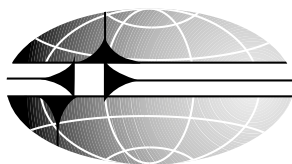

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 the transferee or the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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)

CONNECTED TRANSACTION

Independent Financial Adviser to the Independent Board Committee



A letter from the Independent Board Committee is set out on page 12 of this circular. A letter from Tai Fook, the independent financial adviser, is set out on pages 13 to 26 of this circular.

A notice convening an extraordinary general meeting 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 18 February 2005 (Friday) is set out on pages 33 to 35 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 form 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 Rooms 1901-5, 19th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event, not less than 24 hours before the holding of the extraordinary general meeting. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the extraordinary general meeting or any adjourned meeting(s) should you so wish.

3 January 2005

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DEFINITIONS

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

“Acquisition”	the acquisition of 30% equity interest in GY Expressway Company under the Acquisition Agreement
“Acquisition Agreement”	the agreement entered into between the Company and GD Roads & Bridges on 8 December 2004 for the acquisition of 30% equity interest in GY Expressway Company
“associates”	has the same meaning as ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	深圳高速公路股份有限公司 (Shenzhen Expressway Company Limited), a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange and A Shares of which are listed on the Shanghai Stock Exchange
“Consideration”	RMB179,180,000 (approximately HK\$169,038,000), being the total amount payable by the Company for the acquisition of 30% equity interest in GY Expressway Company pursuant to the Acquisition Agreement
“Directors”	the directors of the Company
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened for approving the Acquisition Agreement and the Acquisition contemplated thereunder
“GD Communications Group”	廣東省交通集團有限公司 (Guangdong Communications Group Company), a company incorporated in the PRC with limited liability
“Guangwu Expressway”	the expressway from Guangzhou (Guangdong) to Wuzhou (Guangxi), comprising the expressway from Guangzhou to Zhaoqing, Guangwu Project and the second phase of Guangwu Expressway
“GY Expressway Company”	雲浮市廣雲高速公路有限公司 (Yunfu Guangyun Expressway Company Limited), a company incorporated in the PRC with limited liability
“Guangwu Project”	the project for the construction of Guangwu Expressway (Maan to Hekou section) which has a length of 36.5 km from Maan Town Zhaoqing City Guangdong Province to Hekou Town Yunfu City

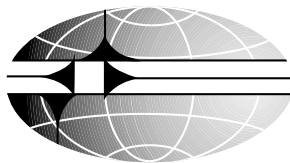
DEFINITIONS

“GD Roads & Bridges”	廣東省路橋建設發展有限公司 (Guangdong Roads and Bridges Construction Development Company Limited), a company incorporated in the PRC with limited liability
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Directors comprising all the independent non-executive Directors, namely Mr. Ho Pak Cho, Denis Morgie, Mr. Li Zhi Zheng, Mr. Zhang Zhi Xue and Mr. Poon Kai Leung, James
“Independent Shareholders”	shareholders other than GD Roads & Bridges and its associates
“Independent Third Party”	person who, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquires, is third party independent of and are not connected persons of the Company and its subsidiaries, its directors, chief executive, promoters, supervisors or substantial shareholders or their respective associates
“JZ Expressway”	江中高速公路有限公司 (Jiangzhong Expressway Company Limited), a company incorporated in the PRC with limited liability
“Latest Practicable Date”	30 December 2004, being the latest practicable date before the printing of this circular for ascertaining information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	holder(s) of shares of the Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Tai Fook”	Tai Fook Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity for the purpose of SFO, being the independent financial adviser to the Independent Board Committee
“Yunfu Company”	Yunfu Expressway Construction Company (雲浮市高速公路建設公司), a company incorporated in the PRC with limited liability, an Independent Third Party
“YM Expressway”	陽茂高速公路有限公司 (Yangmao Expressway Company Limited), a company incorporated in the PRC with limited liability
“Zhaoqing Company”	Zhaoqing Highway Development Company (肇慶市公路發展總公司), a company incorporated in the PRC with limited liability, an Independent Third Party

Note: For the purpose of this circular, the exchange rate between HK\$ and RMB of HK\$1 to RMB1.06 has been used for illustrative purpose.



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:

Chen Chao

Wu Ya De

Zhang Rong Xing

Zhong Shan Qun

Tao Hong

Lin Xiang Ke

Zhang Yang

Chiu Chi Cheong, Clifton

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

3 January 2005

To Shareholders

Dear Sirs or Madams,

CONNECTED TRANSACTION

INTRODUCTION

The Directors announced on 8 December 2004 that the Company as purchaser entered into the Acquisition Agreement with GD Roads & Bridges as vendor for the acquisition of 30% equity interest in GY Expressway Company. The Consideration involved is RMB179,180,000 (approximately HK\$ 169,038,000).

As GD Roads & Bridges is one of the promoters of the Company, it is a connected person of the Company. The Acquisition constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information relating to the details of the Acquisition Agreement, to set out the recommendation from the Independent Board Committee and the letter of advice from Tai Fook.

BACKGROUND

Pursuant to the ‘Notice of Pre-approval procedures for investment in Guangdong Province Expressway Projects’ 《廣東省高速公路項目招商資格預審須知》 issued by GD Communications Group (the parent company of GD Roads & Bridges holding all its equity interest), 29 expressway projects located in various areas of Guangdong Province are being put on the market for investment by investors.

GD Communications Group is inviting tenders for equity interests in the 29 expressway projects from investors respectively. The relevant asset holding companies in GD Communications Group will then enter into acquisition agreements with those investors which are awarded with the relevant tender.

On 5 March 2004 and 7 April 2004, the Company and the relevant asset holding companies in GD Communications Group entered into agreements for the acquisition of a 25% equity interest in YM Expressway and a 25% equity interest in JZ Expressway respectively. The subject matters of such agreements are two of the aforesaid 29 expressway projects. Please refer to the circular of the Company dated 26 April 2004 for details of these transactions.

The subject matter of the Acquisition, being a 30% equity interest in GY Expressway Company, is also one of the aforesaid 29 expressway projects for tender. The Company submitted a bid in the tender for such interest and was awarded the relevant tender.

ACQUISITION AGREEMENT

Date:	8 December 2004
Vendor:	GD Roads & Bridges
Purchaser:	The Company
Assets to be acquired:	30% equity interest in GY Expressway Company
Consideration:	The Consideration for the Acquisition is RMB179,180,000 (approximately HK\$169,038,000) payable in cash. It is determined on normal commercial terms and fair and reasonable basis and by reference to the estimated share of shareholder’s investment of RMB149,100,000 (approximately HK\$140,660,000) of GY Expressway Company attributable to 30% equity interest in GY Expressway Company, plus a premium of RMB30,080,000 (approximately HK\$28,377,000). The Company shall use its internal resources to settle the Consideration.

LETTER FROM THE BOARD

Payment: Pursuant to the terms of the Acquisition Agreement, part of the Consideration in the amount of RMB148,505,000 (approximately HK\$140,099,000) shall be paid to GD Road & Bridges in cash and RMB30,675,000 (approximately HK\$28,939,000) shall be paid to GY Expressway Company in cash as capital reserve fund.

A deposit of RMB1,000,000 (approximately HK\$943,000) has been paid by the Company to GD Roads & Bridges.

The balance of the Consideration, i.e. RMB147,505,000 (approximately HK\$139,156,000) payable to GD Roads & Bridges, and RMB30,675,000 (approximately HK\$28,939,000) payable to GY Expressway Company, shall be payable in cash by the Company within 5 working days from:

- (i) the conversion by GD Roads & Bridges of the shareholders' loan of RMB70,317,674.76 (approximately HK\$66,337,000) provided by GD Roads & Bridges to GY Expressway Company into capital reserve fund of GY Expressway Company; and
- (ii) the effective date of the Acquisition Agreement.

Effective Date: The Acquisition Agreement shall become effective upon fulfillment of the following conditions:

- (i) obtaining of approval or authorization by GD Roads & Bridges from the GD Communications Group in relation to the Acquisition; and
- (ii) obtaining of approval by the Shareholders in general meeting of the Company of the Acquisition.

Other terms: (i) GD Roads & Bridges shall convert the shareholders' loan of RMB70,317,674.76 (approximately HK\$66,337,000) provided by GD Roads & Bridges to GY Expressway Company into the capital reserve fund of GY Expressway Company within 10 days of the signing of the Acquisition Agreement.

LETTER FROM THE BOARD

- (ii) GD Roads & Bridges shall pay to GY Expressway Company an amount of RMB68,507,000 (approximately HK\$64,629,000) as outstanding capital reserve fund within 10 days upon fulfillment of all the payment obligations by the Company under the Acquisition Agreement.
- (iii) If upon the completion of the Guangwu Project, the settlement costs exceeds the total estimated investment amount of RMB1,420,000,000 (approximately HK\$1,339,623,000) stipulated in the articles and the co-operation contract of GY Expressway Company, 35% of the portion in excess shall be contributed by the shareholders of GY Expressway Company in proportion to their shareholdings. If the settlement costs is less than RMB1,420,000,000 (approximately HK\$1,339,623,000), 35% of the portion saved shall be used to reduce the contribution of capital reserve fund by the shareholders proportionally.
- (iv) If the Company cannot obtain the Shareholders' approval for the Acquisition within 90 days (such period may be extended upon the agreement of the parties) of the signing of the Acquisition Agreement so that the Acquisition Agreement could not be effective, the Acquisition Agreement shall be terminated automatically. However the deposit of RMB1,000,000 (approximately HK\$943,000) paid by the Company to GD Roads & Bridges is not refundable. In such event, the Company shall suffer a loss of RMB1,000,000 (approximately HK\$943,000).

On 7 December 2004, GD Roads & Bridges converted the shareholders' loan of RMB70,317,674.76 (approximately HK\$66,337,000) provided to GY Expressway Company into the capital reserve fund of GY Expressway Company.

INFORMATION ON GY EXPRESSWAY COMPANY

GY Expressway was incorporated in the PRC on 8 November 2002 with registered capital of RMB10,000,000 (approximately HK\$9,434,000). As per the estimated investment costs of the Guangwu Project approved by the relevant government authority, 廣東省發展和改革委員會 (Development and Reform Commission of Guangdong Province), its total investment is estimated to be RMB1,420,000,000 (approximately HK\$1,339,623,000), 35% out of which amounted to RMB497,000,000 (approximately HK\$468,868,000) shall be funded by the shareholders of GY

LETTER FROM THE BOARD

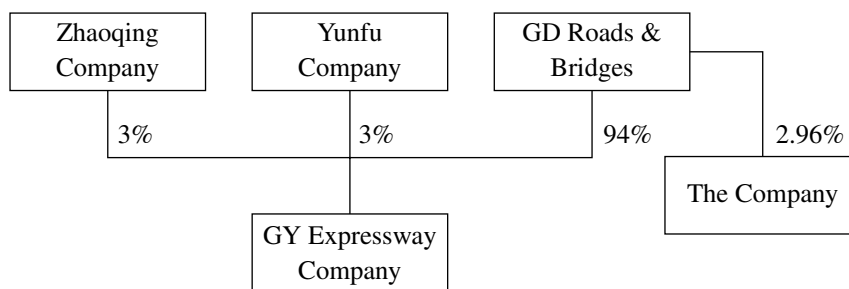
Expressway Company by way of registered capital of RMB10,000,000 (approximately HK\$9,434,000) and capital reserve fund of RMB487,000,000 (approximately HK\$459,434,000). It is not expected that the settlement costs of Guangwu Project would exceed estimated investment costs of RMB1,420,000,000 (approximately HK\$1,339,623,000).

The difference between the total investment amount of RMB1,420,000,000 (approximately HK\$1,339,623,000) and the shareholders' funds of RMB497,000,000 (approximately HK\$468,868,000) in the amount of RMB923,000,000 (approximately HK\$870,755,000) shall be funded by way of bank finance. At present, three PRC banks have already signed loan agreements with GY Expressway Company respectively to provide such finance.

GY Expressway Company is a project company incorporated to carry out the finance, design, construction, operation and management of the Guangwu Project, which is currently the only project of GY Expressway Company. As Guangwu Project was just completed in December 2004 and opened to traffic since 24 December 2004, it is not practicable for GY Expressway Company to prepare profit record since its incorporation. As at 31 August 2004, the net asset value and total assets of GY Expressway Company is RMB290,100,000 (approximately HK\$273,679,000) and RMB1,006,403,206 (approximately HK\$949,437,000) respectively. The fund injected by shareholders of GY Expressway Company shall be RMB497,000,000 (approximately HK\$468,868,000) after the completion of the Acquisition.

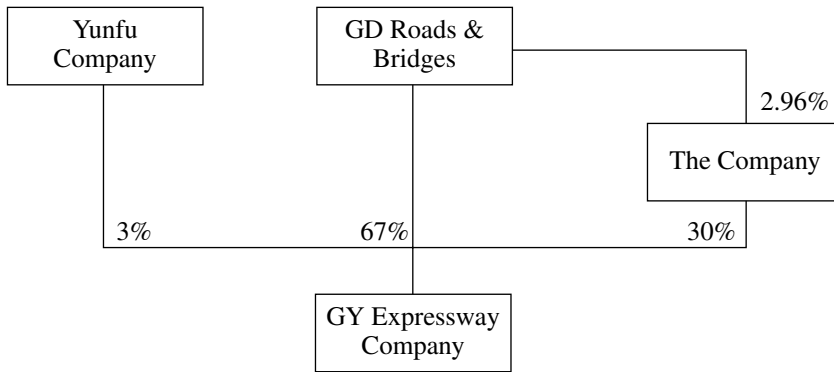
GD Roads & Bridges is now holding 94% equity interest in GY Expressway Company before the Acquisition and will hold 67% equity interest in GY Expressway Company after the Acquisition. Below is the corporate chart of GY Expressway Company before and after the Acquisition:

Before the Acquisition:



LETTER FROM THE BOARD

After the Acquisition:



On 8 December 2004, Zhaoqing Company entered into agreement with GD Roads & Bridges to transfer its 3% equity interest in GY Expressway Company to GD Roads & Bridges. It is expected that such transfer of 3% equity interest in GY Expressway Company will be completed before the completion of the Acquisition.

Upon completion of the Acquisition, the Company is entitled to appoint two directors on the board of directors of GY Expressway Company which comprised of a total of 7 directors.

SCOPE OF BUSINESS

Guangwu Project is a section of the national trunk road from Shantou Guangdong to Qingshuihe Yunnan, running from Maan Town Zhaoqing City Guangdong Province, connecting with the terminal of the expressway from Guangzhou to Zhaoqing, to Hekou Town Yunfu City Guangdong Province, where it connects with the second phase of Guangwu Expressway in planning; with a length of 36.5 km in total, an expressway with dual directional four lanes. Guangwu Project is one of the major expressway projects planned under the “Tenth Five-Year Plan” (十五規劃) of Guangdong Province. Guangwu Expressway is to facilitate the communication between the Pearl River Delta region and Guangxi, Yunnan, Guizhou, Chongqing and Sichuan, and will become the major pathway of western Guangdong.

REASONS FOR THE ACQUISITION

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

The Directors believe that entering into the Acquisition Agreement will allow the Company to participate in the Guangwu Project via its shareholdings in GY Expressway Company, broaden the asset base and the profit source of the Group and hence will further consolidate the Company’s participation in the investment, construction and operational management of toll highways and roads in Shenzhen, the Pearl River Delta region as well as other regions of Guangdong Province.

LETTER FROM THE BOARD

The Directors consider that the Acquisition Agreement was entered into in the ordinary course of business and on normal commercial terms and the terms of the Acquisition Agreement are fair and reasonable as far as the Company and the Shareholders are concerned and the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

GENERAL INFORMATION

GD Roads & Bridges is the promoter of the Company and the fourth largest Shareholder holding 2.96% of the equity interest of the Company. Its principal business includes the investment, construction, operation and management of highways, bridges, property projects and their ancillary facilities; leasing of building machines and provision of technological services; sales of building materials.

The original cost of investment to GD Roads & Bridges attributable to the 30% equity interest in GY Expressway Company is RMB118,425,000 (approximately HK\$111,722,000), which to the best of the knowledge of the Company, has been paid by GD Roads & Bridges to GY Expressway Company from time to time since the incorporation of GY Expressway Company during the course of construction of the Guangwu Project. Under the articles and the co-operation contract of GY Expressway Company, GD Roads & Bridges is obliged to contribute RMB149,100,000 (approximately HK\$140,660,000) to GY Expressway Company for its 30% equity interest in GY Expressway Company as investment. However, GD Roads & Bridges paid only RMB118,425,000 (approximately HK\$111,722,000) and there is an outstanding amount of RMB30,675,000 (approximately HK\$28,939,000) to be paid to GY Expressway Company in cash as capital reserve fund. Instead, such sum will now be paid by the Company to GY Expressway Company under the terms of the Acquisition Agreement as part of the Consideration.

CONNECTED TRANSACTION

As GD Roads & Bridges is one of the promoters of the Company, it is a connected person of the Company. The Acquisition constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Apart from GD Roads & Bridges and its associates, no other Shareholder is interested in the Acquisition Agreement and is required to refrain from voting in Shareholders' meeting accordingly.

INDEPENDENT BOARD COMMITTEE/INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the Acquisition. Tai Fook is appointed as the independent financial adviser advising the Independent Board Committee whether the Acquisition is fair and reasonable so far as the Independent Shareholders and the Company are concerned.

LETTER FROM THE BOARD

EXTRAORDINARY GENERAL MEETING

The Extraordinary General Meeting 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 at 3:00 p.m. on 18 February 2005 (Friday), a notice of which is set out on pages 33 to 35 of this circular. An ordinary resolution will be proposed at the Extraordinary General Meeting for the Independent Shareholders to approve by poll the Acquisition Agreement and the Acquisition contemplated thereunder. GD Roads & Bridges and its associates are required to refrain from voting at the Extraordinary General Meeting.

Enclosed is a form of proxy for use at the Extraordinary General Meeting. Whether or not you intend to 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 of H Shares of the Company, Hong Kong Registrars Limited, at Rooms 1901-5, 19th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event, not less than 24 hours before the holding of the Extraordinary General Meeting. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the Extraordinary General Meeting or any adjourned meeting(s) should you so wish.

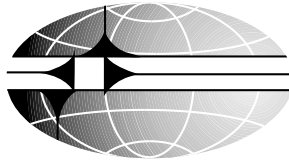
RECOMMENDATION

The Directors consider that the Acquisition Agreement was entered into in the ordinary course of business and on normal commercial terms and the terms of the Acquisition are fair and reasonable so far as the Company and the Shareholders are concerned and the Acquisition Agreement is in the interests of the Company and its Shareholders as a whole and accordingly recommend that all Independent Shareholders should vote in favour of the resolution to be proposed at the Extraordinary General Meeting to approve the Acquisition Agreement and the Acquisition contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter of advice from Tai Fook, and the information set out in the appendix of this circular.

By order of the Board,
Shenzhen Expressway Company Limited
Chen Chao
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)

To the Independent Shareholders

3 January 2005

Dear Sirs or Madams,

CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board in the circular dated 3 January 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 Tai Fook in respect of the Acquisition as set out in the letter from Tai Fook in the Circular.

Recommendation

We have considered the principal factors taken into account by Tai Fook in arriving at its opinion in respect of the Acquisition Agreement. We concur with the views of Tai Fook that the terms of the Acquisition Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Acquisition is 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 to be proposed at the Extraordinary General Meeting.

Yours faithfully,

Ho Pak Cho, Denis Morgie

Li Zhi Zheng

Zhang Zhi Xue

Poon Kai Leung, James

Independent Board Committee

LETTER FROM TAI FOOK

The following is the text of the letter of advice from Tai Fook to the Independent Board Committee dated 3 January 2005 for incorporation in this circular.



Tai Fook Capital Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

3 January 2005

To the Independent Board Committee
Shenzhen Expressway Company Limited
19/F., Tower A
United Plaza
5022 Binhe Road North
Shenzhen 518033
The PRC

Dear Sirs,

CONNECTED TRANSACTION ACQUISITION OF 30% EQUITY INTEREST IN GY EXPRESSWAY COMPANY

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in relation to the Acquisition, details of which are contained in the circular of the Company dated 3 January 2005 (the "Circular") to the Shareholders of which this letter forms part. Terms used in this letter shall have the same respective meanings in the Circular unless the context otherwise requires.

On 8 December 2004, the Company as purchaser entered into the Acquisition Agreement with GD Roads & Bridges as vendor in relation to the acquisition of 30% equity interest in GY Expressway Company. As mentioned in the "Letter from the Board" of the Circular, the subject matter of the Acquisition, being a 30% equity interest in GY Expressway Company which owns Guangwu Project, the expressway projects linking various towns and cities of Guangdong Province, is put on the market by GD Communications Group, which is a state-owned company with establishment approved by the Guangdong Provincial Government and is the parent company of GD Roads & Bridges, for investment by investors by way of tender. The Company submitted a bid in the tender for the Acquisition on 28 October 2004 and was awarded the relevant tender. Accordingly, GD Roads & Bridges, being the relevant asset holding company of GY Expressway Company, entered into the Acquisition Agreement with the Company on 8 December 2004. The consideration for the Acquisition is RMB179,180,000 (approximately HK\$169,038,000).

LETTER FROM TAI FOOK

As GD Roads & Bridges is one of the promoters of the Company, it is a connected person of the Company under the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, which will be subject to the requirements of reporting, announcement and approval of the Independent Shareholders. Each of GD Roads & Bridges and its associates shall abstain from voting in respect of the Acquisition at the Extraordinary General Meeting.

The Independent Board Committee, comprising Mr. Ho Pak Cho, Denis Morgie, Mr. Li Zhi Zheng, Mr. Zhang Zhi Xue and Mr. Poon Kai Leung, James, has been established to advise the Independent Shareholders on the fairness and reasonableness of the terms of the Acquisition Agreement from the perspective of the Company and the Independent Shareholders as a whole.

In formulating our recommendation, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have reviewed, among other things, the following documents:

- (i) the Acquisition Agreement dated 8 December 2004;
- (ii) 廣東省路橋建設發展有限公司廣梧高速公路馬安至河口段招商細則 (the rules for the tender for the Guangwu Project by GD Roads & Bridges);
- (iii) 招商報價通知書 (the notice for bid of tender) to the Company by GD Roads & Bridges;
- (iv) 廣梧高速公路馬安至河口段項目招商報價確認表 (the confirmation of the bid of tender in relation to the Guangwu Project);
- (v) the financial due diligence report on GY Expressway Company, which was issued on 10 November 2004 and prepared by an independent PRC public accountant, 深圳天健信德會計師事務所 (Pan-China Schinda Certified Public Accountants);
- (vi) the legal due diligence report, which was issued on 9 October 2004 in relation to the acquisition of the shareholding in GY Expressway Company and prepared by PRC legal advisers, 廣東君言律師事務所 (Guangdong Junyan Law Firm);
- (vii) the traffic flow analysis and forecasts research report in relation to the Guangwu Project (“Traffic Flow Analysis and Forecasts”) prepared by a qualified traffic consultant, 深圳高速工程顧問有限公司 (Shenzhen Expressway Consultancy Limited Company) (“SZ Expressway Consultancy”);
- (viii) the investment proposal for the acquisition of 30% equity interest in GY Expressway Company (“Investment Proposal”) prepared by the Company, which sets out, among other things, background of the Guangwu Project, the financial position of GY Expressway

LETTER FROM TAI FOOK

Company, the construction progress of the Guangwu Project, the shareholding structure of GY Expressway Company, the analysis of the financial return to the Company based on its investment in Guangwu Project, as well as the analysis and the investment recommendations relating to the Guangwu Project;

- (ix) the unaudited management accounts of GY Expressway Company as at 30 September 2004;
- (x) 交通顧問臨時資格證書 (the transitional qualification certificate) of SZ Expressway Consultancy which expires on 30 December 2006;
- (xi) the annual report of the Company for the year ended 31 December 2003; and
- (xii) the interim report of the Company for the 6 months ended 30 June 2004 (the “Interim Report”).

We have also performed an on-site inspection of the Guangwu Project, and discussed with the management of the Company for the reasons and benefits of the Acquisition.

We have assumed that all the information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company were true, accurate and complete at the time they were made and will continue to be true, accurate and complete at the date of the Circular and will continue to be true up to the date of the Extraordinary General Meeting.

We consider that we have been provided with sufficient information which forms a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. The Directors have further confirmed that there are no other material facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company.

BACKGROUND INFORMATION

1. The tender for 30% equity interest in GY Expressway Company

Pursuant to “The Notice of Pre-approval procedures for investment in Guangdong Province Expressway Projects” 《廣東省高速公路項目招商資格預審須知》 issued by GD Communications Group, it is intended by GD Communications Group to put on market for investment by investors by way of tender 29 expressway projects owned by it and located in various areas of Guangdong Province. The relevant asset holding companies in GD Communications Group will then enter into acquisition agreements with those investors which are awarded the relevant tender.

LETTER FROM TAI FOOK

Earlier this year, the Company was invited to make a bid for the tender for two of the 29 expressway projects of GD Communications Group. On 5 March 2004 and 7 April 2004, the Company and the relevant asset holding companies in GD Communications Group entered into agreements for the acquisition of a 25% equity interest in YM Expressway and a 25% equity interest in JZ Expressway respectively. The structure and the basis of consideration of these two transactions were similar to that of the Acquisition. In particular, both of the previous two transactions involved the investment in less than a controlling stake in expressways and the consideration of both acquisitions were determined based on the investment costs of the subsidiaries of GD Communications Group plus a premium. Please refer to the circular of the Company dated 26 April 2004 for details of these transactions.

The subject matter of the Acquisition, being a 30% equity interest in GY Expressway Company, is also one of the aforesaid 29 expressway projects being put on the market by way of tender. The Company, one of the investors being invited, submitted a bid for the tender for such interest on 28 October 2004 and was awarded the relevant tender.

Prior to submission of the bid for the tender for the Acquisition, the Company had mainly performed the following due diligence work on the GY Expressway Company and the Guangwu Project:

- (i) engaged an independent PRC public accountant, 深圳天健信德會計師事務所 (Pan-China Schinda Certified Public Accountants), to prepare a financial due diligence report on GY Expressway Company, which report was issued on 10 November 2004, and performed review on such report;
- (ii) engaged PRC legal advisers, 廣東君言律師事務所 (Guangdong Junyan Law Firm), to prepare a legal due diligence report in relation to the acquisition of the shareholding in GY Expressway Company, which report was dated 9 October 2004 and performed review on such report;
- (iii) engaged a qualified traffic consultant, SZ Expressway Consultancy, to prepare the Traffic Flow Analysis and Forecasts;
- (iv) prepared the Investment Proposal for the consideration by the Board;
- (v) reviewed the 工程可行性研究報告 (Construction Feasibility Forecasts Report) in relation to the Guangwu Project prepared by 廣東省公路勘察規劃設計院 (Road Field Investigation Design Institute of Guangdong Province); and
- (vi) performed physical inspection on the traffic flow of the roads and expressway located nearby Guangwu Expressway.

Based on the minimum bid price of the tender required by GD Communications Group, the Directors have determined that the Consideration is acceptable by the Board and consider that it is in the interests of the Company to invest in the Guangwu Project. Accordingly, the Company submitted a bid for the tender for the Acquisition based on the Consideration on 28 October 2004 and was awarded the relevant tender.

2. GY Expressway Company

GY Expressway Company was incorporated in the PRC on 8 November 2002 with a registered capital of RMB10,000,000 (approximately HK\$9,434,000). It is a project company incorporated to carry out the finance, design, construction, operation and management of the Guangwu Project, which is currently the sole business project of GY Expressway Company. The Guangwu Project, which covers the Maan to Hekou section of Guangwu Expressway, is a two ways four-lane expressway with a length of 36.5 km extending from Maan Town of Zhaoqing City to Hekou Town of Yunfu City in Guangdong Province, and which has been opened to traffic since 24 December 2004. As approved by 廣東省發展和改革委員會 (Development and Reform Commission of Guangdong Province), the total estimated investment costs of the Guangwu Project is RMB1,420,000,000 (approximately HK\$1,340,000,000). According to the articles of association of GY Expressway Company, 35% of the total estimated investment costs of the Guangwu Project amounting to RMB497,000,000 (approximately HK\$468,868,000) shall be funded by the shareholders of GY Expressway Company by way of registered capital and capital reserve fund (“Shareholders’ Fund”), while the remaining 65% of the total estimated investment costs amounting to RMB923,000,000 (approximately HK\$870,755,000) will be funded by bank financing.

3. Consideration for the Acquisition

The Consideration is based on the 30% share of the Shareholders’ Fund amounting to RMB149,100,000 (approximately HK\$140,660,000), and a premium of RMB30,080,000 (approximately HK\$28,377,000). Based on the Consideration, the management of the Company estimated that the internal rate of return (“IRR”) of the Acquisition in a base case traffic flow scenario (to be explained in the paragraphs under paragraph (2) below) is approximately 13.84% and the payback period is 10 years.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Rationale for the Acquisition

(a) Development strategy of the Company

The Company is principally engaged in the investment, construction, operation and management of toll highways and roads in the PRC. As at the Latest Practicable Date, the major investments of the Company include the Meiguan Expressway, Jihe Expressway, Shuiguan Expressway and Yanba Expressway, which are located in Shenzhen, as well as Yangmao Expressway, Jiangzhong Expressway and Guangzhou Western Second Ring Expressway, which are located in other areas of Guangdong Province. As disclosed in the Interim Report, it is the development strategy of the Company to invest and develop toll expressways with Shenzhen as the base expanding throughout the Pearl River Delta Region, whilst selectively acquiring expressway projects of quality in other regions of central and eastern PRC.

However, as advised by the management of the Company, although the economic development of Shenzhen is growing rapidly and it will continue to improve its transportation network by building new highways and roads, the area of Shenzhen is relatively small as

compared to that of Guangdong Province. To accomplish the long-term development strategy of the Company as mentioned in the Interim Report, it would be necessary for the Group to capitalize on the opportunities arising from the disposal, by Guangdong Provincial Government, of equity rights in expressway projects currently owned by it, and use its best endeavours to increase its investment in toll expressways outside Shenzhen.

(b) *Business potential of the Guangwu Project*

(i) *Good location*

As mentioned in the previous paragraph, the Guangwu Project is a section of Guangwu Expressway that extends from Maan Town of Zhaoqing City to Hekou Town of Yunfu City in Guangdong Province. When completed, Guangwu Expressway will become the major pathway of western Guangdong, which extends from the Pearl River Delta region, to Guangxi Province, Yunnan Province, Chongqing City and Sichuan Province. In this regard, investing into the Guangwu Project is in line with the Company's stated development strategy to extend its investment in toll expressways located in the region of Guangdong province.

(ii) *Linkage to other major expressway*

The Guangwu Project connects with the terminal of the expressway from Guangzhou to Zhaoqing ("Guangzhao Expressway"). Guangzhao Expressway was open to traffic in 2003. According to the 2004 interim report of Guangdong Provincial Expressway Development Co., Ltd., a company listed on the Shenzhen Stock Exchange, which owns part of Guangzhao Expressway, the traffic flow of the Guangzhao Expressway has kept increasing at an annual growth rate of more than 20%. Since the entrance of the Guangwu Project connects with the exit of Guangzhao Expressway, the heavy traffic flow of Guangzhao Expressway will benefit the traffic flow of the Guangwu Project.

(iii) *Dividend income*

According to its articles of association, GY Expressway Company will distribute the excess amount of its after tax net profit over the amount required for bank loan repayment to its shareholders as dividend. Accordingly, the investment in GY Expressway Company will bring dividend income to the Company when GY Expressway Company starts generating profit of an amount in excess of the amount required for bank loan repayment.

(iv) *Low construction risk*

The Guangwu Project has been opened to traffic since 24 December 2004, and therefore the construction risk associated with the Guangwu Project as explained in paragraph (5)(d) below is minimal.

(v) *Low level of competition*

Guangwu Project is one of the major expressway projects planned under the “Tenth Five-Year Plan” (十五規劃) of Guangdong Province. As advised by the management of the Company, a project relating to an investment in expressway requires approval from the relevant government authority. The management of the Company is of the view that the government normally would not approve any construction plan of another expressway near to the Guangwu Project before saturation of the traffic flow of the Guangwu Project to better utilize available resources of the whole society. We concur with the Company’s view and consider that it would not be in the economic benefits for the western part of Guangdong Province to have two expressways being constructed in close proximity to each other that connect to similar places. Accordingly, we consider the level of competition for Guangwu Project will not be high.

In view of the above benefits of the Acquisition that may be enjoyed by the Group from a business perspective, we agree with the Directors that participating in the Guangwu Project through entering into the Acquisition Agreement allows the Company to broaden its investment in expressways and extend its market coverage to the western part of Guangdong Province, which is consistent with the development strategy of the Group and is in the interests of the Company and its Independent Shareholders as a whole.

2. Financial evaluation of the Guangwu Project

As mentioned in the previous paragraph, based on the Consideration, the Company had conducted an analysis on (i) the potential financial return of the Company’s investment in GY Expressway Company, which is formulated with reference to the forecast traffic flow extracted from the Traffic Flow Analysis and Forecasts; and (ii) the risk and benefits of the Acquisition from a business perspective. Such analysis is incorporated in the Investment Proposal for the consideration by the Board.

(a) *Traffic Flow Analysis and Forecasts*

The Traffic Flow Analysis and Forecasts was prepared by SZ Expressway Consultancy, a qualified traffic consultant, with reference to the town planning by the relevant national and provincial government authorities and the Construction Feasibility Forecasts Report of the Guangwu Project.

In the Traffic Flow Analysis and Forecasts, analyses were made on the following areas:

- (i) the existing situation and planning of the economic development in Guangdong Province;
- (ii) the existing situation and planning of the transport and communication development in Guangdong Province;

- (iii) the relevant constructed and operating expressways and the expressway network in Guangdong Province;
- (iv) the traffic flow situation of various cities in Guangdong Province, Guangxi Province as well as Yunnan Province;
- (v) the benefits of the Guangwu Project; and
- (vi) the present traffic flow indicated by different toll fee stations of the expressways in Guangdong Province.

Based on the data and information obtained in the above analyses, SZ Expressway Consultancy had conducted the traffic flow forecasts for the Guangwu Project. The forecasts were conducted for a period up to the year of 2030, which covers the entire approved period of operation of the Guangwu Project that lasts until 8 November 2027. According to the Traffic Flow Analysis and Forecasts, analyses were made for the base case, high-end and low-end traffic flow scenarios of the forecast traffic flow of the Guangwu Project.

We have reviewed the methodology, bases and assumptions underlying the Traffic Flow Analysis and Forecasts. Given the fact that SZ Expressway Consultancy has taken into consideration relevant data and information when preparing the Traffic Flow Analysis and Forecasts which includes the existing situation, planning and forecasts with reference to statistics of the existing toll road infrastructure and market in Guangdong Province and traffic flow of other expressways in surrounding area, we are of the view that the traffic flow forecasts generated in the Traffic Flow Analysis and Forecasts serves as a good reference for the purpose of evaluating the Guangwu Project.

(b) *Evaluation on the calculation of IRR*

With reference to (i) the Traffic Flow Analysis and Forecasts; (ii) the toll fees charged by Guangzhao Expressway, which connects with the Guangwu Project, as quoted from the statistics released by Guangdong Provincial Expressway Development Co., Ltd.; and (iii) the Construction Feasibility Forecasts Report prepared by the Road Field Investigation Design Institute of Guangdong Province, the Company had conducted a financial evaluation in relation to the Acquisition, which was incorporated in the Investment Proposal for the consideration by the Board.

We have reviewed the methodology, bases and assumptions adopted for conducting the evaluation in the Investment Proposal. We have also discussed with the management of the Company in this respect. In general, we note that the calculation of the return of the Acquisition was conducted on a cash flow basis, and the net cash flow was derived from deducting the total expected cash outflow from cash inflow to be incurred and generated by GY Expressway Company, and took into account the Company's 30% share of the amount expected to be

distributed by GY Expressway Company. Based on this evaluation, the Company has arrived at the implied IRR and the payback period of the proposed investment in GY Expressway Company. We have reviewed the basis of the three major elements of the evaluation, which are set out as follows:

Revenue (based on forecast traffic flow and toll fees)

(i) Forecast traffic flow

The traffic flow in three scenarios, being base case, high-end and low-end traffic flow scenarios, which was used to calculate the expected revenue in the operating life of the Guangwu Project, was extracted from the Traffic Flow Analysis and Forecasts prepared by SZ Expressway Consultancy. As mentioned in paragraph (2)(a) above, we consider that the forecast traffic flow generated in the Traffic Flow Analysis and Forecasts was formulated on reasonable assumptions and therefore we consider it to be a relevant reference for calculating the expected revenue of the Guangwu Project for evaluation purpose.

(ii) Toll fees

The toll fees used in the financial evaluation are determined by the Company with reference made to (i) Guangzhao Expressway, which connects with the Guangwu Project, as quoted from the statistics released by Guangdong Provincial Expressway Development Co., Ltd.; and (ii) 4 other national roads nearby the Guangwu Project. In fact, the toll fee standard used in the evaluation is more conservative as compared to the toll fee limit approved by 廣東省物價局 (Price Bureau of Guangdong Province) and 廣東省交通廳 (Guangdong Provincial Communications Department) on 1 November 2004 in relation to toll fee rate to be charged by GY Expressway Company. Given the fact that the Company has taken into consideration the government's policy in toll fee and the prevailing toll fee rates of the existing expressways in close proximity, we consider that the toll fees used by the Company in the evaluation are reasonable.

Expenses

(iii) Tax, maintenance and management fees, depreciation, and other expenses

Tax was computed in accordance with the rate required by the relevant government authority. Maintenance and management fees were calculated with reference to the Construction Feasibility Forecasts Report prepared by the Road Field Investigation Design Institute of Guangdong Province as adjusted based on the experience of the management of the Company. Depreciation was computed with reference to the forecast traffic flow for the approved operating life of the Guangwu Project as stated in the Traffic Flow Analysis and Forecasts. We consider that the basis for calculating the expected expenses in the evaluation is reasonable because the Company has taken into consideration the relevant expenses as set out in the Construction Feasibility Forecasts Report, which was approved by the government, and the past experiences of the Company.

Based on the above, we have no reason to doubt the reasonableness of the methodology, bases and assumptions adopted by the Company for calculating the projected cash flow of the Guangwu Project. Based on the forecast revenue and expenses in relation to the Guangwu Project mentioned above as well as the Consideration for the Acquisition, the IRR of the Company's investment in the Guangwu Project is expected to be approximately 13.84% with a payback period of 10 years in a base case traffic flow scenario and approximately 12.28% in the low-end traffic flow scenario with a payback period of 12 years.

3. Basis of the Consideration

As mentioned in the previous paragraph, the Consideration is determined based on the minimum bid price as stated in the invitation issued by GD Communications Group. The Consideration effectively represents 30% share of the Shareholders' Fund and a premium of RMB30,080,000 (approximately HK\$28,377,000). Based on the Consideration, the IRR of the Acquisition in a base case traffic flow scenario is approximately 13.84% with a payback period of 10 years and approximately 12.28% in the low-end traffic flow scenario with a payback period of 12 years as shown in the Investment Proposal.

IRR

By definition, IRR represents the discount rate that equates the sum of the net present value of the cash flows over time for an investment to the investment cost. Generally speaking, a company tends to choose an investment project with the highest IRR from a selection of potential investment projects provided that the IRR is higher than its cost of capital.

As advised by the management of the Company, they consider that IRR is the most relevant factor to consider when making an investment decision in toll expressways. Having considered the fact that the average interest rate for the Company is approximately 5%, the management of the Company is of the view that the IRR for the Acquisition is reasonable.

In assessing the reasonableness of the terms of the Acquisition, we have compared the implied IRR of the proposed investment based on the Consideration with the following parameters:

- (i) Weighted average cost of capital ("WACC")

If the IRR of the Company's investment in the Guangwu Project is higher than its WACC, this indicates that the Company's investment in the Guangwu Project will generate a positive value to the Company. According to Bloomberg, the WACC of the Company is 11.66%. Given the fact that (i) the IRR in the base case traffic flow scenario being approximately 13.84% is well above the WACC of the Company; and (ii) that even in the low-end traffic flow scenario as stated in the financial evaluation performed by the Company and incorporated in the Investment Proposal, the IRR of approximately 12.28% is still higher than the WACC of the Company, the Company's investment in the Guangwu Project is expected to generate a positive value to the Company based on the Consideration and it is in the interest of the Company to enter into the Acquisition Agreement.

(ii) Return on equity

Based on the Interim Report, the range of the return on equity of the Company for the five years ended 31 December 2003 (with the return on equity for the year ended 31 December 2003 being adjusted for the effect of the disposal of two Class 1 highways in March 2003) was from approximately 5.15% to 7.68%, averaging at approximately 6.94% during the five-year period. Accordingly, the IRR of the Acquisition is well above the average return on equity of the Company for the past five years.

(iii) Premium over the 30% share of the Shareholders' Fund

The Consideration represents a premium of RMB30,080,000 (approximately HK\$28,377,000) over 30% of the Shareholders' Fund amounting to RMB149,100,000 (approximately HK\$140,660,000). By acquiring an interest in the Guangwu Project, the construction of which is already completed, the Company will not need to bear the risks associated with a new start-up project which includes construction risk, lack of cash inflow and potential and economic changes during the construction period. Furthermore, GD Roads & Bridges has already invested in the Guangwu Project for over 2 years and the Guangwu Project is already completed and has been opened to traffic since 24 December 2004. Accordingly, we consider that paying a premium to GD Roads & Bridges for the Acquisition is reasonable. In respect of the amount of the premium, which represents approximately 20% premium over the 30% share of the Shareholders' Fund, we are of the view that so long as the IRR as calculated based on the Consideration is favorable to the Company with reference to WACC and return on equity of the Company as mentioned above, the Consideration and therefore the amount of the premium are considered to be reasonable.

Given the fact that (i) the implied IRR calculated based on the Consideration is higher than the Company's WACC and the average return on equity of the Company for the five years ended 31 December 2003; and (ii) it is reasonable for the Company to pay a reasonable amount of premium as part of the Consideration in view of the fact that the Guangwu Project is already completed, we consider that the Consideration of the Acquisition to be reasonable.

Payback period

Based on the Consideration, the payback period is expected to be 10 years in a base case traffic flow scenario or 12 years in a low-end traffic flow scenario. As advised by the management of the Company, the focus of the Company in assessing the reasonableness of the Consideration and the investment in the Guangwu Project is on the potential benefits to the Group from a business perspective and the IRR of the proposed investment. Accordingly, we have also focused our analysis in these two areas as mentioned in the previous paragraphs. For the payback, given the fact that (i) the operating life of the Guangwu Project is approximately 23 years; and (ii) the payback period of the Guangwu Project is close to those for the Company's other expressway projects (i.e. YM Expressway and JZ Expressway) which have an average payback period of 12 to 16 years, we consider that the Consideration, which enables the Company to recoup its full investment in the Guangwu Project in halfway of the operating life of the Guangwu Project, is reasonable.

4. Impact on the Group's financial position

As set out in the "Letter from the Board" of the Circular, the Consideration will be payable in cash and will be funded by the internal resources of the Company. In this regard, the following factors have been considered in analysing the impact of the Acquisition on the Group's financial position:

(a) *Working capital and indebtedness*

According to the Interim Report, the Group had cash balance of approximately RMB675,135,000 (approximately HK\$636,920,000) as at 30 June 2004 and the total borrowings of the Group payable within 1 year of approximately RMB363,082,000 (approximately HK\$342,530,000). Accordingly, the Group had a net cash position of approximately RMB312,053,000 (approximately HK\$294,390,000). As advised by the Directors, having considered (i) the fact that the Company is not required to make any further equity injection after completion of the Acquisition except for the Consideration since the Directors do not expect the final total investment costs of the Guangwu Project will exceed its total estimated investment costs ; (ii) the latest financial position of the Group; and (iii) the cashflow expected to be derived from its existing operations, the Company will be able to finance the Acquisition from its internal resources, and will continue to have sufficient working capital for its daily operations after the Acquisition. On 23 December 2004, the Company announced that it will invest in the project of expressway from Nantou to Guangming in Shenzhen (the "Project"), which investment cost amounts to approximately RMB 2,876,000,000 and is to be built by the Company's own finance. The Directors have confirmed to us that the Company's ability to finance the Acquisition would not be affected by the Project, the construction of which is expected to commence in mid 2005 and the relevant investment cost will be injected by the Company by installments over the estimated two and a half year period of construction. Based on the information provided to us, our discussions with the Directors and the bases and assumptions upon which the Directors have arrived at such view, we consider that such view is fair and reasonable.

(b) *Profit and loss account*

As confirmed by the Directors, the acquisition of 30% equity interest in GY Expressway Company will be equity accounted for in the financial statements of the Group and there would not be any material impact on the Group's profit and loss account immediately following completion of the Acquisition except for the sharing of profits from the Guangwu Project.

(c) *Shareholdings of the Shareholders*

Given that the Acquisition will be financed by internal resources that do not involve the issue of new Shares, the existing percentage shareholding of the Shareholders will remain unchanged.

5. Risk factors

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

(a) ***Toll road operation of the Guangwu Project***

The operations of the Guangwu Project may be adversely interrupted or otherwise affected by a variety of events, such as serious traffic accidents, natural disasters and other unforeseen circumstances. If the operations of the Guangwu Project are interrupted in whole or in part in the operating period as a result of any such events, the income of the Guangwu Project and thus the Company, will be adversely affected.

(b) ***Traffic volumes of the Guangwu Project***

The Traffic Flow Analysis and Forecasts has been made subject to certain bases and assumptions, and has been prepared using such analytical methods and model as were considered appropriate by SZ Expressway Consultancy. However it should be noted that the traffic volumes, and thus toll revenues, can be affected by a number of factors including the quality and proximity of alternative roads, weather conditions, fuel prices, number of vehicles, environmental regulations, taxation and general economic conditions.

(c) ***Toll fee rate***

Any adjustment to the toll fees from users of toll roads in Guangdong Province requires the approval of Guangdong Provincial Government . It should be noted that no assurance can be given that any future applications for increase of toll rates will be approved by Guangdong Provincial Government or that Guangdong Provincial Government will not require a toll reduction.

(d) ***Construction risk***

Considerable capital expenditure is required for most expressway projects during the construction period. The construction period and the capital required to complete the expressway may be effected by various factors, including the shortage of construction materials, equipment and labour, bad weather conditions, natural disasters, disputes with workers or contractors, accidents, changes in government policies and other unforeseen difficulties or circumstances. Delay may result if any such events occur, resulting in cost overruns and loss of income. As advised by the Directors, since the Guangwu Project has been opened to traffic since 24 December 2004 and currently only subject to the final verification by the relevant government authority, which, in the view of the Directors, is of procedural nature, the construction risk relating to the Guangwu Project is minimal.

(e) *Contractual risk*

Although the Company has engaged accountants and lawyers to perform due diligence work on GY Expressway Company for reviewing its financial information and legal aspects and concluded there exist no material problems, the Company still faces the risk relating to commitments made by GY Expressway Company before completion of the Acquisition.

CONCLUSION

Based on the above and our review of the analyses of the evaluation of the Guangwu Project incorporated in the Investment Proposal, we are of the view that (i) the Acquisition is in line with the stated development strategy of the Group; (ii) the basis of the financial evaluation conducted by the Company is reasonable; (iii) the Consideration is reasonable; and (iv) the Acquisition will bring positive financial impact to the Group. Accordingly, we consider that it is in the interests of the Company to invest in the Guangwu Project which is expected to enhance the value of the Company in the long term.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the terms of the Acquisition Agreement are fair and reasonable so far as the Company and the Independent Shareholders as a whole are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed in the Extraordinary General Meeting to approve the Acquisition Agreement and the Acquisition contemplated thereunder.

Yours faithfully,
For and on behalf of
Tai Fook Capital Limited
Derek C.O. Chan
Deputy Managing Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information relating to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular concerning the Company and confirm, after having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts concerning the Company not contained herein the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors or supervisors of the Company in the Shares, underlying Shares and debentures of the Company or 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 interest or short positions which they are 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 were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies were as follows:

Units in the share appreciation right scheme granted by the Company and collectively held by the senior management and management staff of the Company are 5,501,400. The following Directors and supervisor of the Company may or may not be granted by the Company part of the receipts from the exercise of such units as incentive, subject to the approval of Human Resources and Nomination Committee of the Company:

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

Notes:

1. The receipts from exercise of the units represent 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.
2. The receipts from exercise of the units represent 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. Represents the units collectively held by the management and the management staff 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 held by the senior management and management staff of the Company instead of by individuals. The time and the price of the exercise are amended so that the receipts from exercise of the units represent the difference between issued price and the arithmetic average of the closing price of the listed shares of the Company during the period of exercise. The receipts from exercise of the units shall be applied as a special incentive fund and distributed by the Company according to proposals put forward by the Human Resources and Nomination Committee of the Company.

(b) Save as disclosed herein:

- (i) as at the Latest Practicable Date, none of the Directors or supervisors or chief executive is interested in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are 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 for Securities Transactions by Directors of Listed Companies;
- (ii) none of the Directors has any direct or indirect interest in any assets which have been, since 31 December 2003, 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 member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group;
- (iii) none of the Directors is materially interested in any contract or arrangement entered into by any member 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;
- (iv) 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.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Directors or chief executive of the Company and their respective associates, the following parties had an interest or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Substantial Shareholder	Class of Shares	Number of Shares interested	Capacity	Approximate percentage in the relevant class of share capital	Approximate percentage in the total issued share capital
Sumitomo Life Insurance Company (Note 1)	H Shares	61,814,000 (L)	Interest of a controlled corporation	8.26%	2.83%
Xin Tong Chan (Note 2)	Legal Person Shares	654,780,000 (L)	Beneficial owner	45.68%	30.03%
Shen Guang Hui (Note 3)	Legal Person Shares	457,780,000 (L)	Beneficial owner	31.94%	20.99%

(L) — Long Position

(P) — Lending Pool

Notes:

- Pursuant to the Corporate Substantial Shareholder Notice filed by Sumitomo Life Insurance Company on 2 March 2004, Sumitomo Life Insurance Company indirectly holds an aggregate 61,814,000 H Shares in the following manner: Sumitomo Life Insurance Company holds 100% shareholdings of Sumitomo Mitsui Asset Management Company, Limited, which directly holds 61,814,000 H Shares.
- 新通產實業開發(深圳)有限公司 (Xin Tong Chan Development (Shenzhen) Company Limited) is a company incorporated in the PRC with limited liability.
- 深圳市深廣惠公路開發總公司 (Shenzhen Shen Guang Hui Highway Development Company) is a company incorporated in the PRC with limited liability.

4. 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 2003, the date to which the latest published audited consolidated accounts of the Group were made up.

5. EXPERT

- (a) The following are the qualifications of the expert who has given opinion or advice contained in this circular:

Name	Qualification
Tai Fook	a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity for the purpose of SFO

- (b) Tai Fook does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Tai Fook has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its letter and references to its name in the form and context in which it appears.
- (d) Tai Fook 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, the Company or any of its subsidiaries since 31 December 2003, the date to which the latest published audited accounts of the Group were made up.
- (e) The letter of advice from Tai Fook dated 3 January 2005 is given on pages 13 to 26 for incorporation herein.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any of the Company or its subsidiaries other than contracts expiring or terminable by the relevant employer within one year without the payment of compensation other than statutory compensation.

7. 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 other than those disclosed earlier in the Company's 2003 annual report.

8. 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 show 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 2 shareholders entitled to vote present 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.

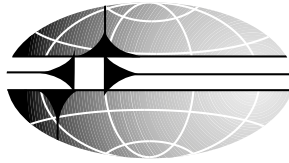
9. MISCELLANEOUS

- (a) As at the date of this circular, the Directors of the Company are: Mr. Chen Chao (Chairman of the Board); Mr. Wu Ya De (Director and General Manager); Mr. Zhang Rong Xing (Director); Mr. Zhong Shan Qun (Director); Ms. Tao Hong (Director); Mr. Lin Xiang Ke (Director); Ms. Zhang Yang (Director); Mr. Chiu Chi Cheong, Clifton (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. Its place of business 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 Rooms 1901-1905, Hopewell Centre, 19th Floor, 183 Queen's Road East, Hong Kong.
- (d) The company secretary of the Company is Ms. Wu Qian and Mr. Tse Yat Hong. Ms. Wu possesses the qualification of PRC certified public accountant. Mr. Tse is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.
- (e) The English text of this circular shall prevail over the Chinese version for the purposes of interpretation.

10. 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 the solicitors' office at Suites 2911-2912, 29th Floor, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong up to and including 18 February 2005:

- (a) the letter dated 3 January 2005 from the Independent Board Committee, the text of which is set out on page 12 of this circular;
- (b) the letter of advice dated 3 January 2005 from Tai Fook to the Independent Board Committee, the text of which is set out on pages 13 to 26 of this circular;
- (c) the written consent referred to in the paragraph headed "Expert" in this appendix; and
- (d) the Acquisition Agreement.



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 FIRST EXTRAORDINARY GENERAL MEETING 2005

NOTICE IS HEREBY GIVEN that FIRST 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 18 February 2005 (Friday), at 3:00 p.m. for the following purposes:

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

"THAT

- (a) the agreement dated 8 December 2004 (the "Agreement") between the Company as purchaser and 廣東省路橋建設發展有限公司 (Guangdong Roads and Bridges Construction Development Company Limited) as vendor in relation to the sale and purchase of 30% equity interest in 雲浮市廣雲高速公路有限公司 (Yunfu Guangyun Expressway Company Limited), 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, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the 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 Agreement."

By Order of the Board
Wu Qian
Joint Company Secretary

Shenzhen, the PRC, 3 January 2005

NOTICE OF EXTRAORDINARY GENERAL MEETING

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 18 January 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 29 January 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 Shareholders of the Company will be closed from 19 January 2005 to 18 February 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 18 January 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 capital 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.
- 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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

4. Poll

Article 70 of the Articles 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 2 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 the resolution 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:
Rooms 1901-5, 19th 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) 755-82910496/82910696