for the purposes of inclusion in this circular, in connection with its advice to the Independent Board Committee and the Independent Shareholders in relation to the Acquisitions.



Hantec Capital Limited
45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

18 April 2005

*To the Independent Board Committee and the Independent Shareholders of
Shenzhen Expressway Company Limited*

Dear Sirs and Madams,

MAJOR AND CONNECTED TRANSACTION PROPOSED ACQUISITION OF WUHUANG EXPRESSWAY

INTRODUCTION

We refer to the circular dated 18 April 2005 (the "Circular") issued by the Company to the Shareholders of which this letter forms part and to our appointment as independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the Acquisitions, details of which are set out in the letter from the Board ("Letter from the Board") contained in the Circular. Capitalised terms used in this letter without definitions shall have the same meanings set out in the Circular unless the context otherwise requires.

We refer to the joint announcement of the Company and SZ International dated 22 March 2005 in relation to the major and connected transactions arising from the Company's entering into a series of transactions, including the Project Company Acquisition and the Jade Emperor Acquisition. Pursuant to the Project Company Acquisition Agreement, the Company will acquire from Jade Emperor its 15% equity interest in the Project Company. Pursuant to the Jade Emperor Acquisition Agreement, Mei Wah, a wholly-owned subsidiary of the Company, and Flywheel, a wholly-owned subsidiary of SZ International, will acquire 47.06% (represent an indirect interest in the Project Company of 40%) and 52.94% (represent an indirect interest in the Project Company of 45%) equity interest in Jade Emperor being held by the Vendors respectively. Upon Completion and the Repurchase, the aggregate interest of the Company in the Project Company will be 55%, comprising its direct stake of 15% in the Project Company and its indirect stake of 40% held through Mei Wah.

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The Acquisitions constitutes a major transaction for the Company under the Listing Rules. Since Xin Tong Chan, a wholly-owned subsidiary of SZ International is a substantial Shareholder holding 30.03% of the Shares, SZ International is a connected person of the Company. By virtue of SZ International's interest in the Jade Emperor Acquisition, the Acquisitions also constitute a connected transaction for the Company under the Listing Rules and are therefore subject to reporting and announcement requirements under Chapter 14A of the Listing Rules and will also be required to be approved by the Independent Shareholders at the EGM. Xin Tong Chan and its associates will abstain from voting at the EGM on the relevant resolution(s) approving the Acquisitions.

Pursuant to the requirements of Rule 13.39(6) of the Listing Rules, the Independent Board Committee comprising Messrs. Ho Pak Cho, Denis Morgie, Li Zhi Zheng, Zhang Zhi Xue and Poon Kai Leung, James, all being independent non-executive Directors, has been established by the Company to advise the Independent Shareholders in relation to the Acquisitions. We have been appointed by the Company to provide independent opinion and recommendations to the Independent Board Committee to advise the Independent Shareholders as to whether the Acquisitions are in the interests of the Company and the Shareholders as a whole and whether the terms of the Acquisition Agreements are fair and reasonable so far as the Independent Shareholders are concerned.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the Directors were true at the time they were made and continue to be true as at the date of the Circular and up to the date of the EGM, and there has been no material change thereof. We have also relied on our discussion with the Directors and the management of the Company regarding the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the management of the Company in the Circular were reasonably made after due enquiry and careful consideration. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Company, the Group, the Project Company, Jade Emperor, SZ International and its subsidiaries and the Vendors and their respective associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Acquisitions, we have conducted independent due diligence works to interview PBA to understand (i) their on-site inspection about the traffic flow and physical condition of Wuhuang Expressway; and (ii) the assumptions and principles in preparing the traffic flow and revenue projections of Wuhuang Expressway. We have also discussed with Sallmanns in respect of the valuation of the Project Company. In addition, we have reviewed the geographical location of Wuhuang Expressway, the economic condition and the expressway network in Hubei Province. We have also taken the following principal factors and reasons into consideration:

Reasons for the Acquisitions

Business of the Company

The Company is principally engaged in the investment, construction, operation and management of toll highways and roads in the PRC.

According to the annual report of the Company for the year ended 31 December 2004, the Group had audited net assets of approximately RMB6,082 million (approximately HK\$5,738 million) and RMB6,087 million (approximately HK\$5,742 million) as at 31 December 2003 and 2004 respectively. The Group had audited profit attributable to shareholders of approximately RMB899 million (approximately HK\$848 million) and RMB419 million (approximately HK\$395 million) for the year ended 31 December 2003 and 2004 respectively.

Business of Jade Emperor

Jade Emperor is an investment holding company established by the Vendors in the Cayman Islands for the purpose of holding the Project Company on 8 January 1997. Jade Emperor's sole business is acting as the sole foreign investor in the Project Company.

According to the audited consolidated financial statements of Jade Emperor prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") and accounting standards issued by Hong Kong Institute of Certified Public Accountants, Jade Emperor had audited net asset value of approximately RMB255,174,000 (approximately HK\$240,730,000), RMB279,411,000 (approximately HK\$263,595,000) and RMB255,897,000 (approximately HK\$241,412,000) as at 31 December 2002, 2003 and 2004 respectively, and Jade Emperor recorded net profit of approximately RMB62,796,000 (approximately HK\$59,242,000), RMB80,345,000 (approximately HK\$75,797,000) and RMB99,454,000 (approximately HK\$93,825,000) for the year ended 31 December 2002, 2003 and 2004 respectively. To the best of the Directors' knowledge, information and belief, the Directors had no intention to commit a substantial capital expenditure for the Project Company as at the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Business of the Project Company

The Project Company was established on 11 August 1995 as a wholly-foreign owned enterprise in the PRC for a term of 25 years starting from 23 September 1997. Its registered capital is US\$28 million and its sole business is the operation and management of Wuhuang Expressway. According to the valuation of the Project Company as set out in Appendix I of the Circular, the valuation of 100% equity interest in the Project Company was RMB1,286 million (approximately HK\$1,213 million) as at 31 December 2004 as evaluated by Sallmanns, an independent valuer to the Company. The valuation of the Project Company are discussed in the sub-paragraph headed “Cash flow projections” below.

In the event of successful completion of the Jade Emperor Acquisition Agreement, the net profit of the Project Company with respect to the financial period commencing on 1 September 2004 and ending on the Jade Emperor Completion Date will be attributed to the Company and the Purchasers. Such profit will be allocated as to 55% to Mei Wah and as to 45% to Flywheel.

Information about Wuhuang Expressway

Wuhuang Expressway is an asphalt-paved, dual four-lane expressway, measuring 70.3 kilometers. It originates from the Southern Ring Railway Bridge at Guanshan First Road in the city of Wuhan (武漢市關山一路南環鐵路橋) to with Huangshi Yangtze River Bridge (黃石長江大橋). With its whole route running within the Hubei Province, Wuhuang Expressway is one of the earliest expressways in Hubei Province. It was formerly a class one highway which commenced operation since 1991. In 1996, the highway was reconstructed into an expressway. In 2002 to 2003, Wuhuang Expressway underwent further reconstruction and the road surface was reconstructed as with an asphalt-paved surface. A report on the traffic and revenue of Wuhuang Expressway (the “Traffic Report”) has been prepared by PBA, an independent traffic consultant to the Company, summary of which is set out in Appendix II to the Circular.

Having reviewed the historic traffic data and toll revenue provided by the Company, Wuhuang Expressway has recorded growth in terms of traffic flows and toll revenue. As set out in the Letter from the Board, the average daily toll traffic and toll revenues of Wuhuang Expressway increased from approximately 14,672 per day and RMB158,037,020 in 2001 to approximately 20,837 per day and RMB227,698,656 in 2004 respectively, representing an increase of approximately 42.02% and 44.08% respectively. We observed from the China Road Atlas, a reference book published by 人民交通出版社 (The People’s Transportation Publisher) in January 2005 which illustrated the highway and expressway network in the PRC, that, currently, Wuhuang Expressway is a major route connecting Wuhan and Huangshi (two cities within Hubei Province) and constitutes a major part of Hurong National Highway (滬蓉國道) in the Hubei Province. As advised by PBA, previous studies conducted in the PRC have indicated that growth in gross domestic product is closely correlated with growth in travel demand. We noted from the China Statistical Yearbooks 2000 & 2004 that the gross domestic product of the Hubei Province showed a continuous increase from 1996 to 2003. Having considered (i) the continuous economic growth in the Hubei Province might lead to the growth of travel demand in the Hubei Province and (ii) the Company currently do not operate or manage any highway/expressway in the Hubei Province where Wuhuang Expressway is a major route connecting Wuhan and Huangshi, we consider that the Acquisitions would enhance the market presence of the Group in the PRC.

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Reasons for the Acquisitions

We noted from the Company's annual report for the year ended 31 December 2004 that the Group will focus on toll road operations as its core business and expand towards the Pearl River Delta region and other economically developed regions in the PRC. As such, we concur with the Directors that the Project Company Acquisition and Jade Emperor Acquisition are in line with the Group's principal business and are consistent with the Company's overall business strategies to invest in highways.

As Jade Emperor had made profitable track records for the three years ended 31 December 2004 along with the significant growth of both traffic flows and toll revenue of Wuhuang Expressway, the Directors believe and we concur that the Acquisitions would further broaden the asset base and the revenue source of the Group as well as the Group's market position as an industry player in investment, construction, operation and management of toll highways in the PRC. Based on the above, we concur with the Directors that the Acquisitions form part of the Group's overall business strategies and are in the interest of the Company and its Shareholders as a whole.

Shareholding structure and board composition of the Project Company

Before Completion, the Project Company is wholly-owned by Jade Emperor. Upon completion of the Project Company Acquisition, the Project Company will be converted to a Sino-foreign joint venture enterprise owned as to 15% by the Company and 85% by Jade Emperor. Upon completion of the Jade Emperor Acquisition and cancellation of the Repurchase Shares, the interests of Mei Wah and Flywheel in Jade Emperor will be 47.06% and 52.94% respectively, and the effective interests of Mei Wah and Flywheel in the Project Company will be 40% and 45% respectively. Upon Completion and the Repurchase, the equity interests of the Company and SZ International (through its shareholding in Flywheel) in the Project Company will be approximately 55% and 45% respectively.

Upon Completion, Jade Emperor will remove all the directors that had been nominated by it from the board of directors of the Project Company. The new board of directors of the Project Company shall comprise of five members, four to be nominated by Jade Emperor and one by the Company. Amongst the four directors to be nominated by Jade Emperor, the Company and SZ International will each nominate two directors. Accordingly, the Company will nominate a total of three directors and SZ International will nominate two directors into the new board of directors of the Project Company. The Company will also nominate the legal representative (chairman) of the Project Company.

Aggregate consideration for the Acquisitions

Basis of the consideration

The consideration payable by the Company to Jade Emperor under the Project Company Acquisition Agreement is HK\$178,263,228. The consideration payable by the Company to Vendors under the Jade Emperor Acquisition Agreement is HK\$475,368,608. As such, the aggregate consideration payable by the Company for the Acquisitions amounts to approximately HK\$654 million which will be satisfied entirely in cash. The estimated valuation of 100% equity interest in the Project Company was approximately RMB1.3 billion (approximately HK\$1.2 billion) as at 31 December 2004 as evaluated by Sallmanns engaged by the Company to carry out the valuation of the Project Company.

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The consideration was reached after arm's length negotiations between the Group and the Vendors and/or the Guarantors, taking reference to the estimated valuation of 55% equity interest in the Project Company of approximately RMB707 million (approximately HK\$667 million). Text of the valuation report prepared by Sallmanns (the "Valuation Report") is set out in Appendix I to the Circular. The Company has also engaged PBA to carry out a study on the traffic and revenue forecasts of Wuhuang Expressway and prepare the Traffic Report, summary of which is set out in Appendix II to the Circular. We understand that the valuation of the Project Company as evaluated by Sallmanns, to certain extent, was determined with reference to the traffic and revenue projections of Wuhuang Expressway as prepared by PBA. In order to assess the reasonableness of the consideration of the Acquisitions which take reference to the valuation of the Project Company, we have reviewed the Traffic Report and the Valuation Report and discussed with each of PBA and Sallmanns.

(a) Cash flow projections

We understand that Sallmanns has considered three different valuation approaches, namely market approach, cost approach and income approach. The market approach is basically a comparison method which estimates the value from analyzing sales and financial data and ratios of comparable public and, whenever possible, private companies. The cost approach estimates the value by quantifying the amount of money that would be required to replace the subject matter. The income approach focuses on the income-generating capability of the Project Company. Sallmanns considered the income approach as the most appropriate approach in the circumstances and derived the fair market value of the Project Company through the application of discounted cash flow method. The discounted cash flow method estimates the fair market value of the Project Company by discounting the future cash flows to its present value.

We concur with Sallmanns that the income approach is the most appropriate approach in valuing the Project Company since (i) to the best of our understanding, we are not aware of any purchase and sales of similar business by companies listed on the Stock Exchange which is comparable to the Acquisitions and therefore the market approach is not appropriate, though the Company proposed to acquire a toll road company in Guangdong Province as announced on 15 February 2005 (the "Qinglian Acquisition"), due to the differences as to the location, length of highway/ expressway, historical financial performance and concession period of operating rights of highway or expressway, we consider that Qinglian Acquisition is not comparable to the Acquisitions; (ii) the cost approach ignores the economic benefits of ownership of the business; and (iii) the future development of the Project Company will be relied on the tolls generated from the Wuhuang Expressway. Based on the above, in particular to the fact that (i) the recurrent nature of the toll revenues to be derived from the Wuhuang Expressway; and (ii) the income approach is the most commonly used valuation method in valuing infrastructure projects as noted from other similar infrastructure companies in Hong Kong, we consider the valuation methodology used by Sallmanns in arriving its valuation of the Project Company as acceptable and appropriate.

When using discounted cash flow method, a discount rate has to be determined in discounting future cash flows into present value. Sallmanns derived the discount rate by using the capital asset pricing model ("CAPM"), which derives the required return rate by adding the risk-free rate to the risk premium of the assets. We understand that Sallmanns has adopted a discount rate of approximately 14% in its valuation, which is within the discount range adopted by Sallmanns when evaluating similar

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acquisitions of toll road assets by listed company. As advised by Sallmanns, the discount rate used in the Qinglian Acquisition was 17%. The lower discount rate adopted in the valuation of the Project Company is mainly attributed to the relatively lower debt to equity level and capital expenditure of the Project Company. The discount rate of approximately 14% adopted in the valuation of the Project Company was determined after taking into account of relevant factors including interest rate, inflation, size of the operation, present condition of the road and the uncertainty inherent in the revenue projections. We also note that such discount rate also account for the low liquidity of the assets being acquired, the level of debts of target company and the uncertainty risk and business risk in the country where the assets are located. Given the current interest rate environment in the PRC (for example, one-year short term lending rate of 5.58% as quoted by the Peoples Bank of China as at the Latest Practicable Date) and Hong Kong (for example, prime rate of 5.25% per annum as quoted by the Hongkong and Shanghai Banking Corporation Limited as at the Latest Practicable Date) and the average borrowing cost of the Company for the year ended 31 December 2004 is approximately 4.778% per annum, we are of the view that the discount rate used by Sallmanns in arriving at the valuation of the 100% interest in the Project Company is fair and reasonable.

Since the discount rate used in the CAPM computation adopted by Sallmanns takes into account industry data adjusted by specific country risk. The discount rate adopted by Sallmanns compares to the current ten-year exchange note rate of approximately 3.63%, so building a risk premium of approximately 10.37%, which in our opinion, is a substantial margin. As advised by Sallmanns, such risk premium was determined with reference to a relatively moderate debt level of the Project Company and a relatively stable business with lower specific risk premium of 3%. As such, we consider that the computation of discount rate is fair and reasonable as the Shareholders are concerned.

We are advised by Sallmanns that in valuing the 100% interest in the Project Company, it has taken into account all relevant and significant factors affecting the operations of the Wuhuang Expressway, which include the forecasts of traffic and toll revenue between the period of 2005 and 2022, management fee payable to Hubei Bureau for the Administration of Higher Class Public Roads (湖北省高等級公路管理局) and amortization expenses. We note that Sallmanns believes that the information and projections provided to them are reasonable. To ascertain the fairness and reasonableness of the bases and assumptions underlying the valuation, we have reviewed and discussed with Sallmanns and PBA on the key bases and assumptions made in respect of the projections of toll revenues, the traffic volume, the capital expenditure, and the management fee, amortization and other expenses of the Project Company. We are given to understand that, in preparing the Traffic Report, PBA has reviewed the historical traffic flow and conducted surveys on selected toll stations along Wuhuang Expressway to examine its current traffic flow and traffic pattern as well as used the historical gross domestic product of Hubei Province as the prime indicator to determine future traffic flow of Wuhuang Expressway. Having interviewed with Hubei Transportation Planning and Design Institute (湖北省交通規劃及設計院), which has carried out numerous highway and road system planning projects in Hubei Province, PBA also considered the possible impact of the expressway development plan in the Hubei Province. Based on the projected traffic flow, PBA then projected the potential toll revenues with reference to existing toll rates and the expected toll rate increment which took reference to historical toll rate increment of different class of vehicles of

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Wuhuang Expressway ranging from approximately 12% to 60%, the economic growth and inflation rate of the areas on Wuhuang Expressway. After reviewing and discussions with PBA and Sallmanns the surveys, approaches, methodologies and assumptions adopted by PBA and Sallmanns, we consider they are fair and reasonable so far as the Shareholders are concerned.

Sallmanns and PBA confirmed that the valuation is based on accepted valuation procedures and practices, and the underlying assumptions adopted in the Valuation Report and the Traffic Report are fair and reasonable. In the course of our discussions, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions used in arriving at their valuation.

(b) Price earnings multiple

The aggregate consideration of approximately HK\$654 million payable by the Company for the Acquisitions represents a price earnings multiple of approximately 12.7 times based on the equity interest of 55% of the audited consolidated net profit of Jade Emperor for the year ended 31 December 2004 of approximately RMB55 million (approximately HK\$52 million). The above price earnings multiple represents a discount of approximately 18% to the price earnings multiple of the Company of approximately 15.5 times based on the closing price on 18 March 2005, being the trading date immediately prior to the date of announcement for the Acquisitions, and the audited after-tax earnings per share for the year ended 31 December 2004, we consider that the consideration appears to be favourable to the Company. We have also considered the following four PRC toll road companies listed on the Stock Exchange and their respective price earnings multiple based on their closing price as at 18 March 2005 and their respective after-tax earnings per share for the year ended 31 December 2004:

Name of listed company (stock code)	Closing price as at 18 March 2005 (HK\$)	Earnings per share for the year ended 31 December 2004 (RMB)	Price earnings multiple (times)
The Company	2.800	0.1921	15.5
Sichuan Expressway Co. Ltd. (0107)	1.120	0.0843	14.1
Anhui Expressway Co. Ltd. (0995)	4.450	0.2936	16.1
Jiangsu Expressway Co. Ltd. (0177)	3.475	0.1979	18.6
Zhejiang Expressway Co. Ltd. (0576)	5.450	0.2822	20.5

As the consideration of the Acquisitions payable by the Group, when considered in terms of price earnings multiple, is lower than the Company and industry comparable, we consider that the consideration are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(c) Consideration

Upon Completion, the equity interest of the Company in the Project Company will be approximately 55%. Based on the Valuation Report, the estimated fair market value of 100% equity interest in the Project Company is valued at approximately RMB1,286 million (approximately HK\$1,213 million) as at 31 December 2004. That is, the estimated fair market value of 55% equity interest in the Project Company was approximately RMB707 million (approximately HK\$667 million) as at 31 December 2004.

The aggregate consideration payable by the Company for the Acquisitions of HK\$653,631,836 (of which HK\$178,263,228 represents the Project Company Acquisition and HK\$475,368,608 represents Mei Wah's portion of the consideration of Jade Emperor Acquisition) represents approximately HK\$13.6 million or 2% discount to the estimated fair market value of 55% equity interest in the Project Company as at 31 December 2004. The Directors consider that the aggregate consideration for the Acquisitions is fair and reasonable.

Having considered that (i) the historical profitable track record of the Project Company; (ii) the Company will be able to consolidate the financial statements of the Project Company pursuant to its 55% equity interest in the Project Company; (iii) the lower price earnings multiple of the Acquisitions as compared with the price earnings multiple of the Company and comparable companies; and (iv) the aggregate consideration for the Acquisitions represents approximately 2% discount to the estimated fair market value of 55% equity interest in the Project Company, we concur with the Directors that the aggregate consideration for the Acquisitions is fair and reasonable so far as the Shareholders are concerned.

Payment arrangement for the consideration

As set out in the Letter from the Board, certain payment arrangements have been agreed under the Project Company Acquisition, the major arrangements are summarised as follows:

- (1) The Company will be responsible to pay the profit tax arising from the gain on disposal of the Project Company Equity to the PRC tax authority within 15 working days after the exact amount of profit tax payable is ascertained by the relevant tax authority. Such profit tax is estimated to be RMB15,442,611 (approximately HK\$14,568,501);
- (2) Within 5 working days upon signing of the Project Company Acquisition Agreement, the parties to the Project Company Acquisition Agreement will apply for approval from the original approving authority, namely Department of Commerce of Hubei Province (湖北省商務廳) for (i) the transfer of the Project Company Equity under the Project Company Acquisition Agreement, (ii) the conversion of the Project Company to a Sino-foreign joint venture enterprise and (iii) the replacement of directors and legal representative of the Project Company. As at the Latest Practicable Date, the parties to the Project Company Acquisition Agreement are still preparing documents for the aforesaid items (i) to (iii). The Directors believe that the parties to the Project Company Acquisition Agreement will formally submit application for the aforesaid items (i) to (iii) by May 2005;

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- (3) The Initial Instalment of RMB20,000,000 (approximately HK\$18,867,925) is payable by the Company into the Instalment Account within 5 working days upon (i) granting of the approval certificate (批准證書) by the original approving authority to effect the conversion of the Project Company to a Sino-foreign joint venture enterprise or (ii) granting of approval by the Shareholders in general meeting on the Project Company Acquisition Agreement, whichever is the later; and
- (4) Within 5 working days upon completion of the registration procedures regarding matters referred to in subsection (2) above, the Company will provide Jade Emperor with the Bank Undertaking, to undertake that within 15 working days upon granting of approval by Shenzhen SAFE to the Company for the purchase of foreign currency (the Company will purchase and remit HK\$ outside China for payment of the consideration) for payment under the Project Company Acquisition Agreement and the refund of the Initial Instalment to the Specified Account by Jade Emperor, the Company will remit the full amount of the consideration for the Project Company Acquisition into the Designated Account, otherwise the Undertaking Bank will be liable to pay for the foreign currency equivalence to Jade Emperor.

As set out in the Letter from the Board, certain payment arrangements have been agreed under the Jade Emperor Acquisition, the major arrangements are summarised as follows:

- (1) According to the Jade Emperor Acquisition Agreement, the portion of the Deposit payable by Mei Wah in the amount of HK\$10,000,000 will be paid into the Nominated Accounts not later than the close of business on the third Business Day immediately following the date of the Jade Emperor Acquisition Agreement and will be applied towards the consideration for acquisition of the Jade Emperor Sale Shares upon successful completion or in the event successful completion shall fail to occur be returned to Mei Wah. The Directors confirm that the portion of Deposit payable by Mei Wah has been duly paid into the Nominated Accounts within the stipulated time by Mei Wah; and
- (2) On Jade Emperor Completion Date, Mei Wah will pay the balance of the consideration of HK\$465,368,608 to each of the Vendors upon fulfillment of conditions precedent as contemplated under the Jade Emperor Acquisition Agreement. The amount of Deposit and balance payable by Mei Wah to each of the Vendors are set out below:

Payee	Deposit paid by the Group	Balance payable by the Group	Consideration payable
			by the Group for the Jade Emperor Acquisition
First Vendor	HK\$6,625,000	HK\$308,236,796	HK\$314,861,796
Second Vendor	HK\$2,570,000	HK\$119,627,695	HK\$122,197,695
Third Vendor	<u>HK\$805,000</u>	<u>HK\$37,504,117</u>	<u>HK\$38,309,117</u>
	<u>HK\$10,000,000</u>	<u>HK\$465,368,608</u>	<u>HK\$475,368,608</u>

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Taken into consideration that above payment arrangements (i) mostly reflect milestone progress of the conditions precedent to the Acquisitions (such as the original approving and registering authorities of the Project Company and Shenzhen SAFE); and (ii) are in accordance with the Groups' percentage interest in the Project Company as contemplated under the Project Company Acquisition Agreement and the Jade Emperor Acquisition Agreement, we consider the above payment arrangements are on normal commercial terms and reasonable as far as the Company and Shareholders are concerned in the Acquisitions.

Funding for the Acquisitions

The aggregate consideration for the Acquisitions will be funded by the Group's internal resources and general banking facilities. According to the financial information of the Group as contained in Appendix IV of the Circular, the Group as at 31 December 2004 had bank balances and cash of approximately RMB1,203 million (approximately HK\$1,135 million) and the aggregate consideration for the Acquisitions of approximately HK\$654 million represents approximately 57.6% of the bank balances and cash of the Group as at 31 December 2004.

Based on a cash flow projection of the Group for the year ending 31 December 2005 prepared by the Company, the Directors confirmed that the Group has sufficient financial resources to finance the aggregate consideration for the Acquisitions. To ascertain the fairness and reasonableness of the bases and assumptions underlying the cash flow projection, we have reviewed the cash flow projections and discussed with the management of the Company on the respective projection of toll revenues, operating costs and administrative expenses, interest expenses, unutilized banking facilities and capital expenditure of the Group. In the course of our discussions, we have not been aware of any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions used in arriving at the cash flow projection. Taking into consideration of capital expenditure for other toll-road projects (including the proposed Qinglian Acquisition) of approximately RMB3,124 million for the year 2005 (approximately HK\$2,947 million), the bank balances and cash position of approximately RMB1,203 million (approximately HK\$1,135 million) and unutilised banking facilities of approximately RMB4,400 million (approximately HK\$4,151 million) as at 31 December 2004, we consider the Group will have sufficient funding for the Acquisitions from its internal resources and general banking facilities assuming there are no material changes in the Company's financial position since 31 December 2004.

Based on the above, we are of the view that the Group will have sufficient working capital for its existing operations immediately following the Completion.

Financial effects on the Company

Net tangible assets

The consolidated net tangible assets of the Group as at 31 December 2004 was approximately RMB6,004 million (approximately HK\$5,665 million). Based on the pro forma financial information of the Enlarged Group as set out in Appendix V to the Circular, the unaudited pro-forma adjusted

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consolidated net tangible assets of the Enlarged Group would remain the same at approximately RMB6,004 million (approximately HK\$5,665 million) since the investment cost on the Acquisitions will be offset by the respective consideration payable and we consider that the Acquisitions will not have any material impact to the net tangible assets of the Group.

Cash flow position

According to the audited consolidated balance sheet of the Group set out in Appendix IV of the Circular, as at 31 December 2004, the Group had short-term bank loans and current position of long-term liabilities of approximately RMB363 million (approximately HK\$343 million) and bank balances and cash of approximately RMB1,203 million (approximately HK\$1,135 million), which lead to a net cash position of approximately RMB840 million (approximately HK\$793 million). Meanwhile, the Group had unutilised credit facilities of approximately RMB4,400 million (approximately HK\$4,151 million) as at 31 December 2004, and capital expenditure for other toll-road projects (including the proposed Qinglian Acquisition) of approximately RMB3,124 million (approximately HK\$2,947 million) for year 2005.

The Directors consider that based on the latest financial position of the Group and the cash flow expected to be derived from its existing toll-road operations as discussed in the sub-paragraph headed “Funding for the Acquisitions”, the Company will be able to finance the Acquisitions from its internal resources and general banking facilities. In view of (i) the net cash position of the Group of approximately RMB840 million (approximately HK\$793 million) as at 31 December 2004; and (ii) the unutilised credit facilities granted to the Group of approximately RMB4,400 million (approximately HK\$4,151 million) as at 31 December 2004 and the capital expenditure for other toll-road projects of approximately RMB3,124 million (approximately HK\$2,947 million), we consider such view of the Directors is fair and reasonable that the Group has sufficient financial resources to satisfy the aggregate consideration of the Acquisitions of approximately HK\$654 million, assuming there is no material change to the Group’s cash position since 31 December 2004.

Gearing

As at 31 December 2004, the gearing ratio (total debt excluding deferred income over total assets) of the Group was approximately 12.1%. The aggregate consideration payable for the Acquisitions by the Group is approximately HK\$654 million (approximately RMB693 million), which, according to the Directors, will be financed by internal resources of approximately RMB190 million (approximately HK\$179 million) and external funding arrangement of approximately RMB503 million (approximately HK\$475 million). Upon Completion, the gearing ratio of the Group would increase from approximately 12.1% to 17.9% (taken into consideration of the increase of current liabilities as a result of the profit tax payable by the Group of approximately RMB15 million).

Upon completion of the Qinglian Acquisition, the gearing ratio of the Group would increase from approximately 12.1% to 29.7% (assuming the aggregate consideration of approximately RMB1,839 million for the Qinglian Acquisition would be entirely financed by unutilized credit facilities). After completion of the Qinglian Acquisition and the Acquisitions, the gearing ratio of the Group would further increase from 29.7% to approximately 33.5% (taken into consideration of the increase of current liabilities as a result of the profit tax payable by the Group of approximately RMB15 million).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the Traffic Report, the Directors' representation and information as to the operations of Wuhuang Expressway, the overall cashflow position of the Group due to contribution from the existing toll roads, as well as the past financial performance, we are of the view that the possible increase in the Group's gearing ratio from the current level of approximately 12.1% to approximately 33.5% as a result of the Qinglian Acquisition and the Acquisitions is acceptable and justifiable.

Earnings

According to the financial information of the Group and Jade Emperor as set out in Appendix IV and III of the Circular, the Group's consolidated profit attributable to Shareholders for the year ended 31 December 2004 was approximately RMB419 million (approximately HK\$395 million), and the net profit of Jade Emperor for the three years ended 31 December 2004 was approximately RMB63 million (approximately HK\$59 million), RMB80 million (approximately HK\$76 million) and approximately RMB99 million (approximately HK\$94 million) respectively. Based on the historic earnings record and the positive traffic flow and toll revenue projections of Wuhuang Expressway, we concur with the Directors that Jade Emperor would continue to demonstrate positive earnings and generate additional financial contribution to the Group. According to the accounting policies of the Group, the Jade Emperor group of companies will become jointly controlled entities of the Company upon Completion. As such, the consolidated income statement of the Group includes the Group's share of post-acquisition results of its jointly controlled entities for the year. Considering the potential earnings ability of Jade Emperor and the consolidation of the financial statements of the Jade Emperor group in future, we concur with the Directors consider that the Acquisitions could benefit the results of the Enlarged Group.

The implied rate of return for the Acquisitions is approximately 14%, based on the aggregate consideration of approximately HK\$654 million and Sallmanns's cashflow projections. Given that (i) the profitable track record of Jade Emperor; (ii) corporate deposits at banks of the PRC currently can yield at a maximum rate of 2.25% per annum; and (iii) the Company's average borrowing cost at less than 5% per annum as mentioned above, we are of the view that the Acquisition will enhance the earnings of the Company in the long term.

Risk Factors

The Independent Shareholders should recognise that there are various factors affecting the Acquisition, in particular, the following principal risk factors:

1. Traffic volumes of Wuhuang Expressway

The Traffic Report prepared by PBA have been made subject to certain bases and assumptions, and have been prepared using such analytical methods and models as were considered appropriate by PBA. A copy of the letter from PBA summarising its report on the traffic flow projections is set out in Appendix II to the Circular. However, it should be noted that traffic volumes, and thus toll revenues, may be affected by a number of factors including the quality and proximity of alternative highways, number of vehicles, fuel prices, weather conditions, environmental regulations, taxation and general economic conditions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. *Toll road operations of Wuhuang Expressway*

The operation of Wuhuang Expressway may be adversely affected or interrupted by a variety of events, such as serious traffic accidents, natural disasters and other unforeseen circumstances. If the operation of Wuhuang Expressway is interrupted in whole or in part for any extended period as a result of any such events, the revenue of the Project Company, Jade Emperor and thus the Company, will be adversely affected.

3. *Toll rates*

The right to receive toll fees from users of a toll road in Hubei Province requires the approval of certain authorities as designated by the Hubei Provincial Government from time to time. It should be noted that no assurance can be given that any future applications of increases of toll rates will be approved by the relevant authorities or that the relevant authorities will not require a toll reduction.

4. *Competition*

The profitability of Jade Emperor may be adversely affected by the existence of other means of transportation including railways and alternative routes along Wuhan and Huangshi of Hubei Province. There is no assurance that the national or provincial government will not design and construct new toll highways/expressways which might compete with Wuhuang Expressway in the foreseeable future, as a result of which the toll revenues of Jade Emperor will be adversely affected.

RECOMMENDATIONS

Having taken into account the information and representation provided to us and the above principal factors and the terms and conditions of the Acquisition Agreements, we are of the opinion that the terms of the Acquisition Agreements, including the consideration, are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Acquisitions are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition Agreements and the transactions contemplated thereunder.

Yours faithfully
For and on behalf of
Hantec Capital Limited
Kinson Li
Director

The following is the text of a letter, prepared for inclusion in this circular, received from Sallmanns in connection with the business valuation for Project Company.



CHARTERED SURVEYORS, PROPERTY CONSULTANTS
LAND, BUILDING, PLANT & MACHINERY VALUERS
FINANCIAL AND INTANGIBLE ASSET VALUERS



22nd Floor, Siu On Center
188 Lockhart Road
Wan Chai
Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

18 April 2005

The Board of Directors
Shenzhen Expressway Co. Ltd.
19/F Tower A, United Plaza
5022 Binhe Road North
Shenzhen 518033, PRC.

The Board of Directors
Shenzhen International Holdings Limited
Rms 2206-08, 22/F Greenfield Tower
Concordia Plaza
No. 1 Science Museum Rd
T.S.T. East, Kln, Hong Kong

Dear Sirs,

In accordance with the instructions from Shenzhen Expressway Company Limited (“Shenzhen Expressway”) and Shenzhen International Holdings Limited (“Shenzhen International”), we have undertaken a valuation to determine the market value of a 100% equity interest in Hubei Magerk Expressway Management Private Limited (the “Project Company”) as at 31 December 2004 (the “Valuation Date”). This letter summarises the principal conclusions stated in our valuation report dated 18 April 2005.

We understand that the purpose for this valuation is for acquisition reference.

Our valuation was carried out on a market value basis. Market value is defined as “the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

BASIS OF OPINION

We have conducted our valuation in accordance with international valuation standards issued by International Valuation Standards Committee. The valuation procedures employed include a review of physical and economic condition of the subject asset, an assessment of key assumptions, estimates, and representations made by the proprietor or the operator of the subject asset. All matters we consider essential to the proper understanding of the valuation are disclosed in the valuation report.

The following factors form an integral part of our basis of opinion:

- Assumptions on the market and the assets that are considered to be fair and reasonable;
- Financial performance that shows a consistent trend of the operation;
- Consideration and analysis on the micro and macro economy affecting the subject asset;
- Analysis on tactical planning, management standard and synergy of the subject asset;
- Analytical review of the subject asset; and
- Assessment of the leverage and liquidity of the subject asset.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject asset. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

Background

The Project Company was established in August 1995 as a wholly-foreign owned enterprise and is a wholly owned subsidiary of Jade Emperor Limited which is registered in the Cayman Islands. The principal activity of the Project Company is the operation of Wuhuang Expressway (“Wuhuang Expressway”) in Hubei Province, PRC. The Project Company was granted the operating right of the Expressway from Hubei Traffic Bureau for 25 years starting from September 1997.

The particulars of Wuhuang Expressway and related operating right are shown in the following table.

Toll Roads	Class	Location	Year of expiry	Length (km)
Wuhuang Expressway	Expressway	Hubei	2022	70.3

In arriving at our assessed value, we have considered three accepted approaches. They are market approach, cost approach and income approach. In this valuation, the market approach is not appropriate as there are insufficient comparable transactions to form a respective basis for our opinion of value. The cost approach is not appropriate as it ignores the economic benefits of ownership of the business. We have therefore relied solely on the income approach in determining our opinion of value.

We are of opinion that the income approach is the most appropriate in the present circumstances. In this study, the market value of the Project Company was developed through the application of the income approach technique known as discounted cash flow method to devolve the future value of the business into a present market value. This method eliminates the discrepancy in time value of money by using a discount rate that reflects all business risks including intrinsic and extrinsic uncertainties in relation to the business.

The valuation of the Project Company requires consideration of all pertinent factors affecting the subject asset's abilities to generate future investment returns. The factors considered in this valuation included, but were not limited to, the following:

- The present condition of the subject toll road;
- The economic outlook in general and the specific economic environment related to the business;
- Current and projected operating results of the subject toll road;
- The potential of the business and industry outlook;
- Competitive advantages and disadvantages of the business and industry;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and operational risk of the business including the continuity of income and projected future results.

As this valuation exercise involved traffic and toll revenue forecast of the subject toll road, we have considered and relied to a considerable extent on the Traffic and Revenue Study for Wuhuang Expressway (the "Traffic Study") prepared by Parsons Brinckerhoff (Asia) Ltd. ("PBA") dated 18 April 2005. PBA has prepared a projection for the traffic flow and revenue stream of the Wuhuang Expressway from 2004 to 2023. Their projection is mainly based on the expected annual GDP growth rate, vehicle types, existing road network and future transportation plans.

The findings of PBA cover two future forecast scenarios: the "Optimistic" and "Conservative" scenarios. The "Optimistic" scenario assumes a high expectation of economic growth over the entire evaluation period. This scenario considers an optimistic outlook towards the future and assumes a quicker development pace. The "Conservative" scenario assumes a lower development growth potential and a much slower pace of growth than the Optimistic scenario. The forecast traffic volume

and toll charge prepared by PBA is used to estimate the revenue stream of the Wuhuang Expressway. The base approach, which is derived by taking the averages of the “Optimistic” and “Conservative” scenarios prepared by PBA, has been incorporated to arrive at the toll revenue stream for the subject toll road.

As part of our analysis, we have been furnished with the financial information, project documents and other pertinent data provided by Shenzhen Expressway, Shenzhen International and the Project Company. We believe such information to be reliable and legitimate. We have also interviewed senior staff of the Project Company to verify such information. We have relied to a considerable extent on such information in arriving at our opinion of value.

In determining the value of the Project Company, we have made the following key assumptions. These assumptions have, where appropriate, been re-evaluated and validated in order to provide a more accurate and reasonable basis for our assessed value.

- We have assumed that the projected business can be achieved with the effort of the management of the Project Company;
- In order to realize the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For this valuation exercise, we have assumed that the facilities and systems proposed are sufficient for future expansion;
- In accordance with the terms of the proposed acquisition, it is a requirement to transform the Project Company from a wholly-foreign owned enterprise into a sino-foreign joint venture. Under the sino-foreign joint venture, the Project Company will be able to distribute cashflow from annual depreciation and amortization during the operating period of Wuhuang Expressway. In this valuation, we have assumed the shareholders of the Project Company can receive the cashflow from annual depreciation and amortization;
- Based on tax codes applicable to the Project Company, we have assumed the income tax rate to be 15% of taxable profit over the concession period of the expressway;
- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Project Company;
- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honoured;
- We have been provided with copies of the operating licences and company incorporation documents. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our opinion of value;

- Natural weather can have an impact on toll roads, including flooding and other types of inclement weather. We have assumed that no extended closure will occur;
- We have also assumed the accuracy of the financial and operational information provided to us by Shenzhen Expressway, Shenzhen International and the Project Company and relied to a considerable extent on such information in arriving at our opinion of value; and
- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

In determining the discount rate for the operation adopted in the valuation, we have taken into account a number of factors including the current market condition and the underlying risks inherent in the business, such as uncertainty risk, liquidity risk, etc. These risk factors have been considered in determining the appropriate discount rate for the valuation.

When evaluating the appropriate discount rate for the Project Company, we have used the Capital Assets Pricing Model (the “CAPM”). Under CAPM, the appropriate expected rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of the Project Company is expected to be affected by factors that are independent of the general market. This variability of the expected rate of return is referred to as the specific risk.

In this valuation, we have applied a risk free rate of 3.63%, being the yield of exchange fund bonds in Hong Kong; a risk premium of 6.5%, being the difference between Hang Seng index return and the indicated risk free rate and a nominal beta of 1.05, being the average beta for PRC toll road operating companies listed in Hong Kong.

In addition to the expected rate of return of the toll road industry in the PRC, we have considered as significant the liquidity risk attached to this private investment in the Project Company as compared to publicly listed investments. Our research on empirical studies with respect to the value differential of private and listed investments with similar economic attributes supports an additional risk premium of 3%.

The resulting discount rate is approximately 14% for the Project Company and we have concluded that this discount rate is appropriate for the valuation of the Project Company. A sensitivity analysis was prepared based on discount rates ranging from 13% to 15%. The sensitivity result of the Project Company falls in the range of RMB1,194 million to RMB1,388 million.

Discount Rate Sensitivity	
Discount Rate	Results (RMB million)
13%	1,388
14%	1,286
15%	1,194

Please note that in arriving at our assessed value, we have only considered the revenue stream and expenses relevant to the core business of the Project Company. We have not made provision for other non-operating cash flow items such as interest income, exchange rate gain/loss, accrual for sinking funds, etc. in the valuation model.

We also draw your attention to the fact that we have not undertaken structural or detailed civil engineering survey and are not therefore able to confirm that the subject toll road is free from structural defects.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Shenzhen Expressway, Shenzhen International, the Project Company and Sallmanns (Far East) Limited.

We do not intend to express any opinion on matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Project Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

Based on the results of our investigations and analyses, we are of the opinion that as at 31 December 2004 the market value of a 100% equity interest in the Project Company is reasonably stated at the amount of **RMB1,286 million (RENMINBI ONE BILLION TWO HUNDRED EIGHTY SIX MILLION)**.

For and on behalf of
Sallmanns (Far East) Limited
Vincent T. B. Chong
ACA FCPA FTIHK
Managing Director

The following is the text of a letter, prepared for inclusion in this circular, received from PBA in connection with the traffic forecasts for Wuhuang Expressway.



Parsons
Brinckerhoff
(Asia) Ltd.

23rd Floor, AIA Tower,
183 Electric Road,
North Point, Hong Kong
Tel: (852) 2579 8899
Fax: (852) 2856 9902
Email: info.hk@pbasia.com

18 April 2005

The Directors
SHENZHEN EXPRESSWAY COMPANY LIMITED

Dear Sirs,

Traffic and Revenue Study for Wuhan-Huangshi Expressway in Hubei, China Executive Summary

Parsons Brinckerhoff (Asia) Ltd. (hereinafter referred to as the “Consultant”) was engaged by Shenzhen Expressway Company Limited (“Shenzhen Expressway”) and Shenzhen International Holdings Limited (“Shenzhen International”) to conduct an independent traffic and revenue study (the “Study”) for the Wuhan-Huangshi Expressway (the “Project”) in Hubei province, the People’s Republic of China.

In conducting the study, we have based our analyses on site investigation, interviews with the toll road operator, and reviews of any traffic data and feasibility reports. In utilizing the given information from Shenzhen Expressway and Shenzhen International, we have sought confirmation from the management of Shenzhen Expressway and Shenzhen International that no material factors have been omitted. We consider that we have been provided with sufficient information to reach an informed view of the Study.

The results of our study are presented in the report entitled “Traffic and Revenue Study for Wuhan-Huangshi Expressway, Hubei, China”. A fair summary of our study approach and findings are presented in the following:

1. INTRODUCTION

The Wuhan-Huangshi Expressway (hereinafter referred to as the “Wuhuang Expressway”) is part of the Shanghai-Chengdu Expressway which is one of the so-called “Two Verticals — Two Horizontals” trunk expressways of China. The Wuhuang Expressway connects Wuhan, the provincial capital of Hubei with 8 million population, and the city of Huangshi, population 2.5 million and rich in natural resources. Between Wuhan and Huangshi is the city of Ezhou. It is an industrial city of about 1 million in population.

2. OBJECTIVES AND SCOPE OF SERVICES

The technical objective of the Study was to provide Shenzhen Expressway and Shenzhen International with an independent assessment of future traffic and toll revenues of the Project. The scope of work includes information collection, traffic analysis and future traffic forecast. Major activities include:

- Review planning and feasibility reports related to the Project;
- Collect socio-economic data of the study region;
- Collect historic traffic and revenue data of the Project;
- Conduct additional traffic counts and surveys;
- Interview the toll road operator;
- Formulate travel demand forecast methodology;
- Analyze possible impact of any existing and planned competing roads and transport facilities in the same general corridors of the subject expressway; and
- Prepare traffic and revenue forecasts.

3. TRAFFIC FORECASTING METHODOLOGY

The traffic forecast is prepared based on conventional methods widely adopted for toll road studies in the PRC. The traffic forecasting methodology for the Study consisted of the following stages:

- (a) Data Inventory and Review — The key objective for this technical stage is to obtain existing available information and organize them for next stage of work. Typical information to be inventoried includes historic highway network data, origin-destination data, toll traffic and revenue data, socio-economic data and forecasts for the relevant region, and previous analyses and reports.
- (b) Define Technical Approach — The goal is to develop the most appropriate technical methodology to be used for the study. The determination of the study method depends on the availability and quality of the data as well as the overall project programme.

- (c) Travel Demand Forecasting — Based on the information and findings from previous stages, this stage defines and analyzes the existing traffic patterns and forecasts the future travel demand based on the appropriate variables including:
- the correlation between traffic demand growth and economic growth
 - physical conditions of the Wuhuang Expressway and its carrying capacity
 - vehicle mix within the study corridor of the subject expressway
 - origin and destination patterns

To offer a better picture of the various possible outcomes in the future, the traffic and revenue forecasts are presented under two scenarios: “Optimistic” and “Conservative”.

4. PRINCIPAL STUDY/ANALYTICAL ASSUMPTIONS

The principal assumptions adopted in the Study are as follows:

- (a) Gross Domestic Product (GDP) has been used as the prime indicator to determine future traffic growth of the study corridor. Past studies conducted in the PRC have indicated that growth in GDP is closely correlated with growth in travel demand;
- (b) Travel behaviours, traffic patterns and trip making decisions do not vary over the study period;
- (c) It is anticipated that two expressways in the Hubei expressway development plan will impact the traffic demand for the Wuhuang Expressway, they are: the Wuhan-Macheng Expressway, and the Wuhan-Yingshan Expressway. It is further assumed that the current transport infrastructure planning within the study region remains unchanged;
- (d) The economic forecasts referenced in the Study, specifically the 10th Five Year Plan, are consistent with the economic policies in the PRC, and the development master plans of the region;
- (e) The technical data obtained and used for the analysis is accurate and therefore is a good representation of the typical condition;
- (f) Based on the Highway Capacity Manual published by the Transportation Research Board of the US Department of Transportation, and making allowances for local factors such as driver behaviours, the estimated facility-based capacity of the subject expressways is 70,000 vehicles per day.

5. TOLL RATE STRUCTURE

The current toll rate of the Wuhuang Expressway as of 1 January 2005, is:

Passenger vehicles		Toll Rate RMB/km
PV1	Passenger vehicles ≤ 17 seats	0.40
PV2	Passenger vehicles 18 - 30 seats	0.75
PV3	Passenger vehicles 31 - 50 seats and sleeper vehicles with > 26 seats	1.00
PV4	Passenger vehicles ≥ 51 seats	1.20
Goods vehicles		Toll Rate RMB/km
GV1	Goods vehicles ≤ 2 tons	0.40
GV2	Goods vehicles 2.1 - 5 tons	0.75
GV3	Goods vehicles 5.1 - 10 tons	1.00
GV4	Goods vehicles 10.1 - 15 tons	1.20
GV5	Goods vehicles 15.1 - 20 tons	1.40
GV6	Goods vehicles ≥ 20.1 tons	1.40

For the future, we have assumed an increase in toll rates of 15% every five years, starting in year 2009. This increment represents an increase of about 2.8% per annum, and is far below the average economic growth of Hubei of 8.8% per annum from 1999 to 2003, and below the average annual inflation of 4.6% of Hubei between 1994 and 2003.

6. SUMMARY OF TRAFFIC AND REVENUE PROJECTIONS

A summary of the traffic and revenue projections is presented in the following table.

Year	Average Daily Traffic (in vehicles per day)		Annual Revenue (in million RMB)	
	Optimistic	Conservative	Optimistic	Conservative
2005	22,600	22,200	250.5	246.0
2006	25,000	24,100	276.7	266.8
2007	27,700	26,100	305.7	289.3
2008	30,000	27,900	329.8	308.4
2010	30,200	27,200	345.8	314.5
2015	42,100	35,400	549.7	466.8
2020	55,000	44,200	823.6	669.2
2023	64,500	50,600	965.5	763.9

7. CONCLUSIONS

The Consultant concluded that the traffic and revenue forecasts developed from the above methodology and on the above assumptions is in line with common professional practice and meets the objectives of the agreed scope of service with Shenzhen Expressway and Shenzhen International.

Yours sincerely,
For and on behalf of
PARSONS BRINCKERHOFF (ASIA) LTD
Richard Yau
Project Manager

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

18 April 2005

The Directors
Shenzhen Expressway Company Limited

Dear Sirs,

We set out below our report on the financial information relating to Jade Emperor Limited (“Jade Emperor”) and its wholly-owned subsidiary, Hubei Magerk Expressway Management Private Limited (湖北馬鄂高速公路經營有限公司) (“Magerk Expressway”), (hereinafter collectively referred to as “Jade Emperor Group”) for the three years ended 31 December 2002, 2003 and 2004 (the “Relevant Years”) for inclusion in the circular dated 18 April 2005 (the “Circular”) in connection with the proposed acquisition of Jade Emperor jointly made by Shenzhen Expressway Company Limited (“SZ Expressway”) and Shenzhen International Holdings Limited (“SZ International”).

Jade Emperor was incorporated in the Cayman Islands on 8 January 1997 as an exempted company with limited liability under the Companies Law (2003 Revision) of the Cayman Islands. Jade Emperor is principally engaged in investment holding.

As at the date of this report, the principal activity of Jade Emperor is investment holding and it directly owns the entire equity interest in Magerk Expressway, a wholly-foreign owned enterprise which was registered in the People’s Republic of China (the “PRC”) on 11 August 1995. The registered capital of Magerk Expressway is US\$28,000,000 and its principal activities are operating and managing an expressway, Wuhuang Expressway (武黃高速公路), in the PRC under an operating right granted for a period of 25 years.

On 19 March 2005, SZ Expressway, Mei Wah Industrial (Hong Kong) Limited (a wholly-owned subsidiary of SZ Expressway), Flywheel Investments Limited (a wholly-owned subsidiary of SZ International), shareholders of Jade Emperor and Jade Emperor entered into acquisition agreements (“Acquisition Agreements”) whereby SZ Expressway will acquire a 15% interest in Magerk Expressway from Jade Emperor, Mei Wah Industrial (Hong Kong) Limited and Flywheel Investments Limited will acquire a 47.06% and a 52.94% interest in Jade Emperor, respectively, from the shareholders of Jade Emperor.

All companies now comprising Jade Emperor Group have adopted 31 December as their financial year end date.

The consolidated accounts of Jade Emperor Group and the accounts of Jade Emperor were prepared in accordance with accounting principles generally accepted in Hong Kong. Those accounts for the two years ended 31 December 2002 and 2003 were audited by Hodgson Impey Cheng, Certified Public Accountants in Hong Kong and those accounts for the year ended 31 December 2004 were audited by Ip Ping Sum & Company, Certified Public Accountants in Hong Kong. The statutory accounts of Magerk Expressway for the three years ended 31 December 2002, 2003 and 2004 were prepared in accordance with accounting principles and financial regulations applicable to PRC enterprises and were audited by Zhongshen Certified Public Accountants in the PRC.

For the purpose of this report, we have examined the above accounts for the Relevant Years, and have carried out such additional procedures as are necessary in accordance with the Auditing Guidelines “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The financial information of Jade Emperor Group and of Jade Emperor for the Relevant Years, set out in Sections I to VI (the “Financial Information”) of this report has been prepared in accordance with accounting principles generally accepted in Hong Kong and accounting standards issued by the HKICPA, based on the consolidated audited accounts of Jade Emperor Group and the audited accounts of Jade Emperor for the Relevant Years, after making such adjustments as are appropriate.

The directors of Jade Emperor and of Magerk Expressway, during the Relevant Years, are responsible for preparing the consolidated accounts of Jade Emperor Group and of Jade Emperor and the accounts of Magerk Expressway, respectively, which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of Jade Emperor are also responsible for the preparation of the Financial Information which gives a true and fair view. It is our responsibility to form an independent opinion, based on our examination and review, on the Financial Information and to report our opinion.

In our opinion, the Financial Information for the purpose of this report, gives a true and fair view of the state of affairs of Jade Emperor and of Jade Emperor Group as at 31 December 2002, 2003 and 2004 and of Jade Emperor Group’s results and cash flows for the Relevant Years.

I CONSOLIDATED PROFIT AND LOSS ACCOUNTS

The following are the consolidated profit and loss accounts of Jade Emperor Group for the Relevant Years prepared after making such adjustments as are appropriate:

	<i>Section VI Notes</i>	Year ended 31 December		
		2002	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	159,572	189,553	216,314
Other revenues	2	<u>444</u>	<u>363</u>	<u>501</u>
Total revenues		160,016	189,916	216,815
Amortisation of toll road operating right		(23,200)	(23,200)	(23,200)
Commission and management fees	3	(41,586)	(49,383)	(56,355)
Depreciation of fixed assets		(447)	(2,072)	(2,356)
Staff costs	4	(1,611)	(2,750)	(3,303)
Other operating expenses	5	<u>(5,116)</u>	<u>(3,861)</u>	<u>(3,378)</u>
Operating profit		88,056	108,650	128,223
Finance costs	6	<u>(20,167)</u>	<u>(14,343)</u>	<u>(11,380)</u>
Profit before taxation		67,889	94,307	116,843
Taxation	7	<u>(5,093)</u>	<u>(13,962)</u>	<u>(17,389)</u>
Profit attributable to shareholders		<u>62,796</u>	<u>80,345</u>	<u>99,454</u>
Dividends	9	<u>56,108</u>	<u>70,461</u>	<u>52,507</u>
Earnings per share	10	<u>RMB0.22</u>	<u>RMB0.29</u>	<u>RMB0.36</u>

II CONSOLIDATED BALANCE SHEETS

The following are the consolidated balance sheets of Jade Emperor Group prepared after making such adjustments as are appropriate:

	<i>Section VI Notes</i>	As at 31 December		
		2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Non-current assets				
Intangible assets	12	456,267	433,067	409,867
Fixed assets	13	3,896	20,987	20,378
Construction in progress	14	<u>18,116</u>	<u>—</u>	<u>—</u>
		<u>478,279</u>	<u>454,054</u>	<u>430,245</u>
Current assets				
Other receivables		18	79	28
Other investments	16	3,000	2,000	—
Amount due from the ultimate holding company	17	—	10	9
Amount due from a holding company	17	—	7	9
Pledged deposits	18	1,900	1,900	—
Cash and cash equivalents		<u>33,259</u>	<u>43,666</u>	<u>27,146</u>
		<u>38,177</u>	<u>47,662</u>	<u>27,192</u>
Current liabilities				
Other payables and accrued expenses		4,694	6,362	8,989
Taxation payable		1,490	3,978	4,755
Current portion of long-term bank loans, secured	19	76,000	76,000	20,795
Short-term bank loans	19	<u>25,000</u>	<u>58,000</u>	<u>78,000</u>
		<u>107,184</u>	<u>144,340</u>	<u>112,539</u>
Net current liabilities		<u>(69,007)</u>	<u>(96,678)</u>	<u>(85,347)</u>
Total assets less current liabilities		<u>409,272</u>	<u>357,376</u>	<u>344,898</u>
Financed by:				
Share capital	20	231,504	231,504	231,504
Reserves	21	(18,175)	(10,301)	(439)
Retained earnings	21	<u>41,845</u>	<u>58,208</u>	<u>24,832</u>
		<u>255,174</u>	<u>279,411</u>	<u>255,897</u>
Non-current liabilities				
Long-term bank loans, secured	19	<u>154,098</u>	<u>77,965</u>	<u>89,001</u>
		<u>409,272</u>	<u>357,376</u>	<u>344,898</u>

III BALANCE SHEETS OF JADE EMPEROR

The following are the balance sheets of Jade Emperor prepared after making such adjustments as are appropriate:

	<i>Section VI Notes</i>	As at 31 December		
		2002	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Investment in subsidiary	15	231,504	231,504	231,504
Current assets				
Amount due from the ultimate holding company	17	—	10	9
Amount due from a holding company	17	—	7	9
		—	17	18
Current liabilities				
Other payables and accrued expenses		—	17	18
Net current assets		—	—	—
Total assets less current liabilities		<u>231,504</u>	<u>231,504</u>	<u>231,504</u>
Financed by:				
Share capital	20	<u>231,504</u>	<u>231,504</u>	<u>231,504</u>

IV CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The following are the consolidated statements of changes in equity of Jade Emperor Group prepared after making such adjustments as are appropriate:

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	209,961	255,174	279,411
Profit for the year	62,796	80,345	99,454
Dividends	<u>(17,583)</u>	<u>(56,108)</u>	<u>(122,968)</u>
At end of year	<u>255,174</u>	<u>279,411</u>	<u>255,897</u>

V CONSOLIDATED CASH FLOW STATEMENTS

The following are the consolidated cash flow statements of Jade Emperor Group prepared after making such adjustments as are appropriate:

	<i>Section VI Notes</i>	Year ended 31 December		
		2002	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating activities				
Net cash inflow generated from operations	22(a)	111,612	134,934	155,572
Interest paid		(18,079)	(14,012)	(10,937)
PRC enterprise income tax paid		<u>(4,365)</u>	<u>(11,474)</u>	<u>(16,612)</u>
Net cash inflow from operating activities		<u>89,168</u>	<u>109,448</u>	<u>128,023</u>
Investing activities				
Purchase of fixed assets and payments for construction in progress		(18,302)	(1,120)	(1,798)
Purchase of other investments		(3,000)	—	—
Proceeds from sales of other investments		—	1,000	2,050
Proceeds from disposal of fixed assets		100	—	—
Interest received		<u>415</u>	<u>320</u>	<u>442</u>
Net cash (outflow)/inflow from investing activities		<u>(20,787)</u>	<u>200</u>	<u>694</u>
Net cash inflow before financing activities		<u>68,381</u>	<u>109,648</u>	<u>128,717</u>
Financing activities				
Draw-down/(repayment) of bank loans	22(b)	75,098	(43,133)	(24,169)
Repayment of loans from the ultimate holding company		(82,744)	—	—
Repayment of loans from a holding company		(13,482)	—	—
Repayment of other loans		(17,383)	—	—
Pledged bank deposits released		100	—	1,900
Dividends paid		<u>(17,583)</u>	<u>(56,108)</u>	<u>(122,968)</u>
Net cash outflow from financing activities		<u>(55,994)</u>	<u>(99,241)</u>	<u>(145,237)</u>
Increase/(decrease) in cash and cash equivalents		12,387	10,407	(16,520)
Cash and cash equivalents at beginning of year		<u>20,872</u>	<u>33,259</u>	<u>43,666</u>
Cash and cash equivalents at end of year		<u><u>33,259</u></u>	<u><u>43,666</u></u>	<u><u>27,146</u></u>
Analysis of balances of cash and cash equivalents				
Bank balances and cash		<u><u>33,259</u></u>	<u><u>43,666</u></u>	<u><u>27,146</u></u>

VI NOTES TO THE FINANCIAL INFORMATION

1 PRINCIPAL ACCOUNTING POLICIES

(a) **Basis of preparation**

The principal accounting policies adopted by Jade Emperor Group, which comply with Statements of Standard Accounting Practice issued by the HKICPA and accounting principles generally accepted in Hong Kong, are set out below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. Jade Emperor Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. Jade Emperor Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The Financial Information has been prepared under the historical cost convention except that, as disclosed in the accounting policy below, other investments are stated at fair value.

Certain English names of companies and government authorities mentioned in this report represent management's translation of the Chinese names of these companies or authorities as no English names have been registered.

(b) **Consolidation**

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

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

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

(c) **Foreign currencies translation**(i) *Presentation currency*

The books and records of Jade Emperor and Magerk Expressway are maintained in United States dollars ("US\$") and Renminbi ("RMB"), respectively. The Financial Information set out in this report is presented in RMB as it best reflects the economic substance of the underlying events and circumstances relevant to the operations of Jade Emperor Group.

(ii) *Foreign currency transactions and balances*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of Jade Emperor expressed in US\$ is translated to RMB at the rate of exchange ruling at the balance sheet date whilst the profit and loss account is translated at the average rate. Exchange differences are dealt with as a movement in reserves.

(d) **Intangible assets**

Intangible assets represent expenditure incurred on acquisition of toll road operating right. They are capitalised and amortised using the straight-line method over the operating period granted.

(e) **Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost, less accumulated impairment losses, over their estimated useful lives on a straight-line basis, taking into account a residual value of 10%. The principal annual rates are as follows:

Buildings	4.5%
Electronic toll system	9%
Motor vehicles	18%
Furniture and fixtures	18%

The cost of maintenance and repairs is charged to the profit and loss account as incurred. Expenditures, which extend the useful life of the asset or increase the capacity or quality of output or standard of performance, are capitalised and depreciated at the applicable depreciation rates.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) **Construction in progress**

Construction in progress represents fixed assets under construction and is stated at cost, which includes the costs of acquisition and construction as well as borrowing costs arising from borrowings used to finance the construction during the construction period.

Costs are transferred to fixed asset upon completion.

(g) **Impairment**

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets, construction in progress and intangible assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(h) **Other investments**

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Gains or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(i) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(j) **Employee retirement benefits**

The subsidiary of Jade Emperor in the PRC has to make defined contributions to a staff retirement scheme managed by the local government authorities in accordance with the relevant rules and regulations. Contributions to the retirement benefit scheme are charged to the profit and loss account as and when incurred.

(k) **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investment in a subsidiary except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) **Contingent liabilities and contingent assets**

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

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

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

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

(m) **Revenue recognition**

Toll income from operation of toll roads is recognised on a receipt basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Jade Emperor Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the consolidated profit and loss account.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

2 TURNOVER AND REVENUES

Jade Emperor Group is principally engaged in the operation of a toll road. Turnover and revenues recognised during the Relevant Years are as follows:

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover			
Income from operating a toll road	168,024	199,530	227,699
Less: Taxes related to toll income	<u>(8,452)</u>	<u>(9,977)</u>	<u>(11,385)</u>
	<u>159,572</u>	<u>189,553</u>	<u>216,314</u>
Other revenues			
Interest income	415	320	442
Others	<u>29</u>	<u>43</u>	<u>59</u>
	<u>444</u>	<u>363</u>	<u>501</u>
Total revenues	<u><u>160,016</u></u>	<u><u>189,916</u></u>	<u><u>216,815</u></u>

No segment information is presented as all turnover of Jade Emperor Group is toll income earned in the PRC. All assets of Jade Emperor Group are located in the PRC.

3 COMMISSION AND MANAGEMENT FEES

Amounts represent commission and management fees payable to Hubei Bureau for the Administration of Higher Class Public Roads (湖北省高等級公路管理局) in respect of the administration of Wuhuang Expressway (武黃高速公路) pursuant to the provisions of an operation contract and the related supplementary contract dated 7 June 1995 and 16 January 2001, respectively. The commission and management fees are charged throughout the operation period of the expressway expiring on 22 September 2022 at 23.75% and 1%, respectively, on the toll income derived from the expressway.

4 STAFF COSTS

Staff costs, including directors' emoluments, which are further analysed in Note 11 below, comprise:

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowance and bonus	1,348	2,432	2,877
Contributions to retirement scheme (Note (a))	13	18	19
Others	<u>250</u>	<u>300</u>	<u>407</u>
	<u>1,611</u>	<u>2,750</u>	<u>3,303</u>

- (a) Magerk Expressway participates in a defined contribution retirement scheme managed by the relevant local government authorities in the PRC. It is required to make monthly contributions to the retirement scheme equivalent to 18% to 20% of the employees' basic salaries during the Relevant Years. The local government authorities are responsible for the payment of retirement benefits to the retired employees and Jade Emperor Group has no further obligations in this respect.

5 OTHER OPERATING EXPENSES

Other operating expenses include the following:

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss on disposal of fixed assets	26	73	51
Auditors' remuneration	<u>50</u>	<u>144</u>	<u>63</u>

6 FINANCE COSTS

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Interest on bank loans	15,353	14,012	10,937
Interest on other loans, wholly repayable within five years	<u>2,726</u>	<u>—</u>	<u>—</u>
Total borrowing costs	18,079	14,012	10,937
Less: interest capitalised	<u>(286)</u>	<u>—</u>	<u>—</u>
	17,793	14,012	10,937
Add: bank charges	<u>2,374</u>	<u>331</u>	<u>443</u>
	<u><u>20,167</u></u>	<u><u>14,343</u></u>	<u><u>11,380</u></u>

The capitalisation rate applied to funds borrowed generally and used for the development of an electronic toll system was approximately 5% during the year ended 31 December 2002.

7 TAXATION

Business tax is charged at 5% of the toll income.

The amounts of income tax charged to the consolidated profit and loss account represent:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
PRC enterprise income tax			
- current taxation	5,093	13,962	17,371
- underprovision in prior years	<u>—</u>	<u>—</u>	<u>18</u>
	<u><u>5,093</u></u>	<u><u>13,962</u></u>	<u><u>17,389</u></u>

- (a) No provision for Cayman Islands or Hong Kong profits tax has been made as Jade Emperor Group has no assessable profit in the Cayman Islands or Hong Kong. Provision for PRC enterprise income tax has been made on the estimated assessable profit for the Relevant Years at the applicable rates of taxation.
- (b) Jade Emperor Group is engaged in the operation of a toll road in the PRC through Magerk Expressway. During the Relevant Years, the standard PRC enterprise income tax rate was 33%. As approved by the State tax authorities in Hubei Province of the PRC, Magerk Expressway is subject to a preferential PRC enterprise income tax rate at 15%. It was further exempt from PRC enterprise income tax for the first two profit-making years, followed by a 50% tax reduction for the following three years, commencing from the year ended 31 December 1998. Accordingly, the applicable PRC enterprise income tax rate for the year ended 31 December 2002 was 7.5%, while that for the years ended 31 December 2003 and 2004 was 15%.

- (c) No provision for deferred taxation has been made in the accounts during the Relevant Years as the effect of all temporary differences is not material to Jade Emperor Group.
- (d) The taxation on Jade Emperor Group's profit before taxation differs from the theoretical amount that would arise using the applicable enterprise income tax rate in the PRC as follows:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Profit before taxation	<u>67,889</u>	<u>94,307</u>	<u>116,843</u>
Calculated at the taxation rate of 33%	22,403	31,121	38,558
Effect of tax preferential treatments	(17,307)	(16,975)	(21,032)
Others	<u>(3)</u>	<u>(184)</u>	<u>(137)</u>
Taxation charge	<u>5,093</u>	<u>13,962</u>	<u>17,389</u>

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders dealt with in Jade Emperor's accounts for the Relevant Years is as follows:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Profit for the year	<u>17,701</u>	<u>56,108</u>	<u>122,968</u>

9 DIVIDENDS

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Interim (2002: Nil, 2003: Nil, 2004: US\$0.023) per share, paid	—	—	52,507
Final (2002: US\$0.024, 2003: US\$0.03, 2004: Nil) per share, paid	<u>56,108</u>	<u>70,461</u>	<u>—</u>
	<u>56,108</u>	<u>70,461</u>	<u>52,507</u>

10 EARNINGS PER SHARE

The calculation of earnings per share for the Relevant Years is based on Jade Emperor Group's profit attributable to shareholders and 280,000,000 shares in issue.

No diluted earnings per share is presented as Jade Emperor has no potential dilutive shares.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**(a) Directors' emoluments**

The aggregate amounts of emoluments payable to directors of Jade Emperor Group during the Relevant Years are as follows:

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fees	—	—	—
Salaries and other benefits	<u>802</u>	<u>1,790</u>	<u>1,790</u>
	<u>802</u>	<u>1,790</u>	<u>1,790</u>

The aggregate emolument of each individual director is less than RMB1,060,000 (equivalent to HK\$1,000,000) for the Relevant Years.

No director waived or agreed to waive any emolument during the Relevant Years.

(b) Five highest paid individuals

The five highest paid individuals consisted of:

	Year ended 31 December		
	2002	2003	2004
Number of directors	—	3	3
Number of employees	<u>5</u>	<u>2</u>	<u>2</u>
	<u>5</u>	<u>5</u>	<u>5</u>

The emoluments of the five highest paid individuals included the directors whose emoluments are included in Note 11(a) above. The emoluments of the remaining individuals are as follows:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Salaries and other benefits	487	764	927
Contributions to retirement scheme	—	—	—
	<u>487</u>	<u>764</u>	<u>927</u>

The total emolument of each highest paid individual, all of whom are non-directors, is less than RMB1,060,000 (equivalent to HK\$1,000,000) for the Relevant Years.

No amount has been paid to the directors or the highest paid individuals as compensation for loss of office or an inducement to join or upon joining Jade Emperor during the Relevant Years.

12 INTANGIBLE ASSETS

	As at 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Net book value at beginning of year	479,467	456,267	433,067
Amortisation	<u>(23,200)</u>	<u>(23,200)</u>	<u>(23,200)</u>
Net book value at end of year	<u>456,267</u>	<u>433,067</u>	<u>409,867</u>
Cost	580,000	580,000	580,000
Accumulated amortisation	<u>(123,733)</u>	<u>(146,933)</u>	<u>(170,133)</u>
Net book value	<u>456,267</u>	<u>433,067</u>	<u>409,867</u>

Pursuant to the transfer agreement dated 23 September 1997, Magerk Expressway was granted the toll road operating right of Wuhuang Expressway (武黃高速公路) from Hubei Communications Bureau (湖北省交通廳) at a transfer consideration of RMB580,000,000. The expenditure was recognised as an intangible asset of Jade Emperor Group and is amortised over the operating period granted of 25 years, commencing from September 1997.

The toll road operating right has pledged as security for Jade Emperor Group's bank loans (Note 19).

13 FIXED ASSETS

	Buildings <i>RMB'000</i>	Electronic toll system <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Total <i>RMB'000</i>
Cost					
At 1 January 2002	3,403	—	1,190	653	5,246
Additions	152	—	—	34	186
Disposals	(152)	—	—	(61)	(213)
At 31 December 2002	3,403	—	1,190	626	5,219
Transfer from construction in progress (note 14)	—	19,076	—	—	19,076
Additions	—	—	152	8	160
Disposals	—	—	(215)	(65)	(280)
At 31 December 2003	3,403	19,076	1,127	569	24,175
Additions	—	1,233	510	55	1,798
Disposals	—	—	(430)	(34)	(464)
At 31 December 2004	<u>3,403</u>	<u>20,309</u>	<u>1,207</u>	<u>590</u>	<u>25,509</u>
Accumulated depreciation					
At 1 January 2002	237	—	457	269	963
Charge for the year	158	—	201	88	447
Disposals	(41)	—	—	(46)	(87)
At 31 December 2002	354	—	658	311	1,323
Charge for the year	153	1,717	131	71	2,072
Disposals	—	—	(148)	(59)	(207)
At 31 December 2003	507	1,717	641	323	3,188
Charge for the year	153	1,938	187	78	2,356
Disposals	—	—	(387)	(26)	(413)
At 31 December 2004	<u>660</u>	<u>3,655</u>	<u>441</u>	<u>375</u>	<u>5,131</u>
Net book value					
At 31 December 2002	<u>3,049</u>	<u>—</u>	<u>532</u>	<u>315</u>	<u>3,896</u>
At 31 December 2003	<u>2,896</u>	<u>17,359</u>	<u>486</u>	<u>246</u>	<u>20,987</u>
At 31 December 2004	<u>2,743</u>	<u>16,654</u>	<u>766</u>	<u>215</u>	<u>20,378</u>

Jade Emperor Group's buildings are all located in the PRC and constructed on land of which the land use right of seventy years was granted to the developer.

14 CONSTRUCTION IN PROGRESS

	As at 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	—	18,116	—
Additions	18,116	960	—
Transfer to fixed assets (note 13)	—	(19,076)	—
At end of year	<u>18,116</u>	<u>—</u>	<u>—</u>

15 INVESTMENT IN SUBSIDIARY

	As at 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investment, at cost	<u>231,504</u>	<u>231,504</u>	<u>231,504</u>

Details of the subsidiary held by Jade Emperor are listed below:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operations	Particulars of registered capital	Interest directly held
Hubei Magerk Expressway Management Private Limited 湖北馬鄂高速公路經營有限公司	PRC, wholly-foreign owned enterprise	Operation and management of Wuhuang Expressway in the PRC	US\$28,000,000	100%

16 OTHER INVESTMENTS

	As at 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Listed outside Hong Kong			
At 1 January	—	3,000	2,000
Additions	3,000	—	—
Disposals	—	(1,000)	(2,000)
At 31 December	<u>3,000</u>	<u>2,000</u>	<u>—</u>
Market value at end of year	<u>3,000</u>	<u>2,000</u>	<u>—</u>

17 AMOUNT DUE FROM THE ULTIMATE HOLDING COMPANY AND A HOLDING COMPANY

The amounts are unsecured, interest-free and have no fixed terms of repayment.

18 PLEDGED DEPOSITS

The deposits are pledged by Magerk Expressway to a bank as security for borrowings extended to a third party company, Da Ye Transport Construction and Development Corporation (大冶交通建設開發總公司). Such arrangement was terminated and discharged by the bank on 29 October 2004.

19 BANK LOANS

	As at 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Long-term bank loans, secured	230,098	153,965	109,796
Less: current portion	<u>(76,000)</u>	<u>(76,000)</u>	<u>(20,795)</u>
Non-current portion	<u>154,098</u>	<u>77,965</u>	<u>89,001</u>
Short-term bank loans			
Secured	25,000	58,000	48,000
Unsecured	<u>—</u>	<u>—</u>	<u>30,000</u>
	<u>25,000</u>	<u>58,000</u>	<u>78,000</u>

The secured bank loans are secured by the toll road operating right mentioned in Note 12.

Bank loans of Jade Emperor Group are repayable as follows:

	As at 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	101,000	134,000	98,795
In the second year	76,000	76,000	89,001
In the third to fifth year, inclusive	<u>78,098</u>	<u>1,965</u>	<u>—</u>
	<u>255,098</u>	<u>211,965</u>	<u>187,796</u>

Due to the fact that Jade Emperor Group relies on short-term bank loans for financing, Jade Emperor Group reported net current liabilities of approximately RMB85 million as at 31 December 2004. The board of directors of Jade Emperor is confident that there are adequate banking facilities and operating cash flows generated from its operations to meet the obligations and working capital needs of Jade Emperor Group for the coming year.

20 SHARE CAPITAL

	As at 31 December		
	2002 <i>US\$'000</i>	2003 <i>US\$'000</i>	2004 <i>US\$'000</i>
Authorised capital 300,000,000 shares of US\$0.1 each	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Issued and fully paid 280,000,000 shares of US\$0.1 each	<u>231,504</u>	<u>231,504</u>	<u>231,504</u>

All shares issued are ranked pari passu to each other.

21 RESERVES AND RETAINED EARNINGS

Jade Emperor Group

	Reserves			Retained earnings <i>RMB'000</i>
	Goodwill reserve <i>(Note (a))</i> <i>RMB'000</i>	Reserve fund <i>(Note (b))</i> <i>RMB'000</i>	Total <i>RMB'000</i>	
At 1 January 2002	(26,437)	108	(26,329)	4,786
Profit for the year	—	—	—	62,796
Appropriations	—	8,154	8,154	(8,154)
Dividends	—	—	—	(17,583)
At 31 December 2002	<u>(26,437)</u>	<u>8,262</u>	<u>(18,175)</u>	41,845
Profit for the year	—	—	—	80,345
Appropriations	—	7,874	7,874	(7,874)
Dividends	—	—	—	(56,108)
At 31 December 2003	<u>(26,437)</u>	<u>16,136</u>	<u>(10,301)</u>	58,208
Profit for the year	—	—	—	99,454
Appropriations	—	9,862	9,862	(9,862)
Dividends <i>(Note (c))</i>	—	—	—	(122,968)
At 31 December 2004	<u>(26,437)</u>	<u>25,998</u>	<u>(439)</u>	<u>24,832</u>

- (a) Goodwill reserve represents goodwill arising from acquisition of Magerk Expressway in 1999 written off to reserves at that time.
- (b) In accordance with the relevant regulations of the PRC, Magerk Expressway is required to make appropriations to a statutory reserve fund based on at least 10% of its net profit as stated in its PRC statutory accounts. Upon approval from the board of directors of Magerk Expressway, the reserve fund can be used to offset against accumulated losses or to increase registered capital.

- (c) Dividends reported for the year ended 31 December 2004 represent 2003 final dividend of RMB70,461,000 and 2004 interim dividend of RMB52,507,000, respectively, which were proposed and paid in 2004.

Jade Emperor

	(Accumulated losses)/ retained earnings		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	(118)	—	—
Profit for the year	17,701	56,108	122,968
Dividends	<u>(17,583)</u>	<u>(56,108)</u>	<u>(122,968)</u>
At 31 December	<u>—</u>	<u>—</u>	<u>—</u>

22 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of operating profit to net cash inflow generated from operations

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating profit	88,056	108,650	128,223
Depreciation of fixed assets	447	2,072	2,356
Loss on disposal of fixed assets	26	73	51
Amortisation of intangible assets	23,200	23,200	23,200
Gains on sales of other investments	—	—	(50)
Interest income	(415)	(320)	(442)
Bank charges	<u>(2,374)</u>	<u>(331)</u>	<u>(443)</u>
Operating profit before working capital changes	108,940	133,344	152,895
Decrease/(increase) in other receivables	2,876	(61)	51
Increase in amounts due from the ultimate holding company and a holding company	—	(17)	(1)
(Decrease)/increase in other payables and accrued expenses	(86)	1,668	2,627
Decrease in amounts due to the ultimate holding company and a holding company	<u>(118)</u>	<u>—</u>	<u>—</u>
Net cash inflow generated from operations	<u>111,612</u>	<u>134,934</u>	<u>155,572</u>

(b) Analysis of changes in financing during the Relevant Years

	Bank loans <i>RMB'000</i>	Loans from the ultimate holding company <i>RMB'000</i>	Loans from a holding company <i>RMB'000</i>	Other loans <i>RMB'000</i>
At 1 January 2002	180,000	82,744	13,482	17,383
Draw-down	115,098	—	—	—
Repayment	<u>(40,000)</u>	<u>(82,744)</u>	<u>(13,482)</u>	<u>(17,383)</u>
At 31 December 2002	255,098	—	—	—
Draw-down	33,000	—	—	—
Repayment	<u>(76,133)</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2003	211,965	—	—	—
Draw-down	128,000	—	—	—
Repayment	<u>(152,169)</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2004	<u>187,796</u>	<u>—</u>	<u>—</u>	<u>—</u>

23 RELATED PARTY TRANSACTIONS

Jade Emperor Group had the following related party transactions during the Relevant Years:

	<i>Notes</i>	Year ended 31 December		
		2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Interest paid to the ultimate holding company				
- Hubei Investment Limited	(a)	1,673	—	—
Interest paid to a holding company				
- Wong Chik Lim Holdings (H.K.) Limited	(b)	<u>461</u>	<u>—</u>	<u>—</u>

(a) Interest was charged at 5% to 11% per annum on the outstanding loan balances.

(b) Interest was charged at 10% per annum on the outstanding loan balances.

24 COMMITMENTS

At 31 December 2002, 2003 and 2004, Jade Emperor Group and Jade Emperor had no material outstanding commitments.

25 THE ULTIMATE HOLDING COMPANY

The directors regard Hubei Investment Limited, a company incorporated in Hong Kong, as being the ultimate holding company of Jade Emperor.

26 SUBSEQUENT EVENTS

On 23 February 2005, the directors of Magerk Expressway declared and paid a final dividend of RMB24,179,000 in respect of the year ended 31 December 2004. On the same date, the directors of Jade Emperor declared and paid an interim dividend of US\$0.01 per share totally RMB24,179,000 in respect of the year ending 31 December 2005. These dividends are not reflected as dividend payable in this report, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

On 19 March 2005, Jade Emperor entered into the Acquisition Agreements as described above.

27 SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for Jade Emperor and Magerk Expressway in respect of any period subsequent to 31 December 2004.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the audited consolidated profit and loss accounts, consolidated balance sheets, consolidated cash flow statements and consolidated statements of changes in equity of the Group for the three years ended 31 December 2004 as extracted from the relevant annual reports of the Group.

(I) CONSOLIDATED PROFIT AND LOSS ACCOUNTS

For the year ended 31 December

	Notes	2004 RMB'000	2003 RMB'000	2002 RMB'000
				(As restated)*
Turnover	3	482,540	421,531	524,291
Other revenues	3	110,609	79,510	66,536
Gain on disposal of assets	4	—	691,416	—
Depreciation and amortisation		(89,651)	(82,188)	(100,674)
Staff costs	6	(40,337)	(36,646)	(45,950)
Road maintenance expenses		(8,912)	(7,369)	(16,561)
Other operating expenses		<u>(57,114)</u>	<u>(57,678)</u>	<u>(50,570)</u>
Operating profit	5	397,135	1,008,576	377,072
Finance costs	8	(12,922)	(13,140)	(24,927)
Share of profits less losses of				
- jointly controlled entities		120,032	59,094	61,873
- associated companies		<u>(706)</u>	<u>—</u>	<u>—</u>
Profit before taxation		503,539	1,054,530	414,018
Taxation	9	<u>(76,821)</u>	<u>(148,641)</u>	<u>(61,085)</u>
Profit after taxation		426,718	905,889	352,933
Minority interests		<u>(7,848)</u>	<u>(6,517)</u>	<u>(5,869)</u>
Profit attributable to shareholders	10	<u>418,870</u>	<u>899,372</u>	<u>347,064</u>
Dividends	11	<u>239,877</u>	<u>414,333</u>	<u>261,684</u>
Earnings per share - basic	12	<u>RMB0.192</u>	<u>RMB0.412</u>	<u>RMB0.159</u>

* The adoption of the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income tax" in 2003 by the Group represents a change in accounting policy, which has been applied retrospectively so that 2002 comparative figures presented have been restated to conform to the changed policy.

(II) CONSOLIDATED BALANCE SHEETS

As at 31 December

		2004	2003	2002
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(As restated)*</i>
Non-current assets				
Goodwill	13	5,179	5,614	—
Fixed assets	14	3,254,672	3,306,899	4,205,215
Construction in progress	15	283,604	39,849	269,146
Interests in jointly controlled entities	17	1,261,903	1,319,175	1,240,010
Interests in associated companies	18	870,698	—	—
Long-term receivables	19	—	372,946	—
		<u>5,676,056</u>	<u>5,044,483</u>	<u>5,714,371</u>
Current assets				
Inventories		6,935	6,131	5,892
Amounts due from jointly controlled entities	21	3,123	637	1,124
Current portion of long-term receivables	19	372,946	649,330	—
Other receivables, prepayments and deposits	20	27,199	13,574	16,179
Restricted cash	20	55,988	—	—
Bank balances and cash		<u>1,203,239</u>	<u>1,274,818</u>	<u>962,736</u>
		1,669,430	1,944,490	985,931
Current liabilities				
Other payables and accrued expenses	20	266,114	192,760	145,484
Taxation payable		13,560	121,291	4,563
Current portion of long-term liabilities	25	3,082	3,082	—
Short-term bank loans, secured		—	—	480,000
Short-term bank loans, unsecured	26	<u>360,000</u>	<u>40,000</u>	<u>130,000</u>
		<u>642,756</u>	<u>357,133</u>	<u>760,047</u>
Net current assets		<u>1,026,674</u>	<u>1,587,357</u>	<u>225,884</u>
Total assets less current liabilities		<u>6,702,730</u>	<u>6,631,840</u>	<u>5,940,255</u>

(II) CONSOLIDATED BALANCE SHEETS (CONTINUED)

As at 31 December

		2004	2003	2002
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(As restated)*</i>
Financed by:				
Share capital	22	2,180,700	2,180,700	2,180,700
Reserves	23	3,247,852	3,127,484	2,938,740
Proposed final dividend	23	239,877	414,333	261,684
Retained earnings	23	<u>418,177</u>	<u>359,552</u>	<u>64,157</u>
		6,086,606	6,082,069	5,445,281
Minority interests		50,066	49,967	50,282
Non-current liabilities				
Long-term liabilities	25	196,911	102,389	167,626
Deferred tax liabilities	24	50,383	42,943	36,754
Deferred income	27	<u>318,764</u>	<u>354,472</u>	<u>240,312</u>
		<u>6,702,730</u>	<u>6,631,840</u>	<u>5,940,255</u>

* The adoption of the revised SSAP 12 "Income tax" in 2003 by the Group represents a change in accounting policy, which has been applied retrospectively so that 2002 comparative figures presented have been restated to conform to the changed policy.

(III) CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December

	<i>Notes</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Operating activities				
Cash received from toll income		482,540	445,140	553,925
Cash received from road construction management services		17,351	—	—
Cash received from road construction projects		32,445	—	—
Cash paid to suppliers		(40,481)	(17,963)	(47,091)
Cash paid to employees		(40,645)	(39,744)	(42,159)
Other cash payments		(32,904)	(52,478)	(68,315)
Net cash inflow generated from operations	28(a)	418,306	334,955	396,360
Interest paid		(12,960)	(13,812)	(25,962)
PRC taxation paid		(54,029)	(36,320)	(36,150)
Government subsidies received		—	10,183	—
Net cash inflow from operating activities		<u>351,317</u>	<u>295,006</u>	<u>334,248</u>
Investing activities				
Purchase of fixed assets and payments for construction in progress		(296,143)	(177,264)	(304,010)
Proceeds from sales of major fixed assets		684,204	965,000	—
Tax paid for sales of major fixed assets		(105,204)	—	—
Proceeds from sales of other fixed assets		160	463	100
Interest received		11,938	28,179	25,938
Equity investment in a subsidiary, net of cash acquired	28(c)	(929)	(24,318)	—
Equity investments in associated companies		(868,270)	—	—
Purchase of a jointly controlled entity		—	—	(40,000)
Prepayment for acquisition of an associated company		—	(1,000)	—
Disposal of a subsidiary, net of cash disposed	28(d)	(1,468)	—	—
Sale of equity interests in a jointly controlled entity		—	—	618
Dividends received from jointly controlled entities		69,467	113,861	52,663
Dividends received from investments		—	—	7,862
Return of investment from jointly controlled entities		2,601	—	—
Decrease/(increase) in fixed bank deposits		70,000	132,000	(140,725)
Decrease in other investments		—	—	358,300
Loans to jointly controlled entities		—	(193,040)	(140,000)
Repayment of loans from jointly controlled entities		87,391	54,394	41,526
Net cash inflow/(outflow) from investing activities		<u>(346,253)</u>	<u>898,275</u>	<u>(137,728)</u>
Net cash inflow before financing		<u>5,064</u>	<u>1,193,281</u>	<u>19,520</u>

(III) CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)

For the year ended 31 December

	<i>Notes</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Financing activities	28(b)			
New bank loans borrowed		660,000	366,758	1,255,359
Repayment of bank loans borrowed		(243,082)	(925,000)	(1,390,000)
Other long-term advance received		—	80,000	30,000
Other loans borrowed		807	—	—
Capital contribution from a minority shareholder of a subsidiary		—	—	900
Repayment of advance from a minority shareholder of a subsidiary		(3,145)	(3,913)	(4,674)
Dividends paid		(414,333)	(261,684)	(218,070)
Dividends paid to minority shareholders		(6,890)	(5,360)	(10,112)
Net cash outflow from financing activities		<u>(6,643)</u>	<u>(749,199)</u>	<u>(336,597)</u>
Increase/(decrease) in cash and cash equivalents		(1,579)	444,082	(140,077)
Cash and cash equivalents at 1 January		<u>1,204,818</u>	<u>760,736</u>	<u>900,813</u>
Cash and cash equivalents at 31 December		<u><u>1,203,239</u></u>	<u><u>1,204,818</u></u>	<u><u>760,736</u></u>
Analysis of balances of cash and cash equivalents:				
Bank balances and cash		1,203,239	1,274,818	962,736
Fixed bank deposits		—	(70,000)	(202,000)
		<u><u>1,203,239</u></u>	<u><u>1,204,818</u></u>	<u><u>760,736</u></u>

(IV) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December

	2004	2003	2002
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(As restated)*</i>
Total equity as at 1 January	6,082,069	5,445,281	5,316,287
Profit for the year	418,870	899,372	347,064
Dividends	23 (414,333)	(261,684)	(218,070)
Others	<u>—</u>	<u>(900)</u>	<u>—</u>
Total equity as at 31 December	<u><u>6,086,606</u></u>	<u><u>6,082,069</u></u>	<u><u>5,445,281</u></u>

* The adoption of the revised SSAP 12 "Income tax" in 2003 by the Group represents a change in accounting policy, which has been applied retrospectively so that 2002 comparative figures presented have been restated to conform to the changed policy.

(V) NOTES TO THE FINANCIAL INFORMATION

The following is the notes to the accounts of the Group for the year ended 31 December 2004 as extracted from the Group's 2004 annual report.

1 General

Shenzhen Expressway Company Limited (the "Company") was established as a joint stock limited company in the People's Republic of China (the "PRC") on 30 December 1996. The principal activities of the Company and its subsidiaries (collectively the "Group"), its jointly controlled entities and associated companies are the development, operation and management of toll highways and expressways in the PRC.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards ("HK GAAP") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This basis of accounting differs in certain respects from that used in the preparation of the Group's statutory accounts in the PRC. The PRC statutory accounts of the Group have been prepared in accordance with accounting principles and financial regulations applicable to the Group in the PRC. Appropriate restatements have been made to the PRC statutory accounts to conform with HK GAAP. Differences arising from the restatements are not incorporated in the Group's accounting records.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The accounts have been prepared under the historical cost convention.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital or paid-in capital.

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sales and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

(c) **Jointly controlled entities**

A jointly controlled entity is a contractual arrangement whereby the Group and other parties establish a company to undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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

(d) **Associated companies**

An associated company is a company, not being a subsidiary or a jointly controlled entity, in which an equity interest between 20% to 50% is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

If the Group's share of losses of an associated company equals or exceeds the carrying amount of an investment, the investment is reported at nil value, the Group discontinued accounting for investments in associate under equity method. Additional losses are provided for to the extent that the Group has incurred obligations or the Group has guaranteed on the associated company's obligations.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

(e) **Goodwill**

Goodwill, which represents the excess of the cost of an acquisition over the fair values of the Group's share of the net assets of the acquired subsidiaries, jointly controlled entities or associated companies at the date of acquisition, is recognised as an asset and is amortised using the straight-line method over its estimated useful life or 20 years, whichever is shorter. Any unamortised goodwill is charged to the profit and loss account upon disposal of the subsidiaries, jointly controlled entities or associated companies.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

(f) **Fixed assets**

Fixed assets are stated at cost less accumulated depreciation/amortisation and accumulated impairment losses.

Depreciation of toll roads and amortisation of land use rights in relation to toll roads are calculated to write off their costs on an units-of-usage basis whereby depreciation and amortisation are provided based on the proportion of actual traffic volume for a particular period over the total projected traffic volume throughout the periods within which the Group is granted the rights to operate those roads. It is the Group policy to review regularly the total projected traffic volume throughout the operating periods of the respective toll roads. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustments will be made should there be a material change.

Depreciation of buildings and structures is calculated to write off their costs on a straight-line basis over the unexpired periods of the leases or the unexpired periods of the rights to operate the relevant roads or their expected useful lives, whichever are shorter. The principal annual depreciation rates are 3% to 7%.

Other tangible fixed assets are depreciated at rates sufficient to write off their costs over their estimated useful lives on a straight-line basis, taking into account their estimated residual values. The principal annual depreciation rates are as follows:

Equipment	
— traffic related	10%
— electronic and others	20%
Motor vehicles	17%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements and major costs incurred in restoring fixed assets to their normal working condition to allow continued use of the overall assets are capitalised and depreciated in accordance with the aforementioned depreciation policy of the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) **Construction in progress**

Construction in progress is stated at cost which includes development expenditure and other direct costs, including interest costs on the related borrowed funds during the construction period, attributable to the development of toll roads, buildings and structures for the Group's own use. Costs are transferred to fixed assets upon completion.

(h) **Inventories**

Inventories mainly represent materials and spare parts for the repairs and maintenance of expressways, and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, represents the actual cost of purchase. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) **Contingent liabilities and contingent assets**

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

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

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

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

(j) **Provision**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) **Other receivables**

Provision is made against other receivables to the extent they are considered to be doubtful. Other receivables in the balance sheet are stated net of such provision.

(m) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(n) **Translation of foreign currencies**

Transactions in foreign currencies are translated into Renminbi at exchange rates quoted by the People's Bank of China at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at rates of exchange quoted by the People's Bank of China at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(o) **Revenue recognition**

Toll revenue from operation of toll roads, net of business tax and surcharge, is recognised on a receipt basis.

Construction management services income represents the cost savings (the "Savings") achieved in toll road construction management projects engaged by the Group by comparing the total actual construction costs with the budgeted total construction costs of the projects; or a proportion of such Savings.

When the outcome of the construction management services can be estimated reliably, related income is recognised using the percentage of completion method and the stage of completion is measured by making reference to the project construction costs and related management expenses incurred to date as a percentage to the total budgeted construction costs and management expenses. When the outcome of the construction management services cannot be estimated reliably, construction management services income is recognised at the same amount of project management expenses incurred only to the extent that such expenses are probable to be recovered.

Interest income on bank deposits and other loans is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Investment income and dividend income are recognised when the right to receive the payment is established.

Government grants in relation to subsidise toll revenues are recognised as income over the intended beneficial periods in accordance with the policy as stated in note 2(p).

(p) **Deferred income — government grants**

A government grant is initially recognised as deferred income, when there is reasonable assurance that the grant will be received.

Government grants provided to the Group to subsidise toll revenues of a specific toll road are deferred and amortised over the period during which the Group is granted the rights to operate such toll road. The subsidies recognised in the profit and loss account of a year is the attributable portion of the total government grants, which is computed based on the actual traffic volume of a year over the total projected traffic volume throughout the period during which the Group is granted the rights to operate such toll road.

It is a Group policy to review regularly the projected total traffic volume throughout the operating periods of the respective toll roads. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustment is made should there be a material change.

(q) **Employee benefits**

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) *Bonus plans*

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Under a Share Appreciation Right Scheme (the “Scheme”) operated by the Group, rights (“Rights”) are granted to key management staff to obtain benefits from the appreciation of the share price of the Company. The Rights can be exercised from the date of grant and before the respective expiry dates. A bonus award in the form of cash payment will be made to the extent of the surplus of the prevailing share price at exercise date over the pre-determined exercise price of the Rights at the date of grant. The amounts paid and payable under the Scheme are expensed in the profit and loss account as staff costs at the year the Rights are exercised.

(iii) *Pension obligations*

The Group contributes to a defined contributions retirement scheme which is applicable for all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees’ basic salaries. The retirement benefit scheme expenses charged to the profit and loss account represent contributions paid/payable by the Group to the scheme.

The assets of the scheme are held separately from those of the Group by government authorities. Details of the Group’s retirement benefits are set out in note 6(b).

(r) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

3 Turnover and revenue

Revenues recognised during the year are as follows:

	<i>Notes</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover			
Income from toll roads		509,008	444,653
Less: taxes related to toll income	(a)	<u>(26,468)</u>	<u>(23,122)</u>
		<u>482,540</u>	<u>421,531</u>
Other revenues			
Interest income from bank deposits		11,938	9,616
Interest income from long-term loan		—	18,563
Interest income from discounting of long-term receivables	4	35,779	—
Income from construction management services	(b)	17,351	—
Government subsidy income	27	35,708	35,840
Subsidies from local governments	(c)	—	10,183
Others		<u>9,833</u>	<u>5,308</u>
		<u>110,609</u>	<u>79,510</u>
Total revenues		<u>593,149</u>	<u>501,041</u>

(a) Taxes related to toll income comprise:

- PRC Business Tax at 5% of toll income
- City Development Tax at 1% of PRC Business Tax
- Education Supplementary Tax at 3% of PRC Business Tax

(b) This represents income from provision of construction management services engaged by various government, details are as below:

- (i) The Company was engaged by the Shenzhen Municipal Government (the “SZMG”) to manage the construction of a project in the eastern Shenzhen area by linking up the Yantian container terminals with the Yanba Expressway. The project was principally completed in 2001. During the year, the cost of the project was finalised and the Company received the final contract payment of RMB11,018,000 from SZMG. The amount was recognised as revenue for the year.

- (ii) During the reporting period, the Company entered into a project construction management agreement with the SZMG (represented by the Shenzhen Communications Bureau). The Company was appointed as the project manager for the construction project of Nanping Freeway (Phase I) (“Nanping Project”) and it also undertakes to enter into construction contracts on behalf of the SZMG with the contractors who are directly responsible for the construction of the project. As at 31 December 2004, as the outcome of the construction management services could not be estimated reliably, the Company recognised revenue of RMB6,333,000 to the extent of the probable recoverable project management expenses incurred by it.
- (iii) During the reporting period, the Company entered into another project construction management agreement with the Shenzhen Longgang Government (represented by Shenzhen Longgang Highway Bureau). The Company was appointed as the project manager for the construction of the Western Section of Hengping Class 1 Highway (“Hengping Project”) and it undertakes to enter into construction contracts on behalf of the government with the contractors who are directly responsible for the construction of the project. As at 31 December 2004, the project was still at its preliminary stage of planning and construction, no revenues had been recognised during the reporting period.
- (c) This represents government subsidies granted by the SZMG in prior year in relation to the cancellation of certain preferential policies on the PRC enterprise income tax of the Group. No such subsidies were granted in current year.
- (d) No segment information is presented as all turnover of the Group is toll income earned in the PRC.

4 Gain on disposal of assets

Pursuant to a transfer agreement (the “Transfer Agreement”) signed between the Company and the Shenzhen Communications Bureau on 18 March 2003, the Company transferred all its rights and interests in National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section) to the Shenzhen Communications Bureau at a consideration of RMB1,930,000,000 (the “Consideration”), resulting in a gain of RMB691,416,000.

The Consideration and a related assets disposal extra compensation (the “Compensation”) were recognised as a long-term receivable balance in the accounts. As certain portions of the Consideration and the Compensation will be settled by installments, the Company calculated the net present value of such long-term receivables using a discount rate of 3.5%, being the prevailing interest rate for bonds with same maturity period issued by domestic companies in the PRC with similar credit ratings. Interest income from the discounting is recognised as other revenues over the installment settlement period.

5 **Operating profit**

Operating profit is stated after crediting and charging the following:

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Crediting		
Net exchange gain	—	286
Charging		
International auditors' remuneration		
Annual audit	1,230	1,145
Other audit services	1,006	—
Statutory auditors' remuneration		
Annual audit	500	710
Other audit services	150	270
Net exchange loss	354	—
Loss on disposal of fixed assets	5,697	69
Provision for doubtful debts arising from loans made to a jointly controlled entity	—	28,311
Impairment of goodwill	945	—
Amortisation of goodwill	435	153

6 **Staff costs**

Staff costs, including directors' and supervisors' remuneration, are as follow:

		2004	2003
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Wages, salaries and bonus		31,447	25,267
Bonus — the Share Appreciation Right Scheme (the "Scheme")	(a)	—	4,284
Pension costs — defined contribution plans	(b)	1,811	1,344
Other staff welfare benefits		7,079	5,751
		<u>40,337</u>	<u>36,646</u>

- (a) It mainly represents bonus payments in relation to the Scheme. Movements in the number of Rights granted under the Scheme during the year are as follows:

	2004	2003
Number of Rights not exercised as at 1 January	5,501,400	10,477,238
Number of Rights exercised during the year	<u>—</u>	<u>(4,975,838)</u>
Number of Rights not yet exercised as at 31 December	<u>5,501,400</u>	<u>5,501,400</u>
Number of Rights not exercised represents:		
Exercisable during the period from 16 March 2004 to 15 March 2005 (Phase III)	2,750,700	2,750,700
Exercisable during the period from 16 March 2005 to 15 March 2006 (Phase IV)	<u>2,750,700</u>	<u>2,750,700</u>
	<u>5,501,400</u>	<u>5,501,400</u>

- (i) Pursuant to a shareholders' meeting held on 30 October 2003, a resolution was passed to revise the Scheme that the Rights so granted are no longer borne by individual grantees but collectively by a group of senior management and management staff of the Company. The exercisable period and the exercise price of the Rights were also revised. Proceeds to be received from exercising the Rights will be maintained as a special bonus fund. The Company shall appropriate such fund to senior management and management staff according to relevant policies enacted.
- (ii) Pursuant to the Scheme, the Rights are not exercisable when the current year's profit decreases by more than 20% from the prior year. Accordingly, no Rights had been exercised during the year.
- (iii) The exercise price of the Rights under Phase III and Phase IV of the Scheme is the weighted average of the closing trading prices of the shares of the Company traded on the stock exchanges during the period of the previous phase. The bonus amount attached with each Right is the difference between the exercise price and RMB3.456.
- (b) The Group participates in the Shenzhen Municipal Retirement Scheme managed by the Shenzhen Social Security Administration Bureau. Pursuant to the relevant provisions, the Group is required to make a monthly contribution equivalent to 8% to 9% (2003: 8% to 9%) of the monthly salary of the employees. The Bureau is responsible for making the pension payments to the retired employees of the Group and the Group has no further obligations.

7 Directors', supervisors' and senior management's emoluments

(a) Directors' and supervisors' remuneration

The aggregate amounts of emoluments payable to directors during the year are as follows:

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
As directors and supervisors		
— executive		
— allowances	32	48
— non-executive		
— remuneration	936	872
— allowances	114	82
— bonus — the Scheme	—	690
For management		
— basic salaries and allowances	1,251	648
— bonuses	248	319
— contributions to the retirement scheme	40	22
— bonus — the Scheme	—	927
— other benefits	21	7
	<u>2,642</u>	<u>3,615</u>

The emoluments for all directors and supervisors of the Company (executive and non-executive) fell within the band of nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31 December 2004 and 2003.

No directors and supervisors waived any emoluments during the years ended 31 December 2004 and 2003.

During the years ended 31 December 2004 and 2003, no emoluments had been paid by the Group to the directors and supervisors as an inducement to join or upon joining the Group or as a compensation for loss of office.

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year include one (2003: three) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2003: two) individuals during the year are as follows:

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries and allowances	1,831	592
Bonuses	440	285
Contributions to the retirement scheme	56	24
Bonus — the Scheme	—	286
Other benefits	28	8
	<u>2,355</u>	<u>1,195</u>

The emoluments for all the above senior management fell within the band of nil to RMB1,060,000 (HK\$1,000,000) during the years ended 31 December 2004 and 2003.

8 **Finance costs**

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans	11,411	12,250
Interest on other loans		
— repayable within 5 years	1,072	846
— repayable over 5 years	477	716
Less: interest capitalised in construction in progress	<u>(38)</u>	<u>(672)</u>
	<u>12,922</u>	<u>13,140</u>

The capitalisation rate applied to funds borrowed and used for the development of construction in progress is 5.02% (2003: ranged between 1.80% and 7.17%) per annum.

9 Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	<i>Note</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Current taxation			
— PRC enterprise income tax		51,502	47,904
— PRC enterprise income tax on disposal of assets		—	105,144
Deferred taxation	24	<u>7,440</u>	<u>6,189</u>
		58,942	159,237
Share of taxation of jointly controlled entities		<u>17,879</u>	<u>(10,596)</u>
		<u><u>76,821</u></u>	<u><u>148,641</u></u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate enacted in the location of the Company as follows:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit before tax	<u>503,539</u>	<u>1,054,530</u>
Calculated at a taxation rate of 15% (2003: 15%)	75,531	158,180
Effect of different taxation rates in other locations	60	(12,487)
Income not subject to taxation	(10,723)	(23,100)
Expenses not deductible for taxation purposes	1,207	20,433
Unrecognised tax losses	13,855	6,457
Share of preferential tax benefits of jointly controlled entities	(2,848)	(842)
Share of preferential tax benefits of associated companies	<u>(261)</u>	<u>—</u>
Taxation charge	<u><u>76,821</u></u>	<u><u>148,641</u></u>

- (a) In 2004, the Company is subject to PRC enterprise income tax rate of 15% (2003: 15%), the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone, as compared with the standard rate of 33% (2003: 33%).
- (b) Pursuant to the approvals of the relevant authorities, two jointly controlled entities of the Company, Shenzhen Qinglong Expressway Company Limited ("Qinglong Company") and Hubei Yungang Transportation Development Company Limited ("Yungang Company"), are exempt from PRC enterprise income taxes for the first two profit-making years and are entitled to a 50% reduction of their PRC enterprise income taxes for the three consecutive years thereafter. It is the second profit making year for Qinglong Company and the third profit making year for Yungang Company, as a result, Qinglong Company is exempt from PRC enterprise income taxes and Yungang Company is entitled to a 50% reduction of its PRC enterprise income taxes in 2004.

The PRC enterprise income taxes charged to the consolidated profit and loss account have been calculated based on the assessable profits of the Company, its subsidiaries, associated companies and other jointly controlled entities of the year at rates of taxation applicable to the respective companies.

- (c) The applicable tax rate to Mei Wah Industrial (Hong Kong) Limited (“Mei Wah Company”), a subsidiary of the Company incorporated in Hong Kong is 17.5%. No provision for Hong Kong profits tax has been made in the accounts as Mei Wah has no income assessable under Hong Kong profits tax.

10 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB358,999,000 (2003: RMB871,532,000).

11 Dividends

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Final, proposed, of RMB0.11 (2003: RMB0.19) per share	<u>239,877</u>	<u>414,333</u>

At a meeting held on 18 February 2005, the directors declared a final dividend of RMB0.11 per share. This proposed dividend had not been reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

12 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of RMB418,870,000 (2003: RMB899,372,000) and 2,180,700,000 (2003: 2,180,700,000 shares) ordinary shares in issue during the year.

No fully diluted earnings per share is presented as the Company has no dilutive potential shares.

13 Goodwill — the Group

	<i>Note</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Beginning net book value		5,614	—
Acquisition of a subsidiary	(a)	945	5,689
Provision for impairment	(a)	(945)	—
Amortisation		<u>(435)</u>	<u>(75)</u>
Closing net book value		<u>5,179</u>	<u>5,614</u>
As at 31 December 2004			
Cost		6,634	5,689
Accumulated amortisation		(510)	(75)
Provision for impairment	(a)	<u>(945)</u>	<u>—</u>
Net book value		<u>5,179</u>	<u>5,614</u>

- (a) The addition to goodwill of RMB945,000 was in relation to the acquisition of additional 55% equity interests in Shenzhen Wutongling Ropeway Company Limited (“Ropeway Company”) (see Note 16 (b)(ii)). Provision for impairment has been made for such goodwill balance recognised in current year.

14 Fixed assets

The Group

	Toll roads	Land use rights of toll roads	Buildings and structures	Equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2004	2,834,513	332,190	180,666	192,511	9,131	3,549,011
Additions	—	—	—	368	2,490	2,858
Transfer from construction in progress (note 15)	—	—	7,512	32,458	—	39,970
Disposal of subsidiaries	—	—	—	(183)	(133)	(316)
Other disposals	—	—	(247)	(23,170)	(4,584)	(28,001)
At 31 December 2004	<u>2,834,513</u>	<u>332,190</u>	<u>187,931</u>	<u>201,984</u>	<u>6,904</u>	<u>3,563,522</u>
Accumulated depreciation						
At 1 January 2004	122,218	25,133	21,640	67,105	6,016	242,112
Charge for the year	52,305	9,282	7,060	19,230	1,774	89,651
Disposal of subsidiaries	—	—	—	(52)	(2)	(54)
Other disposals	—	—	(147)	(18,567)	(4,145)	(22,859)
At 31 December 2004	<u>174,523</u>	<u>34,415</u>	<u>28,553</u>	<u>67,716</u>	<u>3,643</u>	<u>308,850</u>
Net book value						
At 31 December 2004	<u>2,659,990</u>	<u>297,775</u>	<u>159,378</u>	<u>134,268</u>	<u>3,261</u>	<u>3,254,672</u>
At 31 December 2003	<u>2,712,295</u>	<u>307,057</u>	<u>159,026</u>	<u>125,406</u>	<u>3,115</u>	<u>3,306,899</u>

The Company

	Toll roads	Land use rights of toll roads	Buildings, structures and leasehold improvements	Equipment	Motor Vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2004	2,036,465	92,607	144,260	143,786	6,499	2,423,617
Additions	—	—	—	—	2,490	2,490
Transfer from construction in progress (note 15)	—	—	—	17,692	—	17,692
Disposals	—	—	—	(7,492)	(3,716)	(11,208)
At 31 December 2004	<u>2,036,465</u>	<u>92,607</u>	<u>144,260</u>	<u>153,986</u>	<u>5,273</u>	<u>2,432,591</u>
Accumulated depreciation						
At 1 January 2004	52,053	4,691	11,964	35,806	4,039	108,553
Charge for the year	26,868	2,015	4,648	14,139	1,290	48,960
Disposals	—	—	—	(4,143)	(3,406)	(7,549)
At 31 December 2004	<u>78,921</u>	<u>6,706</u>	<u>16,612</u>	<u>45,802</u>	<u>1,923</u>	<u>149,964</u>
Net book value						
At 31 December 2004	<u>1,957,544</u>	<u>85,901</u>	<u>127,648</u>	<u>108,184</u>	<u>3,350</u>	<u>2,282,627</u>
At 31 December 2003	<u>1,984,412</u>	<u>87,916</u>	<u>132,296</u>	<u>107,980</u>	<u>2,460</u>	<u>2,315,064</u>

The toll roads and related land use rights and buildings of the Group are all located in the PRC.

15 Construction in progress

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	39,849	269,146	39,540	268,692
Additions	281,181	236,758	258,394	230,987
Additions from acquisition of a subsidiary	2,544	—	—	—
Transfer to fixed assets (Note 14)	(39,970)	(466,055)	(17,692)	(460,139)
At 31 December	<u>283,604</u>	<u>39,849</u>	<u>280,242</u>	<u>39,540</u>

Construction in progress mainly represents construction costs incurred for toll roads not completed at 31 December 2004.

16 Investments in subsidiaries — the Company

	<i>Note</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Unlisted investments, at cost		759,945	750,040
Provision for impairment	(b)(ii)	<u>(12,005)</u>	<u>—</u>
		747,940	750,040
Loans to a subsidiary	(b)(iii)	46,084	—
Provision for impairment	(b)(iii)	<u>(46,084)</u>	<u>—</u>
		—	—
Advance to a subsidiary	(c)	<u>61,034</u>	<u>123,293</u>
		<u>808,974</u>	<u>873,333</u>

(a) As at 31 December 2004, details of all the subsidiaries held by the Company are listed below:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held	
			Direct	Indirect
Shenzhen Meiguan Expressway Company Limited ("Meiguan Company")	the PRC, limited liability company	Construction, operations and management of expressway	95%	—
Shenzhen Expressway Advertising Company Limited ("Advertising Company")	the PRC, limited liability company	Advertising agency	95%	4.75%
Mei Wah Industrial (Hong Kong) Limited ("Mei Wah Company")	Hong Kong, limited liability company	Investment holding	100%	—
Shenzhen Wutongling Ropeway Company Limited ("Ropeway Company") <i>(Note (b)(i))</i>	PRC, limited liability company	Construction and management of a ropeway	95%	—

- (b) (i) The Company previously held 40% equity interest in Ropeway Company, a jointly controlled entity.

The Company has fully assumed its joint liability for a guarantee provided to a bank for a loan of RMB18,000,000 drawn down by Ropeway Company from that bank. The joint venture partner, Shenzhen Zhongmin Investment Servicing Company Limited (“Zhongmin”), holding 55% equity interest in Ropeway Company, is responsible to bear its joint liability for such guarantee in proportion to its equity interests held and the Company has the right to claim Zhongmin. In November 2003, the Company applied to the People’s Court (the “Court”) for selling the 55% equity interests of Ropeway Company held by Zhongmin through an auction in order to force Zhongmin to honor its obligations. The Court made an judgement that the application of the Company was accepted. On 2 August 2004, the Company acquired the 55% equity interest of Ropeway Company for RMB900,000 in an auction and paid an auction handling commission of RMB45,000. The total costs incurred for the acquisition of 55% of Ropeway equity interests were RMB945,000. Accordingly, the Company began to hold 95% of the equity interests of Ropeway Company and it became no longer a jointly controlled entity but a subsidiary of the Company.

- (ii) As Ropeway Company failed to commence its business operations as scheduled, the Company had made provision for impairment loss on the related goodwill of RMB11,060,000 arising from the acquisition of Ropeway Company in 2001. As at 31 December 2004, the construction of the underlying project of Ropeway Company remained under suspension and therefore, the Company made a further impairment provision for the additional equity interest acquired during the year amounting to RMB945,000. Accordingly, the Company had made provision for impairment in full for its investment in Ropeway Company amounting to RMB12,005,000 as at the end of 2004.

- (iii) As at 31 December 2003, the Company had granted loans of RMB46,464,000 to Ropeway Company which are secured by certain operating facilities and equipment of Ropeway Company. These loans bear interests at prevailing loan borrowing rates charged by banks in the PRC and have no fixed repayment dates. They were subject to full impairment loss provision made by the Company. As Ropeway Company became a subsidiary of the Company during the year, the loans and the related impairment provision were transferred from the interests in jointly controlled entities account to the investments in subsidiaries account. In 2004, the Court determined that RMB855,000 out of the auction proceeds had to be paid to the Company and the Company thereby wrote back the related impairment provision to the extent of the amount received. However, the Company had to make additional impairment loss provision against the amount advanced by it to Ropeway Company during the year amounting to RMB475,000. As at 31 December 2004, the Company had made impairment provision in full for loans advanced to Ropeway totalling RMB46,084,000.

- (c) Amount represents advance made to Meiguan Company, which is unsecured, interest-free and will be repayable out of the funds to be generated from the operations of the toll roads of Meiguan Company. In the opinion of the directors, there is no recoverability problem associated with such advance.

- (d) As at 31 December 2003, the Company held 70% equity interest in Shenzhen Expressway Engineering Consulting Company Limited (“Consulting Company”). During the year, the Consulting Company increased its registered capital while the Company did not subscribe for it in proportion to its original interests held. As a result, the Company’s equity interests in Consulting Company decreased from 70% to 30% and it no longer has controlling power over the company. Accordingly, Consulting Company began to be reported as an associated company of the Company.

17 Interests in jointly controlled entities

	Note	The Group		The Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost		—	—	384,000	395,060
Provision for impairment of investment costs	(g)	—	—	(51,590)	(62,650)
		—	—	332,410	332,410
Share of net assets other than goodwill		385,194	354,998	—	—
Goodwill on acquisition of jointly controlled entities less accumulated amortization	(b)	1,636	10,773	—	—
Provision for impairment of goodwill	(c)	—	(9,060)	—	—
		386,830	356,711	332,410	332,410
Advance to jointly controlled entities	(d)	875,073	962,464	875,073	962,464
Loans to a jointly controlled entity	(e)	—	46,464	—	46,464
Provision for doubtful loans	(e)	—	(46,464)	—	(46,464)
		875,073	962,464	875,073	962,464
Total		<u>1,261,903</u>	<u>1,319,175</u>	<u>1,207,483</u>	<u>1,294,874</u>

(a) Details of all jointly controlled entities as at 31 December 2004 are as follows:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited (“Airport-Heao”)	the PRC, Sino-foreign cooperative enterprise	Construction, operations and management of expressways	*55%
Shenzhen Qinglong Expressway Company Limited (“Qinglong Company”)	the PRC, Sino-foreign cooperative enterprise	Construction, operations and management of expressways	*40%
Hunan Changsha Shenchang Expressway Company Limited (“Shenchang Company”)	the PRC, limited liability company	Construction, operations and management of a ring road	*51%
Hubei Yungang Transportation Development Company Limited (“Yungang Company”)	the PRC, Sino-foreign cooperative enterprise	Construction, operations and management of a bridge	#42%

* Interests held directly by the Company

Up to 1 March 2006, the Company is entitled to 90% share of the profit of Yungang Company.

- (b) The amount relates to goodwill arising on acquisition of Qinglong Company in December 2002 amounting to RMB1,791,000. The amortisation charge during the year was RMB77,000 and the accumulated amortisation as at 31 December 2004 was RMB155,000.
- (c) This represents goodwill arising on acquisition of Ropeway Company, which became a subsidiary of the Company during the year (Note 16(b)(i)).
- (d) Amounts represent advance made to Airport-Heao of RMB380,764,000 (2003: RMB401,453,000), Qinglong of RMB205,599,000 (2003: RMB264,401,000) and Shenchang of RMB288,710,000 (2003: RMB296,610,000), respectively. The advance is unsecured, non-interest bearing and is repayable out of the funds generated from the operations of the respective toll road projects. In the opinion of the directors, there is no recoverability problem associated with the advance.
- (e) This represents loans made to Ropeway Company, against which full provision has been made. During the year, Ropeway Company became a subsidiary of the Company and these loans were reclassified to investments in subsidiaries accordingly (Note 16(b)(iii)).

(f) Information of major jointly controlled entities

The financial information of major jointly controlled entities for the year ended 31 December 2004 prepared under HK GAAP is as follows:

	Airport-Heao		Qinglong Company		Shenchang Company	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit and loss accounts						
Turnover	<u>219,320</u>	<u>173,107</u>	<u>132,853</u>	<u>103,998</u>	<u>19,061</u>	<u>16,138</u>
Operating profit/(loss) before taxation	172,558	139,810	56,302	30,870	653	(153,671)
Taxation	<u>(25,884)</u>	<u>(20,462)</u>	<u>(1,767)</u>	<u>(2,609)</u>	<u>(5,412)</u>	<u>44,888</u>
Profit/(loss) after taxation	<u>146,674</u>	<u>119,348</u>	<u>54,535</u>	<u>28,261</u>	<u>(4,759)</u>	<u>(108,783)</u>
Net assets						
Fixed assets	1,186,651	1,207,197	911,760	942,796	604,894	617,079
Construction in progress	4,894	—	723	—	—	—
Deferred tax assets	—	—	—	—	49,097	49,824
Current assets	50,812	53,801	49,921	46,969	5,574	8,025
Current liabilities	(23,536)	(10,378)	(562,739)	(9,775)	(4,758)	(4,387)
Amounts due to owners	(699,912)	(760,326)	(213,453)	(292,072)	(566,098)	(581,758)
Long-term loans	—	—	—	(558,008)	—	—
Deferred tax liabilities	<u>(30,819)</u>	<u>(28,105)</u>	<u>(7,893)</u>	<u>(6,126)</u>	<u>(30,523)</u>	<u>(25,838)</u>
Net assets	<u>488,090</u>	<u>462,189</u>	<u>178,319</u>	<u>123,784</u>	<u>58,186</u>	<u>62,945</u>
Capital commitments	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Contingent liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(g) Provision for impairment of investment costs

	Note	The Company	
		2004	2003
		RMB'000	RMB'000
As at 1 January		62,650	9,060
Additional impairment provision for Ropeway Company		—	2,000
Provision for impairment of Shenchang Company		—	51,590
Provision for Ropeway Company transferred out	16(b)	<u>(11,060)</u>	<u>—</u>
As at 31 December		<u>51,590</u>	<u>62,650</u>

18 Interests in associated companies

	<i>Note</i>	The Group		The Company	
		2004	2003	2004	2003
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investments, at cost		—	—	871,404	—
Share of net assets other than goodwill		795,398	—	—	—
Goodwill on acquisition of associates less accumulated amortisation	(b)	<u>75,300</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total		<u>870,698</u>	<u>—</u>	<u>871,404</u>	<u>—</u>

- (a) All associated companies are limited liability companies incorporated in the PRC, details of these associated companies as at 31 December 2004 are as below:

Name	Principal activities	Directly held interests
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Company")	Development, operations and management of expressways and related facilities	25%
Guangzhou Western Second Ring Expressway Company Limited ("GZ W2 Company")	Development, operations and management of expressways	25%
Shenzhen Huayu Expressway Investment Company Limited ("Huayu Company")	Development, investment, operations and management of expressways	40%
Shenzhen Expressway Engineering Consulting Company Limited ("Consulting Company") <i>(Note 16(d))</i>	Project management consulting, construction consulting and selling of construction materials	30%
Nanjing Yangtz River Third Bridge Company Limited ("Nanjing Company")	Development, operations and management of bridges	25%
Guangdong Yangmao Expressway Company Limited ("Yangmao Company")	Development, operations and management of expressways	25%

All associated companies were established or acquired during the year. Except for Consulting Company and Yangmao Company, all associated companies had not yet commenced commercial operations as 31 December 2004.

- (b) During the year, goodwill arising from acquisitions of associated companies, Jiangzhong Company and Yangmao Company, amounted to RMB30,680,000 and RMB46,165,000, respectively. The amortisation charge for the year and the accumulated amortisation as at 31 December 2004 of the above goodwill balances were RMB1,545,000.

(c) Information of major associated companies

The financial information of major associated companies for the year ended 31 December 2004 prepared under HK GAAP is as follows:

	Yangmao Company		Jiangzhong Company		Nanjing Company		GZ W2 Company (Note (a))	Huayu Company	
	2004	2003	2004	2003	2004	2003	2004	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit and loss accounts									
Turnover	13,418	—	—	—	—	—	—	—	—
Operating profit/(loss) before taxation	(2,325)	—	—	—	—	—	—	—	—
Taxation	—	—	—	—	—	—	—	—	—
Profit/(loss) after taxation	(2,325)	—	—	—	—	—	—	—	—
Net assets									
Fixed assets	2,208,342	2,937	1,663	1,968	4,433	4,142	—	306	398
Construction in progress	—	1,004,713	2,098,933	1,548,621	2,209,610	852,347	274,295	481,981	362,163
Current assets	253,613	40,782	32,187	104,915	76,147	24,511	41,628	2,138	47,866
Current liabilities	(510,260)	(78,432)	(135,143)	(62,224)	(170,000)	(320,000)	(65,923)	(425)	(20,427)
Long-term payables	(1,132,000)	(733,000)	(1,299,990)	(1,038,000)	(1,040,190)	(520,000)	—	(334,000)	(340,000)
Net assets	819,695	237,000	697,650	555,280	1,080,000	41,000	250,000	150,000	50,000
Capital commitments									
Contracted but not provided for	—	1,027,000	592,000	859,000	253,000	232,000	1,060,000	8,000	128,000
Authorised but not contracted for	—	178,000	370,000	653,000	838,877	2,216,970	1,678,000	—	—
	—	1,205,000	962,000	1,512,000	1,091,877	2,448,970	2,738,000	8,000	128,000
Contingent liabilities	—	—	—	—	—	—	—	—	—

Note

(a) GZ W2 Company was established in 2004 and accordingly no comparative figures were presented.

19 Long-term receivables — the Group and the Company

This represents the discounted balance of the Consideration and Compensation receivable pursuant to the Transfer Agreement as described in Note 4. The remaining balance of RMB372,946,000 will be received by the end of 2005 and was included in the balance sheet as a current asset as at 31 December 2004.

20 Construction management service — the Group and the Company

As detailed in Note 3(b), the Company entered into two highway construction project management contracts with two government departments during the year that it undertakes to enter into the underlying construction contracts on behalf of these government departments with contractors directly responsible for the construction of these projects. Financial information on these projects is summarised as follows:

	Nanping Project 2004 RMB'000	Hengping Project 2004 RMB'000	Total 2004 RMB'000
Management expenses incurred during the year plus attributable profit less losses	6,333	—	6,333
Less: progress payments received/recievable	<u>(6,333)</u>	<u>—</u>	<u>(6,333)</u>
Project management fees receivable/(payable)	<u>—</u>	<u>—</u>	<u>—</u>
Project funds received from the government departments during the year	400,000	30,000	430,000
Construction costs paid on their behalf during the year	(349,234)	(18,445)	(367,679)
Progress payments made to the Company	<u>(6,333)</u>	<u>—</u>	<u>(6,333)</u>
Balance of project funds advanced to the Company	<u>44,433</u>	<u>11,555</u>	<u>55,988</u>

The project funds received are deposited in bank accounts jointly supervised by the Company and the relevant government departments. Such amounts are presented as restricted cash in the consolidated accounts, and the corresponding liability of RMB55,988,000 has been included in the other payables and accrued expenses in the consolidated accounts of the Group and the accounts of the Company.

In addition, as at 31 December 2004, a guarantee deposit of RMB15,000,000 (2003: Nil) for Hengping Project had been paid by the Company and it was included in other receivables of the accounts.

21 Amounts due from jointly controlled entities — the Group and the Company

The amount mainly represents the net balance of toll income collected by the Group on behalf of Airport-Heao, a jointly controlled entity; and toll income collected by that jointly controlled entity on behalf of the Group. The amount is unsecured, interest-free and settled on a monthly basis.

During the year, toll income collected by the Group on behalf of that jointly controlled entity was RMB92,721,000 (2003: RMB72,295,000), and toll income collected by that jointly controlled entity on behalf of the Group was RMB98,733,000 (2003: RMB79,256,000). All toll income collected is paid back to the counter party on a monthly basis without charging any handling fees.

22 Share capital — the Group and the Company

	Registered, issued and fully paid				Total RMB'000
	Shares held by the State RMB'000	Shares held by legal persons RMB'000	Ordinary shares, listed in the mainland ("A shares") RMB'000	Foreign invested shares, listed in Hong Kong ("H shares") RMB'000	
	At 31 December 2004 and 2003	<u>654,780</u>	<u>613,420</u>	<u>165,000</u>	

Pursuant to the Company's articles of association, all shares are of nominal value of RMB1 each and they are all ordinary shares. Save for the liquidity restrictions and the currency used for distribution of dividends, all shares rank pari passu against each other.

23 Reserves and retained earnings

	Share premium RMB'000	Reserves			Total RMB'000	Retained earnings RMB'000
		Statutory surplus reserve RMB'000	public welfare fund RMB'000	Statutory Discretionary surplus reserve RMB'000		
The Group						
At 1 January 2004	2,060,009	319,020	295,064	453,391	3,127,484	773,885
Profit for the year	—	—	—	—	—	418,870
Transfers	—	64,093	56,275	—	120,368	(120,368)
2003 final dividend paid	—	—	—	—	—	(414,333)
At 31 December 2004	<u>2,060,009</u>	<u>383,113</u>	<u>351,339</u>	<u>453,391</u>	<u>3,247,852</u>	<u>658,054</u>
Representing:						
2004 final dividend proposed						239,877
Others						<u>418,177</u>
Retained earnings as at 31 December 2004						<u>658,054</u>
Company and subsidiaries	2,060,009	383,113	351,339	453,391	3,247,852	620,668
Jointly controlled entities	—	—	—	—	—	36,513
Associated companies	—	—	—	—	—	<u>873</u>
As 31 December 2004	<u>2,060,009</u>	<u>383,113</u>	<u>351,339</u>	<u>453,391</u>	<u>3,247,852</u>	<u>658,054</u>

	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Reserves Statutory public welfare fund <i>RMB'000</i>	Discretionary surplus reserve <i>RMB'000</i>	Total <i>RMB'000</i>	Retained earnings <i>RMB'000</i>
At 1 January 2003	2,060,909	220,992	203,448	453,391	2,938,740	325,841
Profit for the year	—	—	—	—	—	899,372
Transfers	—	98,028	91,616	—	189,644	(189,644)
2002 final dividend paid	—	—	—	—	—	(261,684)
Others	(900)	—	—	—	(900)	—
At 31 December 2003	<u>2,060,009</u>	<u>319,020</u>	<u>295,064</u>	<u>453,391</u>	<u>3,127,484</u>	<u>773,885</u>
Representing:						
2003 final dividend proposed						414,333
Others						<u>359,552</u>
Retained earnings at 31 December 2003						<u>773,885</u>
Company and subsidiaries	2,060,009	319,020	295,064	453,391	3,127,484	755,659
Jointly controlled entities	—	—	—	—	—	<u>18,226</u>
At 31 December 2003	<u>2,060,009</u>	<u>319,020</u>	<u>295,064</u>	<u>453,391</u>	<u>3,127,484</u>	<u>773,885</u>
The Company						
At 1 January 2004	2,060,009	271,048	271,048	453,391	3,055,496	761,739
Profit for the year	—	—	—	—	—	358,999
Transfers	—	48,456	48,456	—	96,912	(96,912)
2003 final dividend paid	—	—	—	—	—	<u>(414,333)</u>
At 31 December 2004	<u>2,060,009</u>	<u>319,504</u>	<u>319,504</u>	<u>453,391</u>	<u>3,152,408</u>	<u>609,493</u>
Representing:						
2004 final dividend proposed						239,877
Others						<u>369,616</u>
Retained earnings as at 31 December 2004						<u>609,493</u>

	Share premium	Statutory surplus reserve	Reserves Statutory public welfare fund	Discretionary surplus reserve	Total	Retained earnings
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2003	2,060,009	185,844	185,844	453,391	2,885,088	322,299
Profit for the year	—	—	—	—	—	871,532
Transfers	—	85,204	85,204	—	170,408	(170,408)
2002 final dividend paid	—	—	—	—	—	(261,684)
At 31 December 2003	<u>2,060,009</u>	<u>271,048</u>	<u>271,048</u>	<u>453,391</u>	<u>3,055,496</u>	<u>761,739</u>

Representing:

2003 final dividend proposed	414,333
Others	<u>347,406</u>

Retained earnings at 31 December 2003

761,739

(a) Pursuant to relevant PRC regulations and the articles of association of the Company, profit after taxation shall be appropriated according to the following sequence:

- (i) make up accumulated losses;
- (ii) transfer 10% of the profit after taxation to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the share capital, such transfer need not be made;
- (iii) transfer 10% of the profit after taxation to the statutory public welfare fund;
- (iv) transfer to the discretionary surplus reserve an amount as approved by the shareholders in the annual general meeting; and
- (v) distribute as dividends to shareholders.

The amounts of transfer to the statutory surplus reserve and statutory public welfare fund shall be determined based on profit after taxation in the statutory accounts of the Company prepared in accordance with the PRC accounting standards.

(b) **Share premium**

Share premium mainly represents premium on issue of shares net of issuing expenses. According to relevant PRC regulations, share premium can only be used to increase the share capital.

(c) **Statutory surplus reserve and discretionary surplus reserve**

According to relevant PRC regulations, statutory surplus reserve and discretionary surplus reserve can be used to make up losses or to increase the share capital.

(d) Statutory public welfare fund

According to relevant PRC regulations, the use of the statutory public welfare fund is restricted to capital expenditures incurred for employee welfare facilities. The statutory public welfare fund is not available for distribution to shareholders except upon liquidation of the Company.

(e) Profit distributable to shareholders

Pursuant to the relevant PRC regulations and the articles of association of the Company, profit distributable to shareholders shall be the lower of the accumulated distributable profits determined according to PRC accounting standards as stated in the PRC statutory accounts and the accumulated distributable profits adjusted based on HK GAAP.

24 Deferred taxation

Deferred taxation are provided in full on temporary differences under the liability method, using a principal taxation rate of 15% (2003: 15%).

The movement of the deferred tax liabilities account is as follows:

	The Group		The Company	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	42,943	36,754	21,530	16,630
Charged to profit and loss account (Note 9)	<u>7,440</u>	<u>6,189</u>	<u>6,947</u>	<u>4,900</u>
At 31 December	<u><u>50,383</u></u>	<u><u>42,943</u></u>	<u><u>28,477</u></u>	<u><u>21,530</u></u>

The movement of deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets

	The Group		The Company	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	(1,878)	—	(1,878)	—
Charged to profit and loss account	<u>—</u>	<u>(1,878)</u>	<u>—</u>	<u>(1,878)</u>
At 31 December	<u><u>(1,878)</u></u>	<u><u>(1,878)</u></u>	<u><u>(1,878)</u></u>	<u><u>(1,878)</u></u>

The deferred tax asset represents the deferred tax recognised for the impairment provision made against the investment in Ropeway.

Deferred tax liabilities

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	44,821	36,754	23,408	16,630
Charged to profit and loss account	<u>7,440</u>	<u>8,067</u>	<u>6,947</u>	<u>6,778</u>
At 31 December	<u><u>52,261</u></u>	<u><u>44,821</u></u>	<u><u>30,355</u></u>	<u><u>23,408</u></u>

Deferred tax liabilities of the Group and the Company represent the deferred tax on temporary differences arising from the different basis adopted for depreciation of toll roads and amortisation of land use rights which lead to differences in the accounting and tax bases.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes are related to the same company and same tax authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred taxation assets	(1,878)	(1,878)	(1,878)	(1,878)
Deferred taxation liabilities	<u>52,261</u>	<u>44,821</u>	<u>30,355</u>	<u>23,408</u>
	<u><u>50,383</u></u>	<u><u>42,943</u></u>	<u><u>28,477</u></u>	<u><u>21,530</u></u>

25 Long-term liabilities

	Note	The Group		The Company	
		2004	2003	2004	2003
		RMB'000	RMB'000	RMB'000	RMB'000
Long-term bank loans		100,000	—	100,000	—
Other loans — secured	(a)	33,901	36,177	33,901	36,177
Other long-term advance	(b)	54,000	54,000	54,000	54,000
Advance from a minority shareholder of a subsidiary	(c)	<u>12,092</u>	<u>15,294</u>	<u>—</u>	<u>—</u>
		199,993	105,471	187,901	90,177
Current portion of other loans	(a)	<u>(3,082)</u>	<u>(3,082)</u>	<u>(3,082)</u>	<u>(3,082)</u>
		<u><u>196,911</u></u>	<u><u>102,389</u></u>	<u><u>184,819</u></u>	<u><u>87,095</u></u>

- (a) Other loans totalling USD4,096,034 were borrowed from the Spanish Government through the China Construction Bank. The loans comprise two portions, USD2,234,200 bearing interest at 1.8% per annum which is repayable by instalments from November 2006 to May 2011; while the remaining balance of USD1,861,834 is interest bearing at 7.17% per annum, and it is repayable by instalments from February 2004 to August 2009. These loans are guaranteed by Xin Tong Chan Development (Shenzhen) Company Limited, a substantial shareholder of the Company.
- (b) Other long-term advance was obtained from local government authorities as an inducement of the Company to participate in a toll road project. The advance is unsecured, non-interest bearing and has no fixed terms of repayment. In the opinion of the directors, the advance is not repayable within the coming five years.
- (c) The advance was granted to Meiguan Company, a subsidiary of the Company, by a minority shareholder of Meiguan Company. The advance is unsecured, non-interest bearing and is repayable out of the funds to be generated from the toll road project operated by Meiguan Company.

26 Borrowings

At 31 December 2004, the Group's bank loans and other borrowings were repayable as follows:

The Group

	Bank loans		Other borrowings		Total	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	360,000	40,000	3,082	3,082	363,082	43,082
In the second to fifth year	100,000	—	25,272	19,401	125,272	19,401
After the fifth year	—	—	71,639	82,988	71,639	82,988
Total	<u>460,000</u>	<u>40,000</u>	<u>99,993</u>	<u>105,471</u>	<u>559,993</u>	<u>145,471</u>

The Company

	Bank loans		Other borrowings		Total	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	360,000	40,000	3,082	3,082	363,082	43,082
In the second to fifth year	100,000	—	26,710	19,401	126,710	19,401
After the fifth year	—	—	58,109	67,694	58,109	67,694
Total	<u>460,000</u>	<u>40,000</u>	<u>87,901</u>	<u>90,177</u>	<u>547,901</u>	<u>130,177</u>

As at 31 December 2004, total banking facilities available to the Group amounted to RMB4,890,000,000 (2003: RMB4,090,000,000). All bank loans are unsecured.

27 Deferred income — the Group and the Company

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	354,472	240,312
Transfer from other long-term advance	—	150,000
Government subsidy income recognised for the year	<u>(35,708)</u>	<u>(35,840)</u>
At 31 December	<u>318,764</u>	<u>354,472</u>

Deferred income represents government grants provided to the Company to subsidise the toll revenue of Sections A and B of the Yanba Expressway (the “Yanba Expressway”). The subsidy was granted based on anticipated insufficient traffic volume achieved as a result of the construction of the Yanba Expressway at an early stage in response to the overall township planning requirements of the SZMG. Pursuant to two circulars, Shenjitouzi [2001] No. 764 issued in 2001 and Shenjitouzi [2003] No. 213 issued in 2003, by the SZMG, the government approved a waiver of a long-term advance totalling RMB450,000,000 previously paid to the Company, and the conversion of such advance to a government grant for subsidising the toll revenue of the Company. These government grants are treated as a deferred income and are recognised in the profit and loss account according to the Group’s accounting policies as shown in Note 2(o) and Note 2(p) throughout the period when the Company is granted the right to operate the related expressway.

28 Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Operating profit	397,135	1,008,576
Depreciation and amortisation	89,651	82,188
Amortisation of goodwill	435	153
Provision for impairment of goodwill	945	—
Provision for doubtful loans to a jointly controlled entity	—	28,311
Gain on disposal of major fixed assets	—	(691,416)
Loss on disposals of other fixed assets	5,697	69
Increase in inventories	(804)	(239)
Increase in other receivables, prepayments and deposits	(13,625)	(1,950)
Increase in amount due from jointly controlled entity	(2,486)	487
Increase (decrease) in other payables and accrued expenses	24,783	(17,022)
Interest income from bank deposits	(11,938)	(9,616)
Interest income from long-term loan	—	(18,563)
Interest income from discounting of long-term receivables	(35,779)	—
Government subsidy income	(35,708)	(35,840)
Subsidies from local government	<u>—</u>	<u>(10,183)</u>
Net cash inflow generated from operations	<u>418,306</u>	<u>334,955</u>

(b) Analysis of changes in financing during the year

	Share capital and Share premium		Minority interests		Bank loans, other loans and other long-term advance	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	4,240,709	4,241,609	49,967	50,282	145,471	777,626
Minority interests in share of profits	—	—	7,848	6,517	—	—
Dividend paid/payable to minority shareholders of subsidiaries	—	—	(6,890)	(5,360)	—	—
New bank loans granted	—	—	—	—	660,000	366,758
New other borrowings	—	—	—	—	807	—
New advance granted	—	—	—	—	—	80,000
Repayment of advance from a minority shareholder of a subsidiary	—	—	—	—	(3,145)	(3,913)
Repayments of loans borrowed	—	—	—	—	(243,082)	(925,000)
Transfer from other long-term advance to deferred income	—	—	—	—	—	(150,000)
Others	—	(900)	(859)	(1,472)	(58)	—
At 31 December	<u>4,240,709</u>	<u>4,240,709</u>	<u>50,066</u>	<u>49,967</u>	<u>559,993</u>	<u>145,471</u>

(c) Analysis of the net cash outflow in respect of the purchase of a subsidiary:

	2004
	<i>RMB'000</i>
Net assets acquired	
Construction in progress	3,873
Bank balances and cash	16
Other payables and accrued expenses	<u>(3,889)</u>
	—
Goodwill	<u>945</u>
Consideration paid	<u>945</u>
Satisfied by cash consideration	<u>945</u>
Cash consideration	945
Bank balances and cash acquired	<u>(16)</u>
Net cash outflow in respect of the purchase of the subsidiary	<u>929</u>

During the year, the Company acquired interests in Ropeway Company (for details, refer to Note 16(b)(i)).

(d) Disposal of a subsidiary

	2004
	<i>RMB'000</i>
Disposal of net assets	
Fixed assets	262
Bank balances and cash	1,468
Other receivables	1,597
Other payable and accrued expenses	(278)
Minority interest	<u>(915)</u>
	<u>2,134</u>
Cash received from disposal of a subsidiary	<u>—</u>
Decrease in cash balance of the Group from the disposal	<u>1,468</u>

For details of the disposal, please refer to Note 16(d).

29 **Contingent liabilities**

Pursuant to the provisions of the two construction management contracts described in Note 3(b), the Company undertakes to bear any costs overruns for the two projects. For the Hengping Project of total investment of RMB 450,000,000, the Company is obliged to bear all the cost overruns in construction as compared to the original budget. For the Nanping Project of a total investment of about RMB2,268,000,000, the Company is obliged to bear solely all the cost overruns in construction as compared to the original budget in case the overrun is less than 2.5% of the total budgeted contract costs, while the respective government department will share the overruns jointly with the Company if the overrun exceeds 2.5% of the total budgeted contract costs.

Pursuant to the terms of these two contracts, the Company was requested to arrange banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Longgang Highway Bureau and Shenzhen Communication Bureau in the amounts of RMB30,000,000 and RMB100,000,000, respectively. The Company also paid a deposit of RMB15,000,000 to Shenzhen Longgang Highway Bureau as a guarantee deposit for assuring the progress, quality and safety standards for the construction of the Hengping Project.

30 **Commitments**

As at 31 December 2004, the Group and the Company had the following commitments for construction of expressways and making equity investments:

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Capital commitments:		
— Contracted but not provided for	310,500	328,000
— Authorised but not contracted for	<u>3,822,500</u>	<u>1,197,000</u>
	4,133,000	1,525,000
Investment commitments:		
— Contracted but not provided for	469,860	—
— Authorised but not contracted for	<u>2,544,496</u>	<u>611,000</u>
	<u>3,014,356</u>	<u>611,000</u>
	<u><u>7,147,356</u></u>	<u><u>2,136,000</u></u>

The jointly controlled entities had no significant capital or investment commitments as at 31 December 2004.

For capital and investment commitments of associated companies of the Company, please refer to Note 18(c).

In the opinion of the directors, the above commitments, including the financing for the acquisition described in Note 33, could be fulfilled by internal financial resources and banking facilities made available to the Group.

31 **Related party transactions**

Save as already disclosed in other notes to the accounts, no other significant related party transactions were entered into by the Group during the year.

32 Ultimate holding company

The Company's directors consider that the Company has no ultimate holding company.

33 Subsequent events

On 3 February 2005, the Company and Mei Wah Company (a subsidiary of the Company) jointly entered into a set of framework agreements with five independent parties to acquire equity interests held by these parties in Guangdong Qinglian Highway Development Company Limited ("Qinglian Company") for a total consideration of RMB1,839,200,000 (the "Acquisition").

The Acquisition consists of a series of transactions among the parties concerned. Upon completion of the Acquisition, the Company will hold 56.28% equity interests in Qinglian Company. The Acquisition is subject to the approval of the shareholders in the coming general meeting.

34 Approval of accounts

The accounts were approved by the board of directors on 18 February 2005.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE PRECEDING THREE YEARS

For the financial year ended 2002, the turnover of the Group reached approximately RMB524 million, with an increase of 7.04% over the previous year. Due to the termination of the preferential PRC enterprise income tax treatments enjoyed by the Group and the decrease of the construction management service income, profit attributable to the Shareholders for the year 2002 recorded a decrease of 14.98% as compared with the year 2001, amounting to approximately RMB347 million. The earnings per Share were RMB0.159. At the end of 31 December 2002, the gearing ratio of the Group (total liabilities as at the balance sheet date to shareholders' funds as at the balance sheet date) was approximately 22.12%.

For the financial year ended 2003, the Group recorded a turnover of approximately RMB422 million. On 18 March 2003, the Company transferred all its interests and rights in two class 1 highways, namely NH107 Shenzhen Section and NH205 Shenzhen Section to Shenzhen Communications Bureau at a consideration of RMB1.93 billion. Accordingly, the turnover during 2003 decreased by approximately 19.6% as compared with 2002. During the year 2003, the profit attributable to the Shareholders was approximately RMB899 million, representing an increase of 159.14% as compared with that in 2002, which was mainly attributable to the after-tax contribution of RMB586 million from the transfer of interests and rights in the two class 1 highways. The earnings per Share for the year 2003 were RMB0.412 and the gearing ratio of the Group as at 31 December 2003 was approximately 14.09%, which improved significantly as compared with 2002. The low gearing ratio showed that the capital structure of the Group is mainly composed of shareholders' funds which is approximately RMB6,082 million (2002: RMB5,445 million).

For the financial year ended 2004, the Group recorded a turnover of approximately RMB483 million, representing an increase of 14.47% when compared to year 2003. Growth in the Group's turnover during the year was mainly attributable to the increase in traffic flow on each of the toll roads which benefited from the robust growth of China's economy and the substantial increase in the number of vehicles. The Group's profit attributable to the Shareholders for 2004 amounted to RMB419 million, representing a decrease of 53.43% as compared to 2003. The decrease was mainly attributable to the disposal of the two class 1 highways in March 2003, which resulted in non-recurring "gain on disposal of assets". Disregarding this non-recurring gain on disposal of assets, the profit attributable to the Shareholders generated from ordinary activities during 2004 increased by approximately 33.78% over that in 2003. This showed that the Group's toll roads continued to enjoy rising profitability during 2004 and as a result, profit generated from its ordinary activities quickly returned to the same level before the disposal of the two class 1 highways. The earnings per Share for the year 2004 were RMB0.192 and the total debt to equity ratio of the Group as at 31 December 2004 was around 19.86%. This showed that the capital structure of the Group continued to be mainly consisted of shareholders' funds, which is approximately RMB6,087 million.

GENERAL OUTLOOK OF THE GROUP'S BUSINESS

The Company is principally engaged in the investment, construction, operation and management of toll highways and roads in the PRC.

The Directors believe that the Pearl River Delta region stands out with robust economic growth, against the backdrop of the rapid, stable and healthy development of the Chinese economy. Economic growth is set to create demand for transportation as individual travelling and business commuting become more frequent. The Board believes that the transportation is a decisive factor for development, and as such, the building of transportation infrastructure should be anticipatory of development. The State and local governments have formulated forward-looking plans for China's transportation network to meet the needs of economic development, and it has been separately confirmed by the Ministry of Communications and the National Development and Reforms Commission that highway construction will continue to be funded through a variety of sources including national tax income, treasury bonds, bank loans, domestic investments and foreign investments, and toll revenue shall remain a rightful source from which investors generate returns.

In the first quarter of 2005, the Company made further and major progress in investment activities. In February 2005, the Group entered into agreements for the proposed investment in the Guangdong Qinglian Highway Development Company Limited project which is a strategically located major trunk highway between Hunan and Guangdong over 200 km. This project is set to add further strengths to the Company's principal business and will enhance the Shareholders' return with its sound development potential.

The Directors consider that the Acquisitions are consistent with the Company's overall business strategy to invest in toll highway projects. Leveraging on the Company's investment experience in other expressway projects, the Directors believe that the Group has the expertise to assess and manage the operation of the assets acquired.

With the robust economic growth coupled with effective policy support has provided highway operators with a golden opportunity for development. Meanwhile, the Board and the management of the Company are fully aware of the risks confronting the Group in the financial, marketing and operational aspects. Proactive reviews are conducted on an ongoing basis and relevant preventive measures have been adopted in this regard. The Board and the management are confident that by constantly fostering and building upon its core competitive strengths, the Company will be able to reward its Shareholders with better returns as it continues to identify new growth drivers and enhance its profitability as well as its ability to withstand risks.

INDEBTEDNESS

At the close of business on 28 February 2005, being the latest practicable date for the preparation of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB558 million, comprising long-term bank borrowings of approximately RMB132 million, unsecured short-term bank loans of approximately RMB360 million and other long-term advances of RMB66 million.

Pursuant to the provisions of the two construction management contracts, namely the Western Section of Hengping Class 1 Highway project and Nanping Freeway (Phase I) project, the Company undertakes to bear any overrun of costs in respect of the two projects. For the Western Section of Hengping Class 1 Highway project of total investment of about RMB450 million, the Company is obliged to bear all the construction cost overrun as compared to the original budget. For the Nanping Freeway (Phase I) project of a total investment of about RMB2,268 million, the Company is obliged to bear solely all the construction cost overrun in case the overrun is less than 2.5% of the total budgeted contract costs, while the respective government departments will share the overruns jointly with the Company if the overrun exceeds 2.5% of the total budgeted contract costs.

Pursuant to the terms of these two contracts, the Company was requested to arrange banks to issue irrevocable performance guarantees on its behalf to Shenzhen Longgang Highway Bureau and Shenzhen Communication Bureau in the amounts of RMB30 million and RMB100 million, respectively. As confirmed by the Directors, the irrevocable performance guarantees have already been issued accordingly. The Company also paid a deposit of RMB15 million to Shenzhen Longgang Highway Bureau as a guarantee deposit for assuring the progress, quality and safety standards for the construction of the Western Section of Hengping Class 1 Highway project.

Save as aforesaid, and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital or overdrafts, or other similar indebtedness, finance leases or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 28 February 2005.

WORKING CAPITAL SUFFICIENCY

The Board is of the opinion that after taking into account the Group's internal resources and available borrowing facilities, the Group has sufficient working capital for its present requirements.

The Board is not aware of any matter or fact which renders the Enlarged Group not having sufficient working capital for its present requirements after completion of the Acquisitions.

The following is the text of a report received from the Company's auditors, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular. As there is no specific guidance on the reporting on pro forma financial information under the Auditing Guidelines issued by the Hong Kong Institute of Certified Public Accountants, this report is prepared with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

18 April 2005

The Directors
Shenzhen Expressway Company Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information"), which comprises pro forma consolidated statement of assets and liabilities of Shenzhen Expressway Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), the 15% equity interest in Hubei Magerk Expressway Management Private Limited ("Magerk Expressway" or the "Project Company") and the 47.06% equity interest in Jade Emperor Limited ("Jade Emperor") (hereinafter the "Enlarged Group") and the unaudited pro forma statement of adjusted net tangible assets of the Enlarged Group, set out on pages 124 to 130 in Appendix V of the Company's circular dated 18 April 2005 (the "Circular") in connection with the proposed acquisition (the "Acquisitions") of a 15% equity interest in Magerk Expressway and a 47.06% equity interest in Jade Emperor by the Company pursuant to the Project Company Acquisition Agreement and Jade Emperor Acquisition Agreement. The unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisitions might have affected the relevant financial information of the Group as at 31 December 2004.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with paragraph 13 of Appendix 1B and paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited Pro Forma Financial Information.

The unaudited Pro Forma Financial Information has been prepared on the bases set out on pages 124 to 130 for illustrative purposes only and, because of its nature, it may not be indicative of the financial position of the Enlarged Group at any future date.

Opinion

In our opinion:

- a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following unaudited pro forma financial information on the Enlarged Group is prepared by the Directors of the Company.

(A) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

Set out below is an illustrative and unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2004 which has been prepared for the purpose of illustration as if the Completion had taken place on 31 December 2004 to illustrate the effect of the Group's proposed acquisitions (the "Acquisitions") of a 47.06% equity interest in Jade Emperor and a 15% equity interest in its subsidiary, the Project Company.

The unaudited pro forma consolidated statement of assets and liabilities is based on the audited consolidated accounts of the Group for the year ended 31 December 2004, after making pro forma adjustments that are necessary.

The unaudited pro forma consolidated statement of assets and liabilities has been prepared to provide the unaudited pro forma financial information on the Enlarged Group as a result of the Completion. As it has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2004 or at any future date.

APPENDIX V FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2004 is prepared on the basis as if the Acquisitions had been completed on 31 December 2004.

	As at 31 December 2004				Pro forma
	The Group	Pro forma Adjustments			Enlarged Group
	<i>RMB'000</i>	<i>RMB'000</i> <i>(Note 1)</i>	<i>RMB'000</i> <i>(Note 2)</i>	<i>RMB'000</i> <i>(Note 3)</i>	<i>RMB'000</i>
Non-current assets					
Goodwill	5,179				5,179
Fixed assets	3,254,672				3,254,672
Construction in progress	283,604				283,604
Interests in jointly controlled entities	1,261,903	692,850	15,443	(17,858)	1,952,338
Interests in associated companies	<u>870,698</u>				<u>870,698</u>
	<u>5,676,056</u>				<u>6,366,491</u>
Current assets					
Inventories	6,935				6,935
Amounts due from jointly controlled entities	3,123				3,123
Current portion of long-term receivables	372,946				372,946
Other receivables, prepayments and deposits	27,199				27,199
Restricted cash	55,988				55,988
Bank balances and cash	<u>1,203,239</u>	(189,986)		17,858	<u>1,031,111</u>
	<u>1,669,430</u>				<u>1,497,302</u>
Current liabilities					
Other payables and accrued expenses	266,114		15,443		281,557
Taxation payable	13,560				13,560
Current portion of long-term liabilities	3,082				3,082
Short-term bank loans	<u>360,000</u>	502,864			<u>862,864</u>
	<u>642,756</u>				<u>1,161,063</u>
Net current assets	<u>1,026,674</u>				<u>336,239</u>
Total assets less current liabilities	<u>6,702,730</u>				<u>6,702,730</u>

APPENDIX V FINANCIAL INFORMATION OF THE ENLARGED GROUP

As at 31 December 2004

	The Group	Pro forma Adjustments			Pro forma Enlarged Group
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	
Non-current liabilities					
Long-term liabilities	196,911				196,911
Deferred tax liabilities	50,383				50,383
Deferred income	318,764				318,764
	<u>566,058</u>				<u>566,058</u>
Minority interests	<u>50,066</u>				<u>50,066</u>
	<u>6,086,606</u>				<u>6,086,606</u>

Notes to the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

- 1 For the purpose of preparing the unaudited pro forma financial information of the Enlarged Group, the Group accounts for the Acquisitions as interest in a jointly controlled entity using the equity method of accounting, which is consistent with the accounting policy adopted for other interests in jointly controlled entities reported in the audited accounts of the Group for the year ended 31 December 2004.

The consideration payable for the Acquisitions by the Group is HK\$653,631,836 or approximately RMB693 million (the “Consideration”), which will be financed by internal resources of approximately RMB190 million (approximately HK\$179 million) and external banking facilities of approximately RMB503 million (approximately HK\$475 million). As confirmed by the Directors, such banking facilities had already been obtained by the Group.

- 2 Pursuant to the provisions of the Project Company Acquisition Agreement, the Company has undertaken to pay to the relevant PRC tax authorities for the PRC income tax arising from the gain on disposal of the Project Company Equity. The amount of such income tax payable is estimated by the Company to be approximately RMB15,443,000 (approximately HK\$14,568,000) and is included as part of the cost of acquisition for the purpose of preparing the unaudited pro forma financial information of the Enlarged Group.

- 3 Pursuant to the Jade Emperor Acquisition Agreement, in the event of successful completion of the Jade Emperor Acquisition Agreement, the net profit (the “Profit”) of the Project Company for the period between 1 September 2004 and the Jade Emperor Completion Date will be attributed to the Company and the Purchasers. The estimated amount of the Profit of approximately RMB17,858,000 (approximately HK\$16,847,000) attributed to the Group for the period from 1 September to 31 December 2004, upon which the Acquisitions had been assumed completed, is treated as an adjustment to the Consideration. The final amount of the Profit, and thus the related adjustment, is subject to change upon completion of the Acquisitions. The adjustment will not have any continuing profit and loss effect on the Group.

- 4 For the purpose of preparing the unaudited pro forma financial information of the Enlarged Group, the accounting treatment in respect of interests in jointly controlled entities has been applied in accordance with Hong Kong Statement of Standard Accounting Practice (“HK SSAP”) 21 “Accounting for Interests in Joint Ventures”. Hong Kong Accounting Standard (“HKAS”) 31 “Investments in Joint Ventures”, which is issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), has become effective for accounting periods commencing on or after 1 January 2005 and has superseded HK SSAP 21. Interests in jointly controlled entities are to be accounted for by the Group using HKAS 31, instead of HK SSAP 21, in its accounts for the year ending 31 December 2005.

Under HKAS 31, interests in jointly controlled entities can be either proportionately consolidated by the Group (according to the percentage of equity interest held by the Group in the joint ventures) or as an alternative, be accounted for using the equity method of accounting. The Group is planning to adopt the proportionate consolidation method to account for its interests in jointly controlled entities in 2005.

- 5 In 2004, the HKICPA issued a number of new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as the “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The unaudited pro forma financial information of the Enlarged Group has not taken into account the impact of the new HKFRSs. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the pro forma financial information.

(B) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP BEFORE AND AFTER COMPLETION

Set out below is an audited statement of adjusted consolidated net tangible assets of the Group before Completion based on the audited consolidated net assets of the Group as at 31 December 2004 and an unaudited pro forma statement of adjusted consolidated net tangible assets of the Enlarged Group after Completion based on its unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2004 as set out in this appendix, figures shown in both statements remain the same:

Audited consolidated net assets of the Group as at 31 December 2004	Less: Net book value of goodwill of the Group as at 31 December 2004	Audited adjusted consolidated net tangible assets of the Group as at 31 December 2004	Audited adjusted consolidated net tangible assets of the Group as at 31 December 2004 attributable to each share of the Company before Completion
<i>RMB'000</i>	<i>RMB'000</i> <i>(Note 3)</i>	<i>RMB'000</i>	<i>RMB</i> <i>(Note 1)</i>
6,086,606	(82,115)	6,004,491	2.75

APPENDIX V FINANCIAL INFORMATION OF THE ENLARGED GROUP

Unaudited pro forma consolidated net assets of the Enlarged Group after Completion	Less: Net book value of goodwill of the Enlarged Group	Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group after Completion	Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group attributable to each share of the Company after Completion
<i>RMB'000</i> <i>(Note 2)</i>	<i>RMB'000</i> <i>(Note 3)</i>	<i>RMB'000</i>	<i>RMB</i> <i>(Note 1)</i>
6,086,606	(82,115)	6,004,491	2.75

The adjustment will not have any continuing profit and loss effect on the Group.

Notes:

- 1 The number of shares used for the calculation of these figures is 2,180,700,000 shares in issue of the Company as at 31 December 2004.
- 2 The balance is extracted from section A headed “Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group” as set out in this Appendix.
- 3 Amount represents net book value of goodwill arising from the acquisitions of subsidiaries, jointly controlled entities and associated companies.

(C) PROPOSED ACQUISITION OF THE GROUP SUBSEQUENT TO THE LATEST BALANCE SHEET DATE

The directors of the Company announced on 15 February 2005 that the Group had entered into an agreement with several parties to acquire in total a 56.28% equity interests in Guangdong Qinglian Highway Development Company Limited (“Qinglian Company”), a sino-foreign cooperative joint venture established in the PRC which owns the Qinglian Class One Highway and Qinglian Class 2 Road in the PRC (the “Qinglian Acquisition”). The aggregate consideration for the Qinglian Acquisition will be RMB1,839,200,000 (the “Qinglian Consideration”) which will be funded by both internal resources and general banking facilities of the Group.

The Qinglian Acquisition constitutes a major and connected transaction under the Listing Rules, and a circular in respect of this transaction dated 6 April 2005 had been issued to the shareholders of the Company. The Qinglian Acquisition is conditional upon independent shareholders’ approval in an extraordinary general meeting, which will be convened by the Company on 23 May 2005. As such, as at the date of this circular, the Qinglian Acquisition is still pending.

Upon consummation of the Qinglian Acquisition, the Group will account for the Qinglian Acquisition as interests in associated companies using the equity method of accounting. As delineated in the unaudited pro forma financial information of the Enlarged Group included in the circular of the Company dated 6 April 2005, the share of net assets of the associated companies will increase the total assets of the Group by RMB1,839,200,000, while the Qinglian Consideration will increase the total liabilities of the Group by the same amount. The aforesaid financial impact to the Group is for illustrative purposes only, and the Qinglian Consideration paid and/or payable might decrease the assets and/or increase the liabilities of the Group at the same amount in aggregate, depending on the mode of funding employed by the Group upon consummation of the Qinglian Acquisition.

Since the Qinglian Acquisition has not been approved by shareholders of the Company as at the date of this circular, no pro forma adjustment is shown to present its impact on the unaudited pro forma financial information of the Enlarged Group in this appendix.

Set out below are the text of the letters received from: (i) PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, and (ii) Guangdong Securities, the financial adviser to this transaction, relating to the discounted cash flow forecast for the purpose of inclusion in this circular in respect of the business valuation.

(A) Letter from PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

18 April 2005

The Directors
Shenzhen Expressway Company Limited

Dear Sirs,

We have examined the calculations of the business valuation (the “Valuation”) dated 18 April 2005 prepared by Sallmanns (Far East) Limited in respect of the 100% equity interest in Hubei Magerk Expressway Management Private Limited (“Magerk Expressway”) set out in Appendix I of the circular of Shenzhen Expressway Company Limited (the “Company”) dated 18 April 2005 (the “Circular”) in connection with the proposed acquisition by the Company of a 47.06% equity interest in Jade Emperor Limited and a 15% equity interest in its subsidiary, Magerk Expressway.

The Valuation including the assumptions, for which the Directors of the Company are solely responsible, has been prepared based on discounted cash flows. The discounted cash flows do not involve the adoption of accounting policies. The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Consequently, we have not reviewed, considered or conducted any work on the appropriateness and validity of the assumptions and express no opinion on the appropriateness and validity of the assumptions on which the discounted cash flows, and thus the Valuation, are based.

We conducted our work in accordance with Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants. We examined the arithmetical accuracy of the Valuation. Our work has been undertaken solely to assist the Directors of the Company in evaluating whether the Valuation, so far as the calculations are concerned, has been properly compiled. Our work does not constitute any valuation of Magerk Expressway.

Based on the foregoing, in our opinion, the Valuation, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions made by the Directors of the Company as set out on pages 43 to 48 of the Circular.

Our work in connection with the Valuation has been undertaken solely for the purpose of reporting under paragraph 11.17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and for no other purpose. We accept responsibility solely to the Directors of the Company. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

(B) Letter from Guangdong Securities**GD Guangdong Securities Limited**

18 April 2005

The Board of Directors
Shenzhen Expressway Company Limited
19/F., Tower A
United Plaza
5022 Binhe Road North
Shenzhen 518033
PRC

Dear Sirs,

We refer to the report of business valuation prepared by Sallmanns in relation to the appraisal of the fair market value of 100% equity interest of Hubei Magerk Expressway Management Private Limited as at 31 December 2004 (the “Business Valuation”) as set out in appendix I of the circular (the “Circular”) issued by the Company dated 18 April 2005.

We have reviewed the Business Valuation for which Sallmanns are responsible and discussed with you the information and documents provided by you which formed part of the bases and assumptions upon which the Business Valuation has been prepared. We have also considered the letter from PricewaterhouseCoopers dated 18 April 2005 addressed to yourselves regarding whether the Business Valuation was compiled properly so far as the calculations are concerned.

On the basis of the foregoing, we are of the opinion that the Business Valuation set out in the Circular has been stated after due and careful enquiry by you.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
C. K. Poon
Managing Director and
Head of Corporate Finance Department

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

A. Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors, supervisors or the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules were as follows:

Units in the share appreciation right scheme granted by the Company and collectively held by the management staff of the Company are 5,501,400. The following Directors and supervisor of the Company may be granted by the Company part of the incentive cash bonus from the exercise of such units, subject to the approval of Human Resources and Nomination Committee of the Company:

Name	Number of units involved	Exercise price
Wu Ya De (Director)	2,750,700 (<i>Note 3</i>)	(<i>Note 1</i>)
	2,750,700 (<i>Note 3</i>)	(<i>Note 2</i>)
Zhang Rong Xing (Director)	2,750,700 (<i>Note 3</i>)	(<i>Note 1</i>)
	2,750,700 (<i>Note 3</i>)	(<i>Note 2</i>)
Yi Ai Guo (Supervisor)	2,750,700 (<i>Note 3</i>)	(<i>Note 1</i>)
	2,750,700 (<i>Note 3</i>)	(<i>Note 2</i>)

Notes:

- The cash bonus received from exercising each of the units represents the difference between RMB3.456 per unit and the arithmetic average of the closing price of the listed shares of the Company during the period of 16 March 2003 to 15 March 2004.
- The cash bonus received from exercising each of the units represents the difference between RMB3.456 per unit and the arithmetic average of the closing price of the listed shares of the Company during the period of 16 March 2004 to 15 March 2005.

3. It represents the units collectively held by the management of the Company from the relevant time of exercise.

The aforesaid units were granted under the share appreciation right scheme approved by the Shareholders on 6 March 2001 and amended by the Shareholders on 30 October 2003. After the amendment, the units granted under such scheme are collectively held by the management staff of the Company instead of by individuals, the timing and the price of the exercise were also amended accordingly. The bonus cash received from exercising of the units shall be applied as a special incentive fund and distributed by the Company to the management staff, including the Directors and supervisors of the Company as employees of the Company according to proposals put forward by the Human Resources and Nomination Committee of the Company.

As at the Latest Practicable Date:

1. Save as disclosed above, so far as is known to the Directors and the chief executive of the Company, none of the Directors or supervisors or chief executive is interested in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or supervisors or the chief executives were taken or deemed to have under such provisions of the SFO) or which are required to be entered into the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code;
2. None of the Directors or supervisors has any direct or indirect interest in any assets which have been, since 31 December 2004, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any members of the Group, or are proposed to be acquired or disposed of by, or leased to any members of the Group; and
3. None of the Directors or supervisors is materially interested in any contracts or arrangements entered into by any members of the Group which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

B. Interests of substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors or the chief executive of the Company, the following are the details of the persons (other than the Directors, supervisors or chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in the domestic shares of the Company

	Number of domestic shares (note 1)	Approximate percentage of total issued domestic share capital (%)	Approximate percentage of total issued capital (%)
Xin Tong Chan	654,780,000	45.68%	30.03%
Shenzhen Shen Guang Hui Highway Development Company (深圳市深廣惠公路開發有限公司)(note 2)	457,780,000	31.94%	20.99%
Huajian Transportation and Economic Development Centre (華建交通經濟開發中心)(note 2)	91,000,000	6.35%	4.17%

Long positions in the H shares of the Company

	Number of H shares (note 3)	Approximate percentage of total issued H share capital (%)	Approximate percentage of total issued capital (%)
Sumitomo Mitsui Asset Management Company, Limited	67,512,000 (note 4)	9.03%	3.10%
Sumitomo Life Insurance Company	67,512,000 (note 5)	9.03%	3.10%

Notes:

1. Unlisted shares.
2. State-owned company incorporated under the laws of the PRC with limited liability.
3. Shares listed on the Main Board of the Stock Exchange.

4. These 67,512,000 H Shares were held by Sumitomo Mitsui Asset Management Company, Limited as investment manager.
5. These 67,512,000 H Shares were deemed corporate interests under the SFO indirectly held through Sumitomo Mitsui Asset Management Company, Limited, in which Sumitomo Life Insurance Company had a controlling interest.

Save as disclosed herein, the register required to be kept under section 336 of Part XV of the SFO showed that the Company has not been notified of any interest or short positions in the shares and underlying shares of the Company as at the Latest Practicable Date.

3. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2004, the date to which the latest published audited consolidated accounts of the Group were made up.

4. LITIGATION

As at the Latest Practicable Date, the Company does not have any litigation or claims of material importance pending or threatened against any member of the Group.

5. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given opinions, letters or advice contained in this circular:

Name	Qualifications
PricewaterhouseCoopers	Certified public accountants
Guangdong Securities	A licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities
Hantec Capital	A licensed corporation under the SFO to conduct types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities
Sallmanns	Property, plant and machinery valuers
PBA	Traffic consultants

Each of PricewaterhouseCoopers, Guangdong Securities, Hantec Capital, Sallmanns and PBA has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or references to its name, in the form and context in which it appears.

Each of PricewaterhouseCoopers, Guangdong Securities, Hantec Capital, Sallmanns and PBA is not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of PricewaterhouseCoopers, Guangdong Securities, Hantec Capital, Sallmanns and PBA does not have, or has had, direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2004, the date of which the latest published audited accounts of the Group were made up.

6. SERVICE CONTRACTS

Each of the Directors has entered into a service contract with the Company. Contents of such contracts are the same in all material respects. All such service contracts are effective from 1 January 2003 to 31 December 2005 except the service contract with Mr. Poon Kai Leung, James, which is effective from 28 May 2003 to 31 December 2005 and the service contracts with Mr. Yang Hai, Mr. Li Jing Qi and Mr. Wang Ji Zhong, which are effective from 8 April 2005 to 31 December 2005. Save as the aforesaid, no service contracts that can be terminated within one year with compensation payable as a result (other than general statutory compensation) have been or proposed to be entered into between the Directors or the supervisors and the Company.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. MATERIAL CONTRACTS

The Company has not entered into any contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this circular that are or may be material.

9. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to article 70 of the Articles of Association of the Company, a general meeting shall be voted by shows of hands unless a poll is demanded by the following person before or after any vote by show of hands:

- (1) the chairman of the meeting;
- (2) at least two shareholders entitled to vote in person or by proxy; and
- (3) one or more shareholders present in person or by proxy representing in aggregate 10% or more of all shares carrying the right to vote at the meeting.

10. MISCELLANEOUS

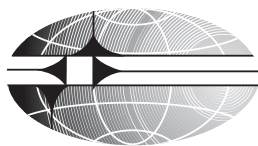
- (a) As at the date of this circular, the Directors are Mr. Yang Hai (Chairman); Mr. Wu Ya De (Director and General Manager); Mr. Zhang Rong Xing (Director); Mr. Lin Xiang Ke (Director); Ms. Zhang Yang (Director); Mr. Chiu Chi Cheong, Clifton (Director); Mr. Li Jing Qi (Director); Mr. Wang Ji Zhong (Director); Mr. Ho Pak Cho, Denis Morgie (Independent non-executive Director); Mr. Li Zhi Zheng (Independent non-executive Director); Mr. Zhang Zhi Xue (Independent non-executive Director) and Mr. Poon Kai Leung, James (Independent non-executive Director).
- (b) The legal address of the Company is situated at 19/F., Tower A, United Plaza, 5022 Binhe Road North, Shenzhen 518033, PRC. The place of business of the Company in Hong Kong is at Suites 2911-2912, 29th Floor, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong.
- (c) The share registrars of the Company in Hong Kong is Hong Kong Registrars Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The joint company secretaries of the Company are Ms. Wu Qian and Mr. Tse Yat Hong. Ms. Wu possesses the qualification of the PRC certified public accountant. Mr. Tse is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.
- (e) The Company has not yet appointed a qualified accountant pursuant to Rule 3.24 of the Listing Rules.
- (f) The English text of this circular shall prevail over the Chinese version for the purposes of interpretation.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours of Messrs. Loong & Yeung, the Company's solicitors at Suites 2911-2912, 29th Floor, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong up to and including 3 May 2005:

- (a) the articles of association of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2004;
- (c) the Project Company Acquisition Agreement;
- (d) the Jade Emperor Acquisition Agreement;
- (e) the letter dated 18 April 2005 from the Independent Board Committee, the text of which is set out on page 28 of this circular;

- (f) the letter dated 18 April 2005 from Hantec Capital, the independent financial adviser, the text of which is set out on pages 29 to 42 of this circular;
- (g) the letters relating to the discounted cash flow forecast from PricewaterhouseCoopers and Guangdong Securities, the texts of which are set out in Appendix VI to this circular;
- (h) the accountants' report on Jade Emperor prepared by PricewaterhouseCoopers for the three years ended 31 December 2004, the text of which is set out in Appendix III of this circular;
- (i) the report prepared by PricewaterhouseCoopers on the financial information of the Enlarged Group, the text of which is set out in Appendix V of this circular;
- (j) the letter dated 18 April 2005 prepared by Sallmanns in connection with the business valuation of Project Company, the text of which is set out in Appendix I to this circular;
- (k) the report prepared by Sallmanns dated 18 April 2005, in connection with the business valuation of the Project Company, referred to in the letter prepared by Sallmanns as mentioned in item (j) above;
- (l) the letter prepared by PBA dated 18 April 2005, the text of which is set out in Appendix II to this circular;
- (m) the traffic forecast report prepared by PBA dated 18 April 2005 referred to in the letter prepared by PBA as mentioned in item (l) above;
- (n) the service contracts referred to in the paragraph headed "Service Contracts" to this appendix;
- (o) the written consents referred to in the paragraph headed "Experts and Consents" to this appendix;
- (p) the connected transaction circular dated 3 January 2005 in relation to acquisition of 30% equity interests in 雲浮市廣雲高速公路有限公司 (Yunfu Guangyun Expressway Company Limited); and
- (q) the major and connected transaction circular dated 6 April 2005 in relation to the acquisition of 56.28% equity interests in 廣東清連公路發展有限公司 (Guangdong Qinglian Highway Development Company Limited).



深圳高速公路股份有限公司

SHENZHEN EXPRESSWAY COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 548)

NOTICE OF THE THIRD EXTRAORDINARY GENERAL MEETING 2005

NOTICE IS HEREBY GIVEN that the THIRD Extraordinary General Meeting 2005 (the “EGM”) of Shenzhen Expressway Company Limited (the “Company”) will be held at the meeting room of the Company at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, the People's Republic of China on 3 June 2005 (Friday), at 3:00 p.m. for the following purposes:

To consider and if thought fit, pass the following resolutions with or without amendments as ordinary resolutions:

“THAT

1. the agreement dated 19th March 2005 entered into by the Company's wholly-owned subsidiary Mei Wah Industrial (Hong Kong) Limited (“Mei Wah”) and Flywheel Investments Limited (“Flywheel”) as purchasers, Hubei Investment Limited, Wong Chik Lim Holdings (H.K.) Limited and Sabagaya Sendirian Berhad (“Sabagaya”) as vendors, Lee San Choon, Tan Leong Min and Wong Chik Lim as guarantors, the Company and Jade Emperor Limited (“Jade Emperor”) for the acquisition of a total of 85% of the issued share capital in Jade Emperor (40% by Mei Wah and 45% by Flywheel) and the repurchase of the remaining 15% of the issued share capital by Jade Emperor from Sabagaya (the “Jade Emperor Acquisition Agreement”), a copy of which has been produced to this meeting marked “A” and initialed by the Chairman of this meeting for the purpose of identification; together with the agreement dated 19th March 2005 entered into by the Company as purchaser, Jade Emperor as vendor, Lee San Choon, Tan Leong Min and Wong Chik Lim as guarantors for the acquisition of a 15% equity interest in 湖北馬鄂高速公路經營有限公司 (Hubei Magerk Expressway Management Private Limited) (the “Project Company Acquisition Agreement”), a copy of which has been produced to this meeting marked “B” and initialed by the Chairman of this meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and the board of directors of the Company be and are hereby authorized to do all such things and acts and execute such documents which they consider necessary or expedient for the implementation of and give effect to the Jade Emperor Acquisition Agreement and the Project Company Acquisition Agreement; and

NOTICE OF THE EGM

2. the appointment of Mr. Wong Kam Ling (黃金陵) as the independent non-executive director of the Company be hereby approved and the board of directors of the Company be hereby authorized to decide the terms of service contract with Mr. Wong and to execute or authorize the execution of such documents on behalf of the Company as they may consider necessary or desirable to carry out the aforesaid appointment.”

By Order of the Board
Wu Qian
Joint Company Secretary

Shenzhen, PRC, 18 April 2005

Notes:

1. Eligibility for attending the EGM

Shareholders of the Company whose names appear on the registers of shareholders of the Company at the close of business on 29 April 2005 shall have the right to attend the EGM after complying the necessary registration procedures.

2. Registration procedures for attending the EGM

- i. Shareholders intending to attend the EGM should deliver to the Company, on or before 13 May 2005, either in person, by post or by fax, the reply slip (together with any required registration documents) for attending the EGM.
- ii. Register of H Share holders of the Company will be closed from 3 May 2005 to 3 June 2005 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of H Shares of the Company who intend to attend the EGM must deliver their instruments of transfer together with the relevant share certificates to Hong Kong Registrars Limited (“HKRL”), the registrar of H Shares of the Company, at or before 4:00 p.m. on 29 April 2005.

3. Proxy

- i. Shareholders entitled to attend and vote at the EGM are entitled to appoint, in written form, one or more proxies (whether a shareholder or not) to attend and vote on his behalf.
- ii. A proxy should be appointed by written instrument signed by the appointor or his attorney. If the written instrument is signed by the attorney of the appointor, the written authorization or other authorization documents of such attorney should be notarized. In order to be valid, for shareholders of domestic shares, the written authorization or authorization documents which have been notarized together with the completed proxy form must be delivered to the Company 24 hours before the time of the holding of the EGM. In order to be valid, for shareholders of H Shares, the above documents must be delivered to HKRL within the same period.

NOTICE OF THE EGM

- iii. If a shareholder appoints one or more proxies, the proxies shall not have the right to vote individually on a show of hands.
- iv. Shareholder or his proxy should produce identity proof when attending the EGM.

4. Poll

Article 70 of the Articles of Association of the Company is extracted as follows:

“Unless a poll is demanded by the following person before or after any vote by show of hands, a general meeting shall be voted by show of hands:

- (1) The chairman of the meeting;
- (2) At least two shareholders entitled to vote present in person or by proxy;
- (3) One or more shareholders present in person or by proxy representing in aggregate 10% or more of all shares carrying the right to vote at the meeting.”

Pursuant to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders taken at the EGM to approve Resolution 1 proposed must be taken on a poll.

5. Other business

- i. The duration of the EGM is expected not to exceed one day. Shareholders who attend the EGM shall arrange for food and accommodation at their own cost.
- ii. Address of Hong Kong Registrars Limited (for share transfer):
Shops 1712-16
17th Floor
Hopewell Centre
183 Queen’s Road East
Wanchai
Hong Kong
- iii. Address of the Company:
19/F, Tower A, United Plaza
No. 5022 Binhe Road North
Shenzhen, 518033, PRC
Telephone: (86) 755-82945880
Facsimile: (86) 755-82910496

NOTICE OF THE EGM

6. Appointment of Mr. Wong Kam Ling (黃金陵) as Independent Non-Executive Director

Mr. Wong is nominated to be the independent non-executive director of the Company. Apart from this, Mr. Wong does not hold or intends to hold any other position in the Company or the Company's group.

Mr. Wong, aged 56, was graduated from the Hong Kong Polytechnic University. Mr. Wong is a fellow member of the Chartered Association of Certified Accountants (FCCA), an associate member of the Institute of Chartered Secretaries & Administrators (ACIS), a fellow member of the CPA Australia (FCPA (Aust.)) and a certified public accountant of the Hong Kong Institute of Certified Public Accountants (CPA). Mr. Wong had held financial and management positions in various companies prior to February 1987. Between February 1987 and September 1991, he had been the chief accountant of the group of China Dyeing Holdings Ltd. (a company formerly listed on The Stock Exchange of Hong Kong Limited) and Captronic Group Ltd. (a company formerly listed on The Stock Exchange of Hong Kong Limited). Between September 1991 and December 2004 before his retirement, Mr. Wong had been the financial controller and financial consultant of Bel Fuse Ltd. (a subsidiary of the Bel Fuse Inc., a company listed on NASDAQ). Apart from duties in relation to financial control, Mr. Wong was also responsible for the establishment of the system and procedures for corporate governance. Mr. Wong has substantial experience in financial management, accounting and corporate governance.

Save as disclosed above, Mr. Wong does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company. He has no interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

The appointment of Mr. Wong will be for a term from the date of appointment till 31 December 2005. The director's fee of Mr. Wong is proposed to be HK\$150,000 per annum, to be calculated according to the exact date of appointment. Save as disclosed herein, there are no other matters that need to be brought to the attention of the Shareholders.