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 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.

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: 00548)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 45% EQUITY INTEREST IN SHENZHEN AIRPORT-HEAO EXPRESSWAY (EASTERN SECTION) COMPANY LIMITED

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

信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

A letter from the Independent Board Committee is set out on page 15 and a letter from Cinda is set out on pages 16 to 29 of this circular.

23 June 2009

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

"Agreement"	the conditional transfer of interest agreement dated 1 June 2009, entered into among Intersafe as transferor, the Company as transferee and Road King as guarantor, in relation to the transfer of the Target Interest from Intersafe to the Company
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Company"	Shenzhen Expressway Company Limited, a joint stock limited company established in the PRC with limited liability, the H shares of which are listed on the Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Completion"	completion of the Transaction
"Cooperation Agreement"	the "Agreement for Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited" for the establishment of Jihe East Company which was signed on 5 September 1996 and approved by the state authority responsible for foreign investment and its subsequent amendments and supplements (including the amendments and supplements made by the "Supplemental Agreement (1) for Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited" dated 12 December 1996, the "Amendment Agreement for Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited" dated 6 January 1997, the "Amendment Agreement (2) for Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited" dated 8 April 1999 and the "Amendment Agreement (3) for Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited")
"Directors"	the directors of the Company
"Enlarged Group"	the Group as enlarged by the acquisition of the Target Interest upon Completion
"Group"	The Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	an independent board committee, comprising Mr. Wang Hai Tao, Mr. Ting Fook Cheung, Fred and Mr. Zhang Li Min, all being independent non-executive Directors, formed to consider the terms of the Agreement and the transactions contemplated thereunder. Mr. Lam Wai Hon, Ambrose, an independent non-executive Director, will not be a member of the said committee due to his interests in one of the service providers to Road King
"Independent Financial Adviser" or "Cinda"	Cinda International Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement and the transactions contemplated thereunder
"Independent Shareholders"	the independent shareholders of the Company comprising all Shareholders as no Shareholder is required to abstain from voting in respect of the Transaction
"Intersafe"	Intersafe Investments Limited, a company incorporated in the British Virgin Islands with limited liability, and a wholly-owned subsidiary of Road King
"Jihe East Company"	深圳機荷高速公路東段有限公司 (Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited), a sino-foreign joint venture enterprise established in the PRC with limited liability and as at the Latest Practicable Date, the equity interest of which is held as to 55% and 45% by the Company and Intersafe, respectively
"Latest Practicable Date"	19 June 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PBA"	Parsons Brinckerhoff (Asia) Limited, an independent traffic consultant engaged by the Company
"PRC"	the People's Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan
"PwC"	PricewaterhouseCoopers

"RMB"	Renminbi, the lawful currency of the PRC
"Road King"	Road King Infrastructure Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
"Sallmanns"	Jones Lang LaSalle Sallmanns Limited, the independent valuer who prepared the business valuation report of Jihe East Company
"SFO"	Securities and Futures Ordinance (Cap.571, Laws of Hong Kong)
"Share(s)"	share(s) of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen International"	Shenzhen International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Interest"	by adopting 31 March 2009 as the reference date for the transfer of interest, all the interests in Jihe East Company owned by Intersafe, including the 45% equity interest in Jihe East Company held by Intersafe and related shareholder's loan as at 31 March 2009 owed by Jihe East Company to Intersafe
"Transaction"	the sale and purchase of the Target Interest under the Agreement

For the purpose of this circular, the exchange rate between HK$ and RMB at HK$1.00 to RMB0.881 has been adopted.

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: 00548)

Executive Directors:
Mr. Yang Hai *(Chairman)*
Mr. Wu Ya De

Non-executive Directors:
Mr. Li Jing Qi
Mr. Zhao Jun Rong
Mr. Tse Yat Hong
Mr. Lin Xiang Ke
Ms. Zhang Yang
Mr. Chiu Chi Cheong, Clifton

Independent Non-executive Directors:
Mr. Lam Wai Hon, Ambrose
Mr. Ting Fook Cheung, Fred
Mr. Wang Hai Tao
Mr. Zhang Li Min

Legal Address:
Podium
Levels 2-4,
Jiangsu Building,
Yitian Road,
Futian District,
Shenzhen, PRC

Principal Place of Business in Hong Kong:
Suites 2201-2203, 22/F.
Jardine House
1 Connaught Place
Central, Hong Kong

23 June 2009

To the Shareholders

Dear Sirs or Madams,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 45% EQUITY INTEREST IN SHENZHEN AIRPORT-HEAO EXPRESSWAY (EASTERN SECTION) COMPANY LIMITED

INTRODUCTION

On 2 June 2009, the Board and the boards of directors of Shenzhen International jointly announced that Intersafe (as transferor), the Company (as transferee) and Road King (as guarantor) entered into the Agreement on 1 June 2009. Pursuant to the Agreement, the Company conditionally agreed to acquire from Intersafe a 45% equity interest in Jihe East Company and related shareholders' loan as at 31 March 2009 owed by Jihe East Company to Intersafe at a total consideration of RMB1,068,800,000 (approximately HK$1,213,200,000). The Company also agreed to reimburse Intersafe the income tax payable by Intersafe which arises from transfer of interest under the Agreement and the amount of such reimbursement is estimated to be not exceeding RMB100,000,000 (approximately HK$113,510,000).

The Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and also a connected transaction for the Company under Chapter 14A of the Listing Rules, which is subject to the approval of the Independent Shareholders. The purpose of this circular is to provide you with, among other things, details of the Agreement and the Transaction, the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the terms of the Agreement and the transaction contemplated thereunder, the advice from the Independent Financial Adviser on the terms of the Agreement and the transactions contemplated thereunder and other information as required under the Listing Rules.

THE AGREEMENT

Date

1 June 2009

Parties

1. Intersafe (as transferor);

2. the Company (as transferee); and

3. Road King (as guarantor).

The Transaction

Pursuant to the Agreement, Intersafe conditionally agreed to transfer to the Company and the Company conditionally agreed to acquire from Intersafe the Target Interest, by adopting 31 March 2009 as the reference date for the transfer of interest, all the interests in Jihe East Company owned by Intersafe, including the 45% equity interest in Jihe East Company held by Intersafe and related shareholders' loan as at 31 March 2009 owed by Jihe East Company to Intersafe.

For the period up to 31 March 2009 (inclusive), the income of Jihe East Company attributable to Intersafe pursuant to the terms of the Cooperation Agreement shall be vested with Intersafe. Subject to Completion, all the income of Jihe East Company commencing on 1 April 2009 and the Target Interest shall be vested with the Company. Pursuant to the Agreement, Intersafe shall be responsible for the income tax payable in relation to its share of income in Jihe East Company which Jihe East Company is, in accordance with the requirements of the PRC tax law, required to withhold and pay.

For the period up to 31 March 2009, Jihe East Company had made a preliminary provision of RMB18,460,000 for the road network toll settlement service charge. If such charge is finally waived, Jihe East Company shall pay the waived amount attributable to Intersafe (based on the 45% original shareholding proportions of Intersafe and after income tax).

Upon Completion, Jihe East Company will become a wholly-owned subsidiary of the Company and therefore a subsidiary of Shenzhen International.

Consideration and Income Tax Reimbursement

The consideration for the Transaction is RMB1,068,800,000 (approximately HK$1,213,200,000).

In addition to the above consideration, the Company agreed to reimburse Intersafe the income tax amount payable by Intersafe in connection with the Transaction. Based on reasonable assessment with reference to applicable tax rules, the Directors are of the view that the total income tax reimbursement amount payable to Intersafe will not exceed RMB100,000,000 (approximately HK$113,510,000).

The consideration and the income tax reimbursement arrangement are arrived at after arm's length negotiations between the parties. In addition, the Company, in agreeing to the above consideration and the income tax reimbursement, has taken into account the past operating results of Jihe Expressway (Eastern Section) and the extensive experience of the Company in the operation of its toll highway businesses. With reference to the information set out in Appendix III of this circular, Jihe East Company has attained a good performance record. The average growth rate of daily traffic volume and toll revenue of Jihe Expressway (Eastern Section) were approximately 49% and 40% per annum, respectively, over the last decade. Jihe East Company's cash flows from operating activities amounted to approximately RMB260,772,000, RMB341,553,000 and RMB338,528,000, respectively, for the three financial years ended 31 December 2008. By taking into consideration the past performance records of Jihe East Company, the Company's regular review and evaluation on the estimated traffic volume of Jihe Expressway (Eastern Section) over its operation period, and other factors such as the development, planning and economic growth of Shenzhen and its proximity areas, and the scarcity of quality toll highway projects in the PRC, the Company made a judgement on the value of Jihe East Company which forms part of the basis of the Transaction and the consideration under the Agreement.

Payment Arrangement

After signing of the Agreement, the Company shall within seven working days from the receipt of a written payment notice from Intersafe pay a prepayment in the amount of RMB50,000,000 (approximately HK$56,750,000) to a PRC domestic bank account designated by Intersafe.

Intersafe will assist the Company and Jihe East Company to attend to the industrial and commercial registration changes in relation to the Transaction within seven working days after:

(1) all the conditions precedent to the Agreement have been fulfilled;

(2) the Company has withheld and paid the tax payable by Intersafe arising from the Transaction and has obtained the corresponding tax receipt; and

(3) the Company has obtained the approval from the PRC foreign exchange authority in respect of the payment of the consideration under the Agreement.

Subject to the prerequisite that Intersafe has repaid the amount of RMB50,000,000 previously received from the Company into a bank account designated in writing by the Company prior to the purchase and payment of Hong Kong dollars by the Company pursuant to the Agreement, and upon the industrial and commercial authority accepts the application materials and issues the relevant written acceptance return slip, the Company shall wire part of the consideration in the amount of RMB1,000,000,000 (approximately HK$1,135,100,000) (including the amount of RMB50,000,000 repaid by Intersafe as mentioned above) in Hong Kong dollars equivalent to a non-PRC bank account designated by Intersafe.

Within seven working days after all such procedures for change, filing and registration concerning ownership, debt and tax, foreign exchange, organization code and finance of Jihe East Company and in relation to the Transaction have been completed, the Company shall, after deducting all relevant taxes (except income tax), which Intersafe is responsible for but withheld and paid by the Company as agent, from the remainder of the consideration of RMB68,800,000 (approximately HK$78,100,000), wire such amount in Hong Kong dollars equivalent to a non-PRC bank account designated by Intersafe.

The Company will settle the consideration under the Agreement and the income tax reimbursement by way of cash from internal resources and borrowings.

Conditions Precedent

Completion will be subject to the following conditions precedent:

(1) a board meeting of Jihe East Company is convened whereby the Agreement and the transactions contemplated thereunder are approved;

(2) shareholders' meeting of each of Intersafe, the Company, Road King and Shenzhen International is convened (if necessary) whereby the Agreement is approved; in particular, the Company, Road King and Shenzhen International shall obtain their respective independent shareholders' approval of the Agreement and the transactions contemplated thereunder in accordance with the requirements under the Listing Rules or in the manner permitted by the Stock Exchange, and the Company shall also obtain the relevant consent and approval in accordance with the listing rules of the Shanghai Stock Exchange;

(3) the Agreement and the transactions contemplated thereunder are approved and permitted by the relevant PRC foreign investment authority; and

(4) Intersafe shall produce the written consent of the relevant agent bank, representing the lenders, to RKI Finance Limited, a wholly-owned subsidiary of Road King, regarding the facility agreement entered into between RKI Finance Limited and lenders for the sale of the Target Interest.

If the above conditions precedent are not fulfilled on or before 30 September 2009 (the "Long-Stop Date"), the responsible party for the unfulfilled condition may within five working days prior to the Long-Stop Date serve a written notice to the other parties to extend the fulfillment deadline to 31 October 2009 (the "Second Long-Stop Date").

Unless otherwise agreed by the parties to the Agreement in writing, if the above conditions precedent are not fulfilled by the Long-Stop Date or Second Long-Stop Date (as the case may be), the Agreement will be terminated, the rights and obligations of each party under the Agreement shall cease and each party's liabilities to the other parties shall end. In such case, Intersafe and the Company shall, within seven working days from the occurrence of the above situation, return the properties and assets (together with accrued interest) which they obtain from each other in the course of performing the Agreement to the other party. If a party is in serious breach of the Agreement, the non-defaulting party may terminate the Agreement and demand the defaulting party to return the properties and assets obtained from the non-defaulting party in the course of performing the Agreement and compensate the loss suffered by the non-defaulting party.

Specific Provisions

(1) On the date of the Agreement, Intersafe has issued to Jihe East Company an irrevocable written instruction to segregate the income of Jihe East Company (commencing from 1 April 2009) which is attributable to Intersafe pursuant to the Cooperation Agreement (capped at the amount of the prepayment of RMB50,000,000 and the relevant interest) into a designated account of Jihe East Company opened in accordance with the written instruction. If the Agreement is terminated and Intersafe fails in returning the RMB50,000,000 prepayment together with agreed interest (the "Return Money"), Jihe East Company shall pay to the Company out of the above designated account an amount equivalent to the Return Money. Intersafe is entitled to any surplus other than the Return Money available in the designated account. Upon Completion, any balance in the designated account shall be vested with the Company.

(2) Intersafe undertakes to the Company that, if prior to Completion, the relevant authority claims for any outstanding tax liability of Jihe East Company, Intersafe shall be responsible for 45% of such tax liability. However, Intersafe will not be responsible for any tax liability arising from the operations of Jihe East Company commencing on 1 April 2009.

Guarantee of Performance under the Agreement

Road King agreed to enter into the Agreement as guarantor to procure and guarantee Intersafe's performance of certain obligations under the Agreement. The guarantee shall continue to be effective for two years from the date of Completion or the date of termination of the Agreement (as the case may be).

REASONS AND BENEFITS FOR ENTERING INTO THE AGREEMENT

Jihe East Company owns the Jihe Expressway (Eastern Section) in Shenzhen and has attained a good track record since the commencement of its operations. Pursuant to the existing articles of association of Jihe East Company, the passing of all resolutions of Jihe East Company must be approved by at least two-third of the directors of the board of Jihe East Company. Since the Company is only entitled to appoint four of the seven directors of the board of Jihe East Company, the Company does not exercise majority control over Jihe East Company despite of the 55% equity interest in Jihe East Company acquired before the Completion. Therefore, Jihe East Company was deemed to be a jointly-controlled entity of the Company before the Completion, and its 55% equity interest was accounted for by the Company using equity method of accounting and was not consolidated into the financial statements of the Company. Upon completion of the Transaction, Jihe East Company will change from a jointly controlled entity to a wholly-owned subsidiary of the Company and accordingly, its results will be consolidated into the financial statements of the Company. The acquisition of further equity interest in Jihe East Company will enhance the decision making efficiency of the Group for Jihe East Company as well as expand the assets scale and profits base and improve cash earnings of the Group.

The Group is principally engaged in the investment, construction, operation and management of toll highways and roads. The Company adheres to the development strategy of focusing on toll highway operations as its core business and the investment strategy of expanding towards the Pearl River Delta region as well as other economically developed regions in the PRC through establishing a foothold in Shenzhen. The Transaction will increase the market share of the Company in the Shenzhen region and reinforce the core strength of the Company in the areas of investment, construction and operation management of toll highways and roads, which is consistent with the development strategy of the Company.

The Board (including all independent non-executive directors of the Company (except Mr. Lam Wai Hon, Ambrose), whose views are set out in the letter from the Independent Board Committee) considers that the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and the acquisition of the Target Interest is in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECTS OF THE TRANSACTION

Effects on assets and liabilities

As at 31 December 2008, the audited consolidated total assets and total liabilities of the Group amounted to approximately RMB18,263,578,000 (approximately HK$20,730,508,000) and RMB10,511,437,000 (approximately HK$11,931,257,000) respectively. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, had the Transaction been completed on 31 December 2008, the unaudited pro forma total assets and total liabilities of the Enlarged Group would increase to approximately RMB21,294,238,000 (approximately HK$24,170,531,000) and RMB12,512,647,000 (approximately HK$14,202,778,000) respectively.

Effect on earnings

Upon Completion, Jihe East Company will become a wholly-owned subsidiary of the Company. The Group will consolidate the financial results of Jihe East Company into the Group's financial statements. Based on the information of Jihe East Company stated in Appendix IIIA of the circular, the audited profit after tax of Jihe East Company prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") for the three years ended 31 December 2008 were approximately RMB138,653,000 (approximately HK$157,381,000), RMB208,346,000 (approximately HK$236,488,000) and RMB212,425,000 (approximately HK$241,118,000) respectively. Given such consistent historical earnings record and positive future prospect of Jihe Expressway (Eastern Section) (for details, please refer to the section "Reasons and benefits for entering into the Agreement" above and "Review and Prospect of Jihe East Company" in Appendix IIIB), the Directors believe that Jihe East Company will continue to demonstrate positive earnings and generate additional financial contributions to the Group.

INFORMATION ON JIHE EAST COMPANY

Prior to Completion, Jihe East Company is owned as to 55% by the Company and 45% by Intersafe. Jihe East Company owns and operates the Jihe Expressway (Eastern Section) in Shenzhen. The Jihe Expressway (Eastern Section) commenced operation in 1997 with an operating period of 30 years which extends to March 2027. The Jihe Expressway (Eastern Section) is a dual six-lane expressway with a length of approximately 23.9 kilometres. It forms part of the coastal national trunk highway of Tongsan Highway (Tongjiang, Heilongjiang — Sanya, Hainan) and is also a major artery in the Pearl River Delta. In 2008, the Jihe Expressway (Eastern Section) had a daily average mixed traffic flow of approximately 90,000 vehicles and a daily average toll revenue of approximately RMB1,200,000.

The audited financial information of Jihe East Company prepared in accordance with HKFRS are shown below:

	For the year ended 31 December 2008 *(RMB'000)*	**For the year ended 31 December 2007** *(RMB'000)*
Profit before tax	265,185	233,689
Profit after tax	212,425	208,346

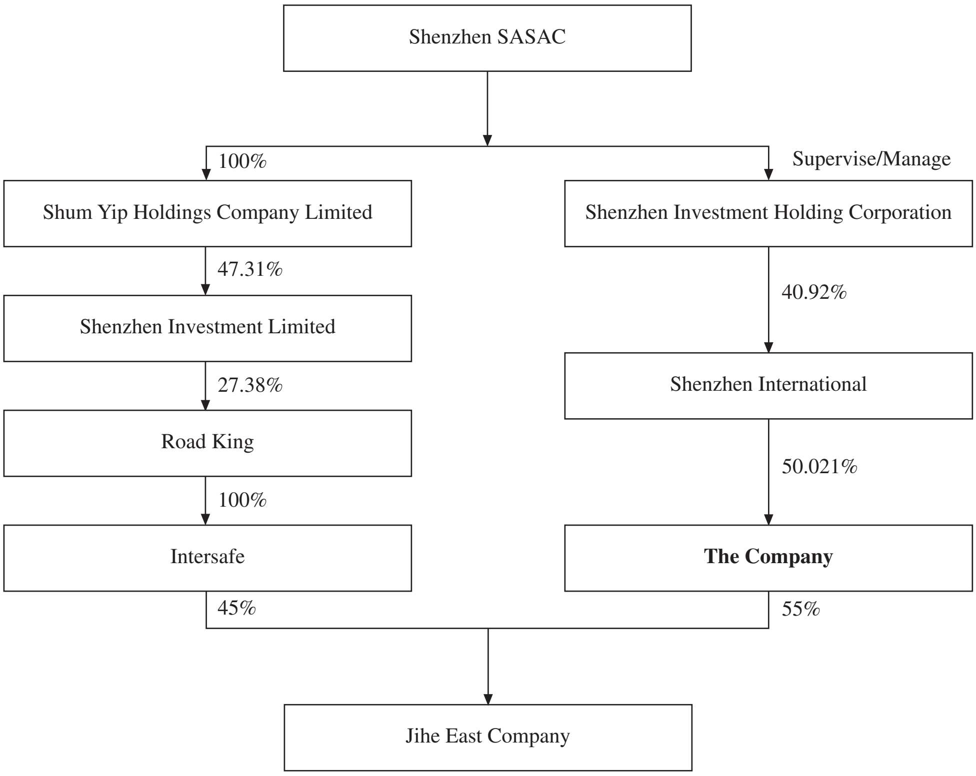
	As at 31 December 2008 *(RMB'000)*	**As at 31 December 2007** *(RMB'000)*
Net asset value	499,794	555,067

The original cost of the Target Interest is approximately RMB585,000,000.

SHAREHOLDING STRUCTURE

The shareholding structure of Jihe East Company as at the Latest Practicable Date and immediately after the Completion are as follows:

As at the Latest Practicable Date:



Immediately after the Completion:

INFORMATION ON THE GROUP

The Group is principally engaged in the investment, construction, operation and management of toll highways and roads. The Company is a 50.021%-owned subsidiary of Shenzhen International.

INFORMATION ON INTERSAFE AND ROAD KING

Both Intersafe and Road King are investment holding companies. Intersafe is a wholly-owned subsidiary of Road King. The principal activities of Road King and its subsidiaries, including the infrastructure joint ventures, are investment in, development, operation and management of toll roads and expressways and property development projects in the PRC.

LISTING RULES IMPLICATIONS

The Company and Intersafe hold 55% and 45% equity interest of Jihe East Company, respectively. The Company is a 50.021%-owned subsidiary of Shenzhen International and Intersafe is a wholly-owned subsidiary of Road King. Both Intersafe and Road King are connected persons of each of the Company and Shenzhen International. The Transaction constitutes a connected transaction for each of the Company and Shenzhen International under Chapter 14A of the Listing Rules. As the applicable percentage ratios for the Transaction exceed 25% but are less than 100%, the Transaction also constitutes a major transaction for each of the Company and Shenzhen International under Chapter 14 of the Listing Rules. The Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Company has formed the Independent Board Committee comprising all the independent non-executive Directors except Mr. Lam Wai Hon, Ambrose to advise the Independent Shareholders with respect to the terms of the Agreement and the transactions contemplated thereunder. Mr. Lam Wai Hon, Ambrose (an independent non-executive director of the Company) is the largest shareholder and a director of a company which owns the entire share capital of Access Capital Limited. Access Capital Limited had previously provided services to Road King. Accordingly, Mr. Lam Wai Hon, Ambrose had declared such interest to the Board and had refrained from voting in the Board meeting of the Company in relation to the Transaction. Mr. Lam will not be a member of the Independent Board Committee. A letter from the Independent Board Committee is set out on page 15 of this circular.

Cinda has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement and the transactions contemplated thereunder. A letter from Cinda is set out on pages 16 to 29 of this circular.

Independent Shareholders' Approval

According to Rules 14.44 and 14A.43 of the Listing Rules, where independent shareholders' approval of a connected transaction is required, under certain conditions the Stock Exchange may accept that approval of the independent shareholders be given by a resolution in writing, instead of one passed at a shareholders' meeting. Those conditions are that: (a) no shareholder of the listed issuer is required to abstain from voting if the company were to convene a general meeting for the approval of the connected transaction; and (b) the written independent shareholders' approval has been obtained from a shareholder or closely allied group of shareholders who (together) hold more than 50% in nominal value of the securities giving the right to attend and vote at the general meeting to approve the connected transaction.

To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, Road King and its associates do not hold any share in the Company and Shenzhen International as at the Latest Practicable Date.

To the best knowledge of the Directors, none of the Shareholders is required to abstain from voting on the entering into of the Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, Xin Tong Chan Development (Shenzhen) Co., Ltd, Shenzhen Shen Guang Hui Highway Development Company and Advance Great Limited, all being wholly-owned subsidiaries of Shenzhen International, hold 654,780,000 A shares, 411,459,887 A shares and 24,568,000 H shares of the Company, respectively, which in aggregate represent approximately 50.021% of the issued capital and voting rights of the Company. The Company, pursuant to Rules 14.44 and 14A.43 of the Listing Rules, had applied to the Stock Exchange for, and the Stock Exchange had granted, a waiver in relation to acceptance of such written approval in lieu of holding a general meeting of the Company. Such written approvals of the said wholly-owned subsidiaries of Shenzhen International have been obtained for the purpose of approving the entering into of the Agreement and the transactions contemplated thereunder in lieu of an approval from the Independent Shareholders at a shareholders' meeting pursuant to Rules 14.44 and 14A.43 of the Listing Rules. The aforesaid written approvals are subject to the approval of the independent shareholders of Shenzhen International regarding the Transaction at the special general meeting of Shenzhen International to be convened.

RECOMMENDATION

The Directors (including all the independent non-executive Directors (except Mr. Lam Wai Hon, Ambrose), whose views are set out in the letter from the Independent Board Committee) consider that the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable, and the entering into of the Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including all the independent non-executive Directors (except Mr. Lam Wai Hon, Ambrose)) recommends the Independent Shareholders to support the entering into of the Agreement and the transactions contemplated thereunder.

FURTHER INFORMATION

A report on the valuation of 100% equity interest in Jihe East Company has been prepared by Sallmanns, a summary of which is set out in Appendix I of this circular.

A report on the traffic and revenue of Jihe Expressway (Eastern Section) has been prepared by PBA, a summary of which is set out in Appendix II of this circular.

As the valuation of Jihe East Company is prepared on the basis of discounted cash flow method, the valuation has been deemed as a profit forecast under the Listing Rules. Letters from PwC and the Company relating to discounted future estimated cash flows in connection with the business valuation of Jihe East Company, which are prepared pursuant to Rules 14.62 and 14.71 of the Listing Rules, are set out in Appendix VI of this circular.

Your attention is also drawn to the letter from the Independent Board Committee, the letter from Cinda and the additional information set out in the appendices to this circular.

Yours faithfully,
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: 00548)

23 June 2009

To the Independent Shareholders

Dear Sirs or Madams,

We have been appointed as members of the Independent Board Committee to advise you in respect of the terms of the Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board in the circular of the Company dated 23 June 2009 (the "Circular") to the Shareholders, of which this letter forms part. 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 letter from Cinda in respect of the terms of the Agreement and the transactions contemplated thereunder set out in the section "Letter from Cinda" in the Circular.

Recommendation

Having taken into account the principal factors and reasons considered by Cinda regarding the terms of the Agreement and the transactions contemplated thereunder and its conclusion and advice, we concur with the view of Cinda and consider that the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and that the terms of the Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to support the entering into of the Agreement and the transactions contemplated thereunder.

Yours faithfully,
Wang Hai Tao
Ting Fook Cheng, Fred
Zhang Li Min
Independent Board Committee

The following is the text of a letter prepared by Cinda 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 Transaction.

信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

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

23 June 2009

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

Dear Sirs and Madams,

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE
ACQUISITION OF 45% EQUITY INTEREST IN
SHENZHEN AIRPORT-HEAO EXPRESSWAY
(EASTERN SECTION) COMPANY LIMITED**

INTRODUCTION

We refer to the circular dated 23 June 2009 (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 Transaction, details of which are set out in the letter from the Board (the "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 Shenzhen International dated 2 June 2009 in respect of the acquisition of 45% equity interest in Jihe East Company. Intersafe (as transferor) (a wholly-owned subsidiary of Road King), the Company (as transferee) (a 50.021%-owned subsidiary of Shenzhen International) and Road King (as guarantor) have entered into the Agreement on 1 June 2009, pursuant to which, the Company has conditionally agreed to acquire from Intersafe the 45% equity interest in Jihe East Company and the shareholders' loan as at 31 March 2009 owed by Jihe East Company to Intersafe at a total consideration of RMB1,068,800,000 (approximately HK$1,213,200,000). The Company has also agreed to reimburse to Intersafe the income tax payable by Intersafe which arises from transfer of interest under the Agreement and is estimated not to exceed RMB100,000,000 (approximately HK$113,510,000). Jihe East Company is owned as to 55% by the Company. Upon completion of the Transaction, Jihe East Company will become a wholly-owned subsidiary of the Company and a subsidiary of Shenzhen International.

The Transaction constitutes a major transaction for the Company under the Listing Rules. The Company and Interface hold 55% and 45% equity interest of Jihe East Company respectively. Intersafe is a wholly-owned subsidiary of Road King and the Company is a 50.021%-owned subsidiary of Shenzhen International. Both Intersafe and Road King are connected persons of the Company and Shenzhen International. The Transaction constitutes a connected transaction under Chapter 14A of the Listing Rules for the Company. The Agreement and the transactions contemplated thereunder are therefore subject to the approval of the Independent Shareholders.

For the purpose of obtaining approval of the Independent Shareholders, the Agreement and the transactions contemplated thereunder are intended to be approved by Xin Tong Chan Development (Shenzhen) Co., Ltd, Shenzhen Shen Guang Hui Highway Development Company and Advance Great Limited (all of which are subsidiaries of Shenzhen International and in aggregate hold approximately 50.021% of the total issued capital of the Company) by way of written consent and the Company, pursuant to Rules 14.44 and 14A.43 of the Listing Rules, has applied to the Stock Exchange for and the Stock Exchange has granted, a waiver in relation to acceptance of such written approval in lieu of holding a general meeting of the Company. Such written approval will be subject to the approval of the independent shareholders of Shenzhen International regarding the Transaction at the special general meeting of Shenzhen International to be convened.

Pursuant to the requirements of Rule 13.39(6) of the Listing Rules, the Independent Board Committee comprising independent non-executive directors except Mr. Lam Wai Ho, Ambrose, has been established by the Company to advise the Independent Shareholders in relation to the Agreement and the transaction contemplated thereunder. We have been appointed by the Company to provide independent opinion and recommendation to the Independent Board Committee to advise the Independent Shareholders as to whether the Transaction is in the interests of the Group and the Shareholders as a whole and whether its terms are fair and reasonable so far as the Independent Shareholders are concerned.

BASIS OF OUR ADVICE

In formulating our opinion and recommendation, we have relied on the information, representations and opinions supplied by the Directors and the management of the Company and the accuracy of the information and representations contained in the Circular. We have assumed that such information, representations and opinions are true, accurate and complete at the time they were made and continue to be true as at the date of the Circular, and there has been no material change of such information, representations and opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company. We have sought and received confirmation from the Directors that no material facts have been omitted from the information provided and referred to in the Circular and the Directors jointly and severally accept full responsibility for the accuracy of the information provided to us. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Company, the Group, Shenzhen International, Jihe East Company, Intersafe, Road King 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 Transaction, we have taken the following principal factors and reasons into consideration:

Business of the Company

The Group is principally engaged in the investment, construction, operation and management of toll highways and roads. The Company is a 50.021%-owned subsidiary of Shenzhen International.

According to the Company's annual report for the year ended 31 December 2008 (the "2008 Annual Report"), the Group had audited net assets of approximately RMB7,607 million and RMB7,752 million as at 31 December 2007 and 2008 respectively. The Group had audited profit attributable to shareholders of approximately RMB622 million and RMB503 million for the year ended 31 December 2007 and 2008 respectively.

According to the 2008 Annual Report, the Group operated and invested in 16 toll highway projects in the Shenzhen region, other regions in Guangdong Province and other provinces in the PRC. Traffic volumes and toll revenues on most of the Group's toll highways maintained growth in 2008, but the growth saw a remarkable slowdown as compared to the rapid growth in the past two years as affected by a declining growth of the macro economy. Under the prevailing situation, it's the Group's strategy to continue to consolidate existing highway assets and timely withdraw from projects which are incompatible with its development strategies. It will also capitalize on the opportunity arising from China's RMB4 trillion investments and will pay close attention to relatively mature and safe projects. The Transaction is therefore in line with the above strategy.

Information on Jihe East Company

Jihe East Company is owned as to 55% by the Company and 45% by Intersafe. Jihe East Company owns and operates the Jihe Expressway (Eastern Section) in Shenzhen. The Jihe Expressway (Eastern Section) commenced operation in 1997 with an operating period of 30 years which extends to March 2027. The Jihe Expressway (Eastern Section) is a dual six-lane expressway with a length of approximately 23.9 kilometres. It forms part of the coastal national trunk highway of Tongsan Highway (Tongjiang, Heilongjiang — Sanya, Hainan) and is also a major artery in the Pearl River Delta. In 2008, the Jihe Expressway (Eastern Section) had a daily average mixed traffic flow of approximately 90,000 vehicles and a daily average toll revenue of approximately RMB1,200,000.

The audited financial information of Jihe East Company as extracted from the audited accounts of Jihe East Company set out in Appendix IIIA to the Circular are shown below:

	For the year ended 31 December 2008 *(RMB'000)*	For the year ended 31 December 2007 *(RMB'000)*
Profit before tax	265,185	233,689
Profit after tax	212,425	208,346

	As at 31 December 2008 *(RMB'000)*	As at 31 December 2007 *(RMB'000)*
Net assets value	499,794	555,067

Reasons for the Transaction

As advised by PBA, previous studies conducted in the PRC have indicated that growth in gross domestic product ("GDP") is closely correlated with growth in travel demand. We noted from the websites of the Statistics Bureau of Guangdong Province and Statistics Bureau of Shenzhen Municipality that the GDP in Guangdong Province and Shenzhen Municipality showed a continuous rapid growth from 2000 to 2007. However, the GDP in Guangdong Province and Shenzhen Municipality in 2008 increased by 10.1% and 12.1% respectively over the previous year, and such growth rates represented decreases of 4.4 and 2.6 percentage points respectively over the previous year as a result of the global economic crisis. The table below shows the annual GDP in Guangdong Province and Shenzhen Municipality for the period from 2000 to 2008:

Annual GDP in Guangdong and Shenzhen
(Unit: RMB' million)

Year	Guangdong Province	Shenzhen Municipality
2000	966,223	166,524
2001	1,064,771	195,417
2002	1,176,973	223,941
2003	1,362,587	286,051
2004	1,603,946	342,280
2005	2,236,654	492,690
2006	2,620,447	568,439
2007	3,108,440	676,541
2008	3,569,646	780,654

Note: GDP are in current prices
Source: China Statistical Year Book and website of the Statistics Bureau of Shenzhen Municipality

As the macro-economic growth slows, there will be considerable negative impact on the operating performance of the toll highway industry in the short run. However, in the long run, we believe that the overall trend of domestic economic development has not changed in view of the historical trend of economic growth in the PRC. We noted from the 2008 Annual Report that in 2008, the cargo turnover and passenger turnover for highways in Shenzhen Municipality amounted to 106 million tones and 118 million passenger trips respectively, representing increases of approximately 15.4% and 2.3% respectively. As at the end of 2008, the number of vehicles registered in Shenzhen was 1.288 million, representing an increase of 143,000 vehicles or approximately 12.5% over the previous year. Since 2009, the State has adopted a fuel tax policy removing six charges including road maintenance charges. The increase in traffic efficiency of expressway is also beneficial for attracting more vehicles to travel on expressways. In view of these statistics and the State policy, we consider that the demand for road transport in Shenzhen Municipality will continue to prosper in the long run.

Jihe East Company owns and operates the Jihe Expressway (Eastern Section) in Shenzhen. In 2008, the Jihe Expressway (Eastern Section) had a daily average mixed traffic flow of approximately 90,000 vehicles and a daily average toll revenue of approximately RMB1,200,000. We noted from the 2008 Annual Report that the performance of the Jihe Expressway (Eastern Section) and Jihe East Company is outstanding among the 16 toll highway projects operated and invested by the Company in view of the daily average mixed traffic volume and daily average toll revenue of the Jihe Expressway (Eastern Section) and Jihe East Company's toll revenue, gross margin of toll highways and profit attributable to the Group.

Upon completion of the Transaction, Jihe East Company will change from a jointly controlled entity to a wholly-owned subsidiary of the Company and its results will be consolidated into the financial statements of the Company and Shenzhen International. The acquisition of further equity interest in Jihe East Company will enhance the decision making efficiency of the Company for Jihe East Company, expand the assets scale and profits base and improve cash earnings of both the Company and Shenzhen International. The Transaction will increase the market share of the Company in the Shenzhen region and reinforce the core strength of the Company in the areas of investment, construction and operation management of toll highways and roads, which is consistent with the development strategy of the Company.

In view of (i) the Transaction is merely an acquisition of the remaining interest in Jihe East Company and helps consolidate control of Jihe East Company which will enable the Group to implement policies efficiently; (ii) the outstanding track record of Jihe East Company and the Jihe Expressway (Eastern Section); and (iii) the Transaction is in line with the business strategy of the Group, we are of the view that the Transaction is in the ordinary course of business of the Group and is in the interest of the Company and the Shareholders as a whole.

Consideration

The consideration for the Transaction is RMB1,068,800,000 (approximately HK$1,213,200,000). In addition to the above consideration, the Company agreed to reimburse Intersafe the income tax amount payable by Intersafe in connection with the Transaction. Based on a reasonable assessment with reference to applicable tax rules, the Directors are of the view that the total income tax reimbursement amount payable to Intersafe will not exceed RMB100,000,000 (approximately HK$113,510,000). Accordingly, the aggregate consideration (the "Aggregate Consideration") of the Transaction will not exceed RMB1,168,800,000.

As stated in the Letter from the Board, the consideration and the income tax reimbursement arrangement are arrived at after arm's length negotiations between the parties. In addition, the Company in agreeing to the above consideration and the income tax reimbursement, has taken into account the past operating results of the Jihe Expressway (Eastern Section) and the extensive experience of the Company in the operation of its toll highway businesses.

According to the valuation report (the "Valuation Report") produced by Sallmanns and set out in Appendix I to the Circular, the fair value (the "Valuation") of the entire equity interest of Jihe East Company as at 31 March 2009 was RMB2,570,000,000. The valuation attributable to 45% equity interest in Jihe East Company was RMB1,156,000,000 accordingly. The maximum Aggregate Consideration of RMB1,168,800,000 therefore represented a premium of approximately RMB12,800,000 or 1% to the 45% of the Valuation. Shareholders should be aware of that the amount of the Aggregate Consideration will be decreased if the actual total income tax reimbursement amount payable to Intersafe is less than RMB100,000,000.

We understand that the Valuation as evaluated by Sallmanns, to certain extent, was determined with reference to the traffic and revenue projections (the "Traffic Report") of the Jihe Expressway (Eastern Section) prepared by PBA. The summary of the Traffic Report is set out in Appendix II to the Circular.

In order to assess whether the Valuation could provide a valid benchmark to assess the fairness and reasonableness of the Aggregate Consideration, we have reviewed the Valuation Report and the Traffic Report as well as discussed with each of Sallmanns and PBA.

Valuation Report

We understand that Sallmanns has considered three different valuation approaches, namely market approach, cost approach and income approach. In determining the Valuation, Sallmanns considered that the market approach is inappropriate for valuing Jihe East Company as they were not aware of market transactions comparable to the Transaction. Moreover, cost approach is also inappropriate since it ignores the economic benefits contributed by Jihe East Company. As advised by Sallmanns, they have adopted the discounted cash flow method ("DCF") under the income approach to derive the future value of Jihe East Company into a present market value. We concur with Sallmanns that DCF is suitable in valuing Jihe East Company since (i) the recurrent nature of the toll revenues to be derived from the Jihe Expressway (Eastern Section); and (ii) we understand from Sallmanns that DCF is the most commonly used valuation method in valuing expressway projects for listed companies in Hong Kong.

When using DCF to estimate the present value of Jihe East Company, a discount rate has to be determined in discounting future cash flows. We understand from Sallmanns that there are two common used models to derive the discount rate, the weighted average cost of capital model

("WACC") and the capital asset pricing model ("CAPM"). Since Jihe East Company does not have any debt, WACC is not applicable for this case and Sallmanns derived the discount rate of 10.8% by using CAPM. We note that Sallmanns has taken into account a number of factors including (i) the risk free rate; (ii) market premium; and (iii) beta of a number of comparable companies. Such comparable companies are Hong Kong listed companies which are engaged in the same business to that of Jihe East Company, that is operation of toll roads in the PRC. As such we are of the view that it is fair and reasonable to derive the beta from such comparable companies. As advised by Sallmanns, the discount rate of 10.8% is within the discount range adopted by Sallmanns when evaluating similar acquisitions of toll road assets by listed companies. Furthermore, we understand from Sallmanns that, in view of the fact that Jihe East Company is a private company, which is of lower liquidity if the owner choose to sell, Sallmanns has added a discount rate of 17.9% for lack of marketability based on their analysis and market average. We understand from Sallmanns that such discount rate for lack of marketability is within the market range. After reviewing the information provided by Sallmanns and the discussion with Sallmanns, we are of the view that the discount rate and the discount for lack of marketability used by Sallmanns in arriving at the Valuation are fair and reasonable.

Moreover, we note that in determining the Valuation, Sallmanns had taken into consideration and relied on the projections of revenue of the Jihe Expressway (Eastern Section) from 2009 to 2027 based on the Traffic Report and information provided by the Company and Jihe East Company. We note that Sallmanns believes that the projections and information provided to them are reasonable. We have obtained and reviewed the worksheet prepared by Sallmanns and have discussed with PBA on the revenue projections, details of which are set out in the paragraph named "Traffic Report" below.

Sallmanns confirmed that the Valuation is based on accepted valuation procedures and practices, and the underlying assumptions adopted in the Valuation report are normally used in valuing expressway projects and are fair and reasonable. Based on our review and discussion with Sallmanns, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the methodologies adopted and the bases used in arriving at the Valuation.

Traffic Report

We have reviewed the Traffic Report and discussed with PBA on the methodologies, bases and assumptions underlying the traffic volume and revenue forecasts prepared and adopted by PBA. We note that the Traffic Report starts with the existing travel patterns on the Jihe Expressway (Eastern Section) and extends to project the future traffic volume and potential revenues to be generated by the Jihe Expressway (Eastern Section).

Based on the discussion with PBA, we understand that the PBA has conducted four- step work to project the future traffic volume including (i) analysing the existing traffic patterns on the Jihe Expressway (Eastern Section); (ii) estimating the growth rate of traffic volume based on the GDP of the PRC and within the study area; (iii) studying the potential competition to the Jihe Expressway (Eastern Section); and (iv) studying the capacity of the Jihe Expressway (Eastern Section).

We note that PBA has employed a combination of a "24-hour traffic count survey" and a "license plate survey" at a designated point, namely Heao service area, to study the existing traffic patterns, such as the existing traffic volume, combination of the vehicles, and the travel origins of the vehicles.

That is, traffic count was arrived at for a continuous period of 24 hours and license plates were randomly recorded over a 24-hour time horizon. In the PRC, the license plate indicates where the vehicle is registered, by which PBA could assume the origin of the journey of the vehicle and derive a relatively accurate origin and destination pattern of the traffic. Based on such data, PBA could study the diversion effect by the competing expressways and further to project the traffic volume of the Jihe Expressway (Eastern Section). As advised by PBA, another method namely "origin-destination (O-D) survey" is commonly used in studying of traffic patterns. However, considering (i) "O-D survey" requires a long time to obtain the approval from relevant PRC authorities; and (ii) the potential difference between the results of "license plate survey" and "O-D survey" is not material in this case, PBA uses "license plate survey" instead of "O-D survey". After the discussion with PBA, we concur with PBA that the surveys carried out by PBA are fair and reasonable to study the existing traffic patterns of the Jihe Expressway (Eastern Section).

To determine the traffic growth rate on the Jihe Expressway (Eastern Section), PBA uses the GDP of the PRC and within the study area as the prime indicator. We understand from PBA that previous studies conducted in the PRC have indicated that growth in GDP is closely correlated with growth in travel demand. We have also reviewed the GDP information issued by National Bureau of Statistics of China. Based on the above, we are of the view that such an indicator is appropriate for the purpose of projection of traffic volume.

In projection of the future traffic volume, PBA has also considered additional factors, competition and capacity of the Jihe Expressway (Eastern Section). As advised by PBA, they have reviewed the road transportation network plan in Shenzhen to identify alternative road to the Jihe Expressway (Eastern Section) and taken into account the difference of traffic pattern and toll rate to conclude the competition impact on the Jihe Expressway (Eastern Section). Moreover, PBA has determined the capacity of the Jihe Expressway (Eastern Section) based on their research. After reviewing the Traffic Report and the discussion with PBA, we consider that the forecasting methodology adopted in the Traffic Report for projection of the traffic volume is established on a fair and reasonable basis.

For the projection of toll revenue, we note from the Traffic Report that the toll rate is constant until a growth of 20% in 2015. We understand that such assumption is agreed between PBA and the Company based on their knowledge and experience. In view of the uncertainty in the government's policy towards toll rate, we are of the view that the projection of toll revenue is acceptable.

In the Traffic Report, three scenarios, namely the optimistic, conservative and base scenario, have been covered. The forecast of traffic volume and corresponding toll revenue depends on the projection of different development paces and GDP growths in the PRC and study area throughout the projection period. As a result of the uncertainties pertaining to the external environment, we consider it is a fair and reasonable approach for the projection of traffic volume and toll revenue.

PBA confirmed that the underlying assumptions adopted in the Traffic Report are normally used and fair and reasonable. Based on our review and discussion with PBA, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the methodologies adopted and the bases used in the Traffic Report. We are of the opinion that the Traffic Report provides a reasonable basis for Sallmanns to produce the Valuation.

Price earnings multiple

We note that the maximum Aggregate Consideration of RMB1,168,800,000 represents a price to earning ratio ("P/E") of approximately 12.23 times based on the audited net profit of Jihe East Company for the year ended 31 December 2008 attributable to the 45% equity interest in Jihe East Company, being approximately RMB95,591,000.

In assessing the fairness and reasonableness of the Aggregate Consideration, we have identified 8 comparable companies (the "Comparable Companies") being listed companies on the Stock Exchange which mainly engage in the toll road business in the PRC and include the Company. Shareholders should note that the stated P/Es of the Comparable Companies could be sensitive to, amongst other things, the locations of the toll roads belonging to each of the Comparable Companies and each of their other businesses, financial position and market price performance of the shares and therefore, the P/Es of the Comparable Companies listed below are for information and reference purposes only.

Company Name	**Stock Code**	**P/E**
		(times)
Sichuan Expressway Co. Ltd.	107	10.89
Jiangsu Expressway Co. Ltd.	177	15.40
Shenzhen Expressway Co. Ltd.	548	13.73
Zhejiang Expressway Co. Ltd.	576	12.71
Anhui Expressway Co. Ltd.	995	10.09
Hopewell Highway Infrastructure Ltd.	737	6.62
GZI Transport Ltd.	1052	8.37
Road King Infrastructure Ltd.	1098	6.96
Average		10.60

Source: www.hkex.com.hk, and the relevant published annual reports of the Comparable Companies.

Notes:

1. P/E is calculated based on (i) market price of the Comparable Companies as at 1 June 2009, the trading day immediately before the date of the announcement in relation to the Transaction; and (ii) earnings of the Comparable Companies extracted from their annual reports for the year ended 31 December 2008 save for that of Hopewell Highway Infrastructure Ltd. extracted from its annual report for the year ended 30 June 2008.

2. Earnings of the Comparable Companies denominated in RMB have been translated into HK$ at an exchange rate of RMB1.00 = HK$1.13.

As illustrated above, the P/Es of the Comparable Companies range from 6.62 times to 15.40 times, with an average of 10.60 times. The P/E of Jihe East Company implied by the maximum Aggregate Consideration, being 12.23 times, is therefore higher than the average. Nevertheless, having taking into account of the P/E of 12.23 times under the Transaction (i) falls within the range of the Comparable Companies and is closed to the average; and (ii) is lower than the P/E of the Company of 13.73 times, we consider that the Aggregate Consideration is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Shareholders are reminded that if the income tax reimbursement is less than RMB100,000,000, the Aggregate Consideration will be decreased and the P/E implied by the Aggregate Consideration would be lower than 12.23 times accordingly.

Our opinion

Having considered that (i) the profitable track record of Jihe East Company; (ii) the acquisition of further equity interest in Jihe East Company will enhance the decision making efficiency of the Company for Jihe East Company, expand the assets scale and profits base and improve cash earnings of the Group; (iii) the maximum Aggregate Consideration is very closed to the estimated fair value of 45% equity interest in Jihe East Company; and (iv) the P/E of Jihe East Company implied by the maximum Aggregate Consideration falls within the range of the Comparable Companies, we concur with the Directors that the Aggregate Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Payment Arrangement

As set out in the Letter from the Board, the payment arrangements are summarized as follows:

(1) After the signing of the Agreement, the Company shall within seven working days from the receipt of a written payment notice from Intersafe pay a prepayment in the amount of RMB50,000,000 (approximately HK$56,750,000) to a PRC domestic bank account designated by Intersafe.

(2) Intersafe will assist the Company and Jihe East Company to attend to the industrial and commercial registration changes in relation to the Transaction within seven working days after:

(a) all the conditions precedent to the Agreement have been fulfilled;

(b) the Company has withheld and paid the tax payable by Intersafe arising from the Transaction and has obtained the corresponding tax receipt; and

(c) the Company has obtained the approval from the PRC foreign exchange authority in respect of the payment of the consideration under the Agreement.

Subject to the prerequisite that Intersafe has repaid the amount of RMB50,000,000 previously received from the Company into a bank account designated in writing by the Company prior to the purchase and payment of Hong Kong dollars by the Company pursuant to the Agreement, at the same time when the industrial and commercial authority accepts the application materials and issues the relevant written acceptance return slip, the Company shall wire part of the consideration in the amount of RMB1,000,000,000 (including the amount of RMB50,000,000 repaid by Intersafe as mentioned above) in Hong Kong dollars equivalent to a non-PRC bank account designated by Intersafe.

(3) Within seven working days after all such procedures for change, filing and registration concerning ownership, debt and tax, foreign exchange, organization code and finance of Jihe East Company and in relation to the Transaction have been completed, the Company shall, after deducting all the tax (except income tax), which Intersafe is responsible for but withheld and paid by the Company as agent, from the remainder of the consideration of RMB68,800,000 (approximately HK$78,100,000), wire such amount in Hong Kong dollars equivalent to a non-PRC bank account designated by Intersafe.

Taken into consideration that the above payment arrangements mostly reflect milestone progress of the Transaction, such as the fulfillment of all the conditions precedent to the Agreement and the progress of the industrial and commercial registration changes, we are of the view that the above payment arrangements are on normal commercial terms and fair and reasonable so far as the Company and the Shareholders are concerned.

Specific Provisions

We note from the Letter from the Board that, two specific provisions have been arranged in relation to the Transaction. The specific provisions are summarised as follows:

(1) On the date of when the Agreement is signed, Intersafe has issued to Jihe East Company an irrevocable written instruction to segregate the income of Jihe East Company (commencing from 1 April 2009) which is attributable to Intersafe pursuant to the Cooperation Agreement (capped at the amount of the prepayment of RMB50,000,000 and the relevant interest) into a designated account of Jihe East Company opened in accordance with the written instruction. If the Agreement is terminated and Intersafe fails in returning the RMB50,000,000 prepayment together with agreed interest (the "Return Money"), Jihe East Company shall pay to the Company out of the above designated account an amount equivalent to the Return Money. Intersafe is entitled to any surplus other than the Return Money available in the designated account. Upon Completion, any balance in the designated account shall be vested with the Company.

(2) Intersafe undertakes to the Company that, if prior to the Completion, the relevant authority claims for any outstanding tax liability of Jihe East Company, Intersafe shall be responsible for 45% of such tax liability. However, Intersafe will not be responsible for any tax liability arising from the operation of Jihe East Company commencing from 1 April 2009.

Taken into consideration that the above specific provisions safeguard the prepayment of RMB50,000,000 of the Company and avoid extra tax liability commitment by the Company, we are of the view that the above specific provisions are on normal commercial terms and fair and reasonable so far as the Company and the Shareholders are concerned.

Financial effects on the Company

(a) *Net asset value*

Upon Completion, Jihe East Company will be accounted for as a subsidiary of the Company and its operating results will be consolidated into that of the Company. According to the "Unaudited pro forma financial information of the Enlarged Group" as set out in Appendix V to the Circular, the unaudited pro forma adjusted consolidated net asset value of the Enlarged Group will increase to approximately RMB8,782 million from the consolidated net asset value of approximately RMB7,752 million of the Group as at 31 December 2008, representing an increase of approximately 13.3%.

(b) *Cashflow position*

The consideration for the Transaction of RMB1,068.8 million, together with the amount payable under the income tax reimbursement arrangement as contemplated under the Agreement, which was assessed by the Directors to not exceed RMB100,000,000, will be satisfied by internal resources and borrowing of the Company. Based on the audited results of the Group for the year ended 31 December 2008, as at 31 December 2008, the Group had consolidated bank and cash balances of approximately RMB536 million. In addition, the Group had unutilized banking facilities of approximately RMB6,610 million at 31 December 2008, within the amount, facilities expiring beyond one year amounted to approximately RMB4,020 million.

The Directors, having taken into account the cash on hand and the aforesaid unutilized credit facilities and in the absence of unforeseen circumstances, are of the view that the Company will be able to satisfy the consideration for the Transaction, together with the amount payable under the income tax reimbursement arrangement, and we concur with the Directors' view in this regard in the assumption that there is no material change in the cash position of the Group since 31 December 2008.

(c) *Gearing*

According to the 2008 Annual Report, the Group's gearing ratio (calculated on the basis of total debt/total asset) was approximately 43.9% as at 31 December 2008. It is the present intention of the Board that the Company will finance the Transaction with internal resources and borrowings. The Company will determine and split the payment of the consideration between its internal resources and borrowings by reference to its available credit facilities and working capital resources at the time of payment.

According to the "Unaudited pro forma financial information of the Enlarged Group" as set out in Appendix V to the Circular In this regard, the gearing ratio of the Enlarged Group will decrease slightly to approximately 42.8% assuming that the consideration is funded as to RMB50 million by Shenzhen Expressway's cash on hand and the remaining by borrowings.

(d) *Earnings*

According to the 2008 Annual Report, the Group's consolidated profit attributable to Shareholders for the year ended 31 December 2008 was approximately RMB503 million. According to the audited accounts of Jihe East Company as set out in Appendix IIIA to the Circular, the net profit of Jihe East Company for the three years ended 31 December 2008 was approximately RMB139 million, RMB208 million and RMB212 million respectively.

Based on the historic earnings record and the positive traffic flow and toll revenue projections of the Jihe Expressway (Eastern Section) as set out in the Traffic Report, we concur with the Directors that Jihe East Company would continue to demonstrate positive earnings. In view of that, the Transaction could benefit the results of the Enlarged Group.

Risk Factor

The Independent Shareholders should be aware of the various risk factors that would pose uncertainties to the Transaction, particularly the following principal risks:

(a) *Toll road operations of the Jihe Expressway (Eastern Section)*

The operation of the Jihe Expressway (Eastern Section) may be adversely affected or interrupted by a variety of events, such as serious traffic accidents, natural disasters and other unforeseen circumstances (such circumstances may refer to, for instance, an unexpected earthquake, which would damage the highway and thus affect the traffic flow). If the operation of the Jihe Expressway (Eastern Section) is interrupted in whole or in part, depending on the actual scale of and the associated impact of these natural disasters or unforeseen circumstances on the Jihe Expressway (Eastern Section), for any extended period as a result of any such events, the revenue of Jihe East Company and thus the Company, will be adversely affected.

(b) *Toll rate*

The right to receive toll fees from users of a toll road in Guangdong Province requires the approval of certain authorities as designated by the Guangdong 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.

(c) *Competition*

The profitability of Jihe East Company may be adversely affected by the existence of other means of transportation including railways and alternative highway routes. In addition, there is no assurance that the national or provincial government will not propose new toll highways in Guangdong Province, which might compete with the Jihe Expressway (Eastern Section) in the foreseeable future.

RECOMMENDATIONS

Having taken into account the principal factors and reasons referred to the above, we are of the opinion that (i) the Agreement is on normal commercial terms and the terms of the Agreement (and the transactions contemplated thereunder) are fair and reasonable so far as the Company and the Independent Shareholders are concerned; (ii) the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole; and (iii) the Transaction is in the ordinary and usual course of business of the Group.

Yours faithfully,
For and on behalf of
Cinda International Capital Limited
Kinson Li
Managing 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 Jihe East Company.

JONES LANG LASALLE® SALLMANNS

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23 June 2009

The Board of Directors
Shenzhen Expressway Co. Ltd.
Podium Levels 2-4, Jiangsu Building,
Yitian Road, Futian District
Shenzhen 518026, PRC

Dear Sirs,

In accordance with the instructions from Shenzhen Expressway Company Limited ("SZ Expressway"), we have undertaken a valuation exercise to express an independent opinion of the fair value of the business enterprise, Shenzhen Airport — Heao Expressway (Eastern Section) Company Limited ("Jihe East Company" or the "Project Company"), as at 31 March 2009 (the "Valuation Date"). This letter summarizes the principal conclusions stated in our valuation report dated 18 June 2009.

The purpose of this valuation is to express an independent opinion of the fair value of the business enterprise as at 31 March 2009 for sale and acquisition reference. We confirm that we have carried out inspections and made relevant enquiries and obtained such further information as we considered necessary for the purpose of our valuation.

The value of the business enterprise is defined for this valuation as the total invested capital, net of the value of debt but including shareholders' loans, and is equivalent to shareholders' equity plus shareholders' loans.

Our valuation was carried out on a fair value basis. Fair value is defined as "*the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction*".

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.

INTRODUCTION

Jihe East Company is a Sino-foreign cooperative joint venture established in October 1996 in Guangdong, the People Republic of China (the "PRC"). The principal operation of Jihe East Company is to manage Jihe Expressway (Eastern Section) ("Jihe East Expressway") located in Guangdong Province, PRC. Jihe East Company was granted operating right with respect to the Jihe East Expressway for 30 years starting from 1997 and ending in 2027.

The details of Jihe East Expressway are as follows:

Toll Road	Location	Length (km)	Lanes	Operation Period
Jihe East Expressway	**Shenzhen**	**23.9**	**6**	**1997.10 - 2027.03**

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 fair 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 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 Jihe East Expressway (the "Traffic Study") prepared by Parsons Brinckerhoff (Asia) Ltd. ("PBA"). PBA has prepared a projection for the traffic flow and revenue stream of the Jihe East Expressway from 2008 to 2027. 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 three future forecast scenarios: the "Optimistic", "Conservative" and "Base" 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 "Base" scenario assumes an average expectation of economic growth over the entire evaluation period. This scenario considers a fair outlook towards the future and assumes a medium development pace. The forecast traffic volume and toll charge prepared by PBA is used to estimate the revenue stream of the Jihe East Expressway. The base approach 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 SZ Expressway and the Project Company. We believe such information to be reliable and legitimate. We have also interviewed senior staffs 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 and the memorandum of association, the Project Company will be able to distribute cashflow from annual depreciation and amortization during the operating period of Jihe East 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 tax rate over the concession period of the expressway as follows:

1. **Turnover tax and surtax**

Tax item	**Tax base**	**Tax rate**
Business Tax -Toll Road	Toll road's revenue	3%
Business Tax -Rental Income	Rental income	5%
Urban Maintenance and Construction Tax	Business tax amount	1%
Educational Surtax and Surcharge	Business tax amount	3%

2. **Income tax**

Year	**2009**	**2010**	**2011**	**2012 - 2027**
Income tax rate	20%	22%	24%	25%

- 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 SZ Expressway 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, 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 determining the discount rate for the Project Company, we have referenced to Hong Kong Exchange Fund Note rate, Hang Seng Index return, relevant beta in the market and country risk premium. The resulting discount rate is computed to be 10.8% for the Project Company. In addition, a discount for lack of marketability of 17.9% is also applied in the calculation to capture the lower liquidity of the equity of the Project Company due to its private company nature.

A sensitivity analysis was prepared to profile the results based on a 1% variation from the derived discount rate of 10.8%. The following table summarizes the resulting values of the Project Company:

Discount Rate Sensitivity

Discount Rate	**Results** *(RMB million)*
9.8%	2,750
10.8%	2,570
11.8%	2,410

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 SZ Expressway, the Project Company and Jones Lang LaSalle Sallmanns Limited.

We do not intend to express any opinion on matters which require legal or other specialized 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 March the fair value of the business enterprise is reasonably stated at the amount of **RMB2,570 million (RENMINBI TWO BILLION FIVE HUNDRED AND SEVENTY MILLION)**. Fair value of 45% equity interest in the Project Company is thus stated at **RMB1,156 million (RENMINBI ONE BILLION ONE HUNDRED AND FIFTY SIX MILLION)**.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Sallmanns Limited
Simon M.K. Chan
CPA
Director

Note: Simon M.K. Chan is a CPA member of the Hong Kong Institute of Certificate Public Accountants and a CPA member of CPA Australia, who has extensive experience in valuation and corporate advisory business. He has provided a wide range of valuation services to numerou listed and listing companies of different industries in China, Hong Kong, Singapore and the United States.

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

PB 栢誠 100 YEARS®

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23 June 2009

The Directors
Shenzhen Expressway Company Limited

Dear Sirs,

TRAFFIC AND TOLL REVENUE STUDY FOR JIHE EXPRESSWAY-EASTERN SECTION IN SHENZHEN EXECUTIVE SUMMARY

Parsons Brinckerhoff (Asia) Limited (the "Consultant" or "PBA") was commissioned by Shenzhen Expressway Company Limited (also referred to as the "Company" or "SZEW") to conduct an independent traffic and revenue study (the "Study") for Jihe Expressway-Eastern Section in Shenzhen, Guangdong Province, the People's Republic of China ("PRC"). This report summarizes the results and findings based on the technical analyses conducted. We confirm that the future traffic and revenue for the toll road of Jihe Expressway-Eastern Section is projected in an independent and professional manner:

In conducting the Study, we have based our analyses on site investigation, interviews with local authorities, toll road operators, reviews of available traffic data, feasibility reports and other relevant information. In utilizing the given information from the Company; we have sought confirmation from the management of the toll roads that no material factors have been omitted. We concluded that sufficient and reliable information has been provided for conclusive review and comprehensive analysis.

The results of our analysis are presented in the "Traffic and Revenue Study for Jihe Expressway-Eastern Section". A brief summary of our study approaches and findings are presented below:

1 Introduction

The Jihe Expressway is a major east-west expressway located in the city of Shenzhen. It connects the Shenzhen airport and the Guangzhou-Shenzhen Superhighway on the west, with the Shenzhen-Shantou Expressway (深圳—汕頭高速) and the Huizhou-Yantian Expressway (惠州—鹽田高速) on the east.

The Jihe Expressway-Eastern Section starts at the He'ao mainline toll station on the east, and ends at the Fumin interchange on the west, where it joins the Jihe Expressway-Western Section. The Jihe Expressway-Eastern Section interchanges with the Yanpai Expressway and the Meiguan Expressway.

Description and key technical elements of the subject toll road have been summarized in Table 1.1.

Table 1.1 General Description and Summary of Key Technical Elements

Origin	He'ao
Destination	Fumin
Highway Classification	Expressway
Access Control	Control Access
Configuration	6 lanes
Design Speed	100 km/hr
Length	23.9 km
No. of Toll Stations	Three: He'ao, Bainikeng, Fumin

2 Objective and Service Scope

The objective of the study is to forecast the future travel demand and revenue potential of Jihe Expressway-Eastern Section.

The scope of work comprises information collection, on-site traffic surveys, traffic analysis, future traffic projections and toll revenue forecasts. Major activities involve:

- Review of available planning and feasibility studies related to the subject facility,
- Collection of socio-economic information of the study area,
- Collection of historical traffic and toll rate information of the subject facility,
- Formulation of traffic forecasting methodology,
- Analyzing possible impacts from nearby developments and roads, and
- Preparation of traffic forecasts for the toll facility, preparation of toll revenue projections in accordance with the traffic forecasts.

3 Traffic Forecasting Methodology

The study was built upon the technical analysis and findings from previous studies of similar nature conducted by the Consultant in China. Relevant information collected and accumulated from other projects had also been incorporated in this study. The methodology used for these traffic forecasts was synthesized from conventional methods which are widely adopted by toll road studies and have been applied to similar toll roads in China. The traffic forecasting methodology for this study is made up of three technical stages:

1. ***Data Inventory and Review***

The key objective for this technical stage is to collect and organize the existing available information for the use of the next stage of work. Typical information to be inventoried includes historical network data, toll traffic and revenue data, socio-economic data and previous analyses and reports.

2. ***Definition of Technical Approach***

The goal is to develop the most appropriate technical methodology for the study. The determination of types of method depends on the availability and the quality of the data as well as the overall project programme.

3. ***Travel Demand Forecast***

Synthesized the information and findings from previous stage, the existing traffic pattern is defined at this stage. With appropriate key traffic variables, the future travel demand and analyses are derived. These variables comprise:

- Economic indicators and growth of travel demand,
- Physical conditions of the road and its carrying capacity,
- Vehicle classifications and mixture for each segment,
- Origin and destination for each class of vehicles.

To offer a better picture of the various possible outcomes in the future, the traffic forecasts are presented under three scenarios: optimistic, base and conservative cases.

4 Summary of Traffic Projections

The base year traffic 2008 has an average daily traffic of 91,700 vehicles. Projected daily traffic on Jihe Expressway-Eastern Section is summarized in Table 4.1. They are presented in "mixed vehicles" units under three scenarios. In addition, annual average traffic growth rates are summarized in Table 4.2.

Table 4.1 Average System Daily Traffic (in mixed vehicles)

Year	Optimistic	Base	Conservative
2009	98,070	97,410	96,685
2010	96,875	96,185	95,495
2015	121,475	120,715	116,565
2020	149,630	147,740	138,180
2025	157,615	157,555	148,320
2027	157,615	157,555	152,655

Note: Average system daily traffic included non-toll vehicles.

Table 4.2 Annual Average Traffic Growth Rates

Year	Optimistic	Base	Conservative
2009	6.9%	6.2%	5.4%
2010	-1.2%	-1.3%	-1.2%
2015	4.6%	4.6%	4.1%
2020	4.3%	4.1%	3.5%
2025	1.0%	1.3%	1.4%
2027	0.0%	0.0%	1.5%

5 Summary of Future Toll Revenue Estimations

The future daily toll revenue is calculated by applying the current toll structures to the average daily traffic for each vehicle class. Annualization factor has been used for the conversion from daily toll revenue to annual revenue. An annualization factor of 365 is used to calculate annual revenue in this study. It is anticipated that the toll rate of the Jihe Expressway will increase by 20% in year 2015.

Summaries of the toll revenue estimations of Jihe Expressway-Eastern Section are presented in Table 5.1 under three scenarios.

Table 5.1 Annual Revenue (in million RMB)

Year	Optimistic	Base	Conservative
2008	449.18	449.18	449.18
2009	468.46	466.49	464.24
2010	459.37	457.42	455.20
2015	641.96	641.96	630.66
2020	783.49	782.89	743.04
2025	821.68	821.68	789.69
2027	821.68	821.68	809.73

6 Conclusion

The Consultant concluded that the traffic forecasts and toll revenue projections developed from the above methodology and on the above assumptions are in line with common professional practice and meet the objectives of the agreed scope of works with SZEW.

Yours Sincerely
PARSONS BRINCKERHOFF (ASIA) LIMITED
Annie Lai
Project Manager

Annie Lai is a member of the Chartered Institute of Logistics and Transport in Hong Kong, Institute of Highway & Transportation and Institute of Transportation Engineers. She has over 15 years experience in development of travel demand model including regional demand models and corridor analysis, toll road feasibility studies.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of Shenzhen Expressway Company Limited.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

23 June 2009

The Directors
Shenzhen Expressway Company Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited (深圳機荷高速公路東段有限公司) (the "Target Company") set out in Sections I to III below, for inclusion in the circular of Shenzhen Expressway Company Limited (the "Company") dated 23 June 2009 in connection with the proposed acquisition of 45% equity interest of the Target Company by the Company. The Financial Information comprises the balance sheets of the Target Company as at 31 December 2006, 2007 and 2008, the income statements, the statements of changes in equity and the cash flow statements of the Target Company for each of the years ended 31 December 2006, 2007 and 2008 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes.

The Target Company was incorporated in the People's Republic of China (the "PRC") on 4 October 1996 as a Sino-foreign cooperative enterprise with limited liability.

For the purpose of this report, the directors of the Target Company have prepared the financial statements of the Target Company for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing.

The Financial Information has been prepared based on the Underlying Financial Statements with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY

The directors of the Target Company are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements in accordance with HKFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements used in preparing the Financial Information, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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 the Target Company as at 31 December 2006, 2007 and 2008 and of its results and cash flows for the Relevant Periods.

I. FINANCIAL INFORMATION OF THE TARGET COMPANY

The following is the Financial Information of the Target Company as at 31 December 2006, 2007 and 2008 and for each of the years ended 31 December 2006, 2007 and 2008:

BALANCE SHEETS

		As at 31 December		
		2006	**2007**	**2008**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Property, plant and equipment	5	51,791	48,532	49,306
Construction in progress	6	1,069	4,543	2,352
Concession intangible assets	7	1,063,482	1,016,386	966,859
Deferred income tax assets	8	6,560	30,544	43,338
		1,122,902	1,100,005	1,061,855
Current assets				
Inventories		231	168	281
Trade and other receivables	9	6,440	10,374	11,424
Cash and cash equivalents	10	48,456	62,591	78,572
		55,127	73,133	90,277
Total assets		1,178,029	1,173,138	1,152,132
EQUITY				
Capital and reserves				
Paid-in capital	11	440,000	440,000	440,000
Capital reserve	13	548,605	548,605	548,605
Accumulated losses		(371,744)	(433,538)	(488,811)
Total equity		616,861	555,067	499,794

		As at 31 December		
		2006	2007	2008
	Note	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES				
Non-current liabilities				
Provision for maintenance/resurfacing obligations	12	266,959	325,690	369,789
Equity holders' loans — long-term portion	13	222,978	204,326	192,905
		489,937	530,016	562,694
Current liabilities				
Trade and other payables	14	17,225	29,113	35,081
Current income tax liabilities		8,520	12,596	17,764
Equity holders' loans — current portion	13	45,486	46,346	36,799
		71,231	88,055	89,644
Total liabilities		561,168	618,071	652,338
Total equity and liabilities		1,178,029	1,173,138	1,152,132
Net current (liabilities)/assets		(16,104)	(14,922)	633
Total assets less current liabilities		1,106,798	1,085,083	1,062,488

INCOME STATEMENTS

		Year ended 31 December		
		2006	**2007**	**2008**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue		331,434	420,631	450,091
Business tax and surcharges	17	(10,082)	(12,760)	(13,656)
Cost of services	17	(95,238)	(111,911)	(111,071)
Gross profit		226,114	295,960	325,364
Other income	16	4,925	6,080	637
Administrative expenses	17	(6,952)	(8,867)	(9,104)
Operating profit		224,087	293,173	316,897
Finance costs - net	19	(55,743)	(59,484)	(51,712)
Profit before income tax		168,344	233,689	265,185
Income tax expense	20	(29,691)	(25,343)	(52,760)
Profit for the year		138,653	208,346	212,425
Dividends	21	207,131	270,140	267,698

STATEMENTS OF CHANGES IN EQUITY

	Note	Paid-in capital RMB'000	Capital reserve RMB'000 (Note 13)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2006		440,000	548,605	(303,266)	685,339
Profit for the year		—	—	138,653	138,653
Dividends	21	—	—	(207,131)	(207,131)
Balance at 31 December 2006		440,000	548,605	(371,744)	616,861
Balance at 1 January 2007		440,000	548,605	(371,744)	616,861
Profit for the year		—	—	208,346	208,346
Dividends	21	—	—	(270,140)	(270,140)
Balance at 31 December 2007		440,000	548,605	(433,538)	555,067
Balance at 1 January 2008		440,000	548,605	(433,538)	555,067
Profit for the year		—	—	212,425	212,425
Dividends	21	—	—	(267,698)	(267,698)
Balance at 31 December 2008	22	440,000	548,605	(488,811)	499,794

CASH FLOW STATEMENTS

		Year ended 31 December		
		2006	2007	2008
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities	24	295,799	386,804	398,914
Income tax paid		(35,027)	(45,251)	(60,386)
Net cash generated from operating activities		260,772	341,553	338,528
Cash flows from investing activities				
Purchase of property, plant and equipment and investment in construction in progress		(2,053)	(6,236)	(2,800)
Proceeds from disposal of property, plant and equipment		53	93	53
Net cash used in investing activities		(2,000)	(6,143)	(2,747)
Cash flows from financing activities				
Repayments of equity holders' loans		(43,853)	(51,135)	(52,102)
Dividend paid		(207,131)	(270,140)	(267,698)
Net cash used in financing activities		(250,984)	(321,275)	(319,800)
Net increase in cash and cash equivalents		7,788	14,135	15,981
Cash and cash equivalents at beginning of the year		40,668	48,456	62,591
Cash and cash equivalents at end of the year		48,456	62,591	78,572

II NOTES TO THE FINANCIAL INFORMATION

1 General information

The Target Company was incorporated in October 1996 in the PRC as a Sino-foreign cooperative enterprise, which was owned by Xin Tong Chan Development (Shenzhen) Co., Ltd. (formerly known as Shenzhen Expressway Development Company Limited, "Xin Tong Chan") and Intersafe Investments Limited ("Intersafe"). The registered capital of the Target Company was RMB330,000,000, 55% of which was owned by Xin Tong Chan, with the remaining 45% held by Intersafe.

In December 1996, the registered capital of the Target Company was increased to RMB440,000,000.

In April 1997, in accordance with an agreement entered into between the Company and Xin Tong Chan, Xin Tong Chan transferred its 55% interest of the Target Company to the Company. Since then, the Company and Intersafe became the equity holders of the Target Company, which hold 55% and 45% of the equity interests, respectively.

The principal activities of the Target Company are the operations and management of the eastern section of an expressway from Shenzhen International Airport to Heao (the "Airport-Heao Expressway"), Shenzhen, under a concessionary right granted by a local government in the PRC to the Target Company.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. The standards effective for the financial year beginning 1 January 2008 are consistently applied to the Financial Information throughout the Relevant Periods.

2.1 *Basis of preparation*

The Financial Information has been prepared in accordance with HKFRSs and under the historical cost convention.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4 below.

The following new/revised standards, amendments and interpretations to existing standards have been issued but are not effective during the Relevant Periods and have not been early adopted by the Target Company. They are assessed to be not relevant to the Target Company's operations or they will not have a significant impact on the Target Company's Financial Information:

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009)
- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009)
- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009)

- HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009)

- HKFRS 7 (Amendment), 'Financial instruments: improving disclosure about financial instruments' (effective from 1 January 2009)

- HKFRS 8, 'Operating segments' (effective from 1 January 2009)

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009)

- HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009)

- HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective from 1 January 2009)

- HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009)

- HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009)

- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009)

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009)

- HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 July 2009)

- HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009)

- HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009)

- HKAS 31 (Amendment) , 'Interests in joint ventures (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009)

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' - 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009)

- HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009)

- HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009)

- HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009)

- HKAS 39 (amendment) 'Financial Instruments: Recognition and measurement' — 'Eligible hedged items' (effective from 1 July 2009)

- HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective from 1 January 2009)

- HKAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009)

- HK(IFRIC)-Int 9, 'Embedded Derivative and HKAS39" (effective from 30 June 2009)

- HK(IFRIC)-Int 13, 'Customer Loyalty Programmes' (effective from 1 July 2008)

- HK(IFRIC)-Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009)

- HK(IFRIC)-Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008)

- HK(IFRIC)-Int 17 - 'Distributions of non-cash assets to owners' (effective from 1 July 2009)

- HK(IFRIC)-Int 18, 'Transfers of Assets from Customers' (effective from 1 July 2009)

2.2 ***Segment reporting***

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.3 ***Foreign currency translation***

(a) *Functional and presentation currency*

Items included in the financial statements of the Target Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Renminbi ("RMB"), which is the Target Company's functional and presentation currency.

(b) *Transactions and balances*

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

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the income statement within 'finance costs - net'. All other foreign exchange gains and losses are presented in the income statement within 'other income'.

2.4 ***Property, plant and equipment***

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of buildings and infrastructures is calculated using the straight-line method to allocate their costs or revalued amounts to their residual values over the unexpired operating period of the concession right or their expected useful lives, whichever is shorter.

Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate cost to their estimated residual values over their estimated useful lives, as follows:

Items	Useful lives	Residual value (% of cost)	Annual depreciation rate (%)
Buildings and infrastructures	28.83 years	10%	3.12%
Equipment	5 - 10 years	5%	9.50% - 19%
Motor vehicles	5 years	5%	19%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

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

2.5 ***Construction in progress***

Construction in progress is stated at cost which includes development expenditure and other direct costs, including borrowing costs on the related borrowed funds during the construction period, attributable to the development of the qualifying assets. Costs are transferred to property, plant and equipment upon completion.

2.6 ***Concession intangible assets***

The Target Company has entered into contractual service arrangements with local government authorities for its participation in the development, financing, operation and maintenance of various toll road infrastructures. Under the arrangement ("Service Concessions"), the Target Company carries out the construction or upgrade work of toll roads for the granting authorities and receives in exchange for the right to operate the toll roads concerned and the entitlement to toll fees collected from users of the toll road services. Concession intangible assets correspond to the rights granted by the respective concession grantors to the Target Company to charge users of the toll road services and the fact that the concession grantors (the respective local governments) have not provided any contractual guarantees in respect of the amounts of construction costs incurred to be recoverable.

Land use rights acquired in conjunction with the Service Concessions which the Target Company has no discretion or latitude to deploy for other services other than the use in the Service Concessions are treated as intangible assets acquired under the Service Concessions.

Concession intangible assets is amortised on an units-of-usage basis according to the HK Int-1, 'The Appropriate Policies for Infrastructure Facilities', issued by the HKICPA, whereby amortisation is 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 Target Company is granted the rights to operate those roads (the "Traffic Flow Amortisation Method"). It is the Target Company's 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.

2.7 ***Impairment of non-financial assets***

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 ***Financial assets***

The Target Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. For the Relevant Periods, the Target Company only held financial assets in the category of loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2.10 and 2.11). Loans and receivables are carried at amortised cost using the effective interest method.

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

The Target Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in Note 2.10.

2.9 ***Inventories***

Inventories mainly represent toll tickets 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.

2.10 ***Trade and other receivables***

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Target Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the income statement.

2.11 ***Cash and cash equivalents***

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

2.12 ***Equity holders' loans***

The liability portion of the equity holders' loan is recognised initially at fair value, net of transaction costs incurred. It is subsequently stated at amortised cost; any difference between the gross amount of equity holders' loans and the redemption value is recognised in the income statement over the estimated period of the liability using the effective interest method.

The equity portion of the equity holders' loan is measured as the difference between the gross amount and the fair value of the liability portion at the date of inception.

Liability portion is classified as current liabilities unless the Target Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.13 ***Capital***

Paid-in registered capital is classified as equity. Incremental costs directly attributable to the increase in paid-in capital are show in equity as a deduction, net of tax.

2.14 ***Trade payables***

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 ***Current and deferred income tax***

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Target Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2.16 ***Employee benefits***

The Target Company participates in the municipal retirement schemes which are organised by the local government authorities in the PRC. The schemes are defined contribution plans, under which the Target Company pays fixed contributions to the local social security administration bureau and the Target Company has no legal or constructive obligations to pay further contributions if the bureau does not have sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to the schemes by the Target Company are calculated as a percentage of employees' basic salaries, subject to a certain ceiling.

The Target Company pays contributions to the schemes on a mandatory basis and the contributions are recognised as employee benefit expenses when they are due.

2.17 ***Provisions***

As part of its obligations under the respective Service Concessions, the Target Company assumes responsibility for the maintenance and resurfacing of the toll roads it operates. The resulting maintenance and resurfacing costs, except for upgrade services, are recognised as provisions when: the Target Company 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 the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 ***Borrowing costs***

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.19 ***Revenue recognition***

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Target Company's activities. The Target Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Target Company and specific criteria have been met for each of the Target Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Target Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Toll revenue*

Toll revenue from operations of toll roads is recognised on an accrual basis upon services are rendered to the toll road users. A majority of toll fees is received in cash and they are recognised as revenue upon receipt.

(b) *Government grants*

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Company will comply with all attached conditions.

Subsidies from local government relating compensation of the costs incurred are recognised in income statement upon receipt, with no other conditions are to be fulfilled.

(c) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

2.20 ***Dividend distribution***

Dividend distribution to the Target Company's equity holders is recognised as a liability in the Target Company's financial statements in the period in which the dividends are approved by the directors, representing both equity holders of the Target Company according to the agreement of the equity holders.

3 **Financial risk management**

3.1 ***Financial risk factors***

The Target Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Target Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Company's financial performance. The Target Company currently does not use any derivatives or apply hedge accounting for its financial risks.

(a) *Foreign exchange risk*

The Target Company operates in the PRC with most of the transactions received and settled in RMB. The Target Company has no significant assets denominated in foreign currencies, except for certain bank balances of RMB1,750,000, RMB71,000, RMB2,000 which were denominated in Hong Kong dollars ("HKD") as at 31 December 2006, 2007 and 2008 respectively. The conversion of RMB into HKD is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(b) *Credit risk*

The Target Company has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents and trade and other receivables.

The table below shows the bank deposits balances of the major counterparties of the Target Company as at 31 December 2006, 2007 and 2008:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Counterparty			
State-owned banks	11,134	5,040	39,154
Other banks	37,317	57,548	39,414
	48,451	62,588	78,568

It is expected that there is no significant credit risk associated with the bank deposits as the state-owned banks have the support of the government and others are listed banks or commercial banks at medium/large size. Management does not expect any losses from non-performance by these counterparties.

Due to the fact that the Target Company is mainly engaged in toll road operations, its income is mainly received in cash and it usually does not maintain any significant trade receivable balances. The directors are of the opinion that the credit risk is low.

(c) *Liquidity risk*

During the Relevant Periods, the Target Company financed its operations with its own capital, equity holders' loans and its operating cash flow derived from its profitable operations. The Target Company did not have any borrowings or credit facilities committed/utilised from any external parties other than its equity holders. Management considers that the Target Company does not have significant liquidity risk.

The table below sets out an analysis of the Target Company's financial liabilities based on the agreed repayment periods as estimated by directors of the Target Company as at the respective balance sheet dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2006				
Equity holders' loans	51,135	52,102	127,579	262,604
Trade and other payables(1)	15,025	—	—	—
At 31 December 2007				
Equity holders' loans	52,102	41,369	131,447	217,367
Trade and other payables(1)	26,273	—	—	—
At 31 December 2008				
Equity holders' loans	41,369	42,283	136,560	169,972
Trade and other payables(1)	31,954	—	—	—

(1) The amount of trade and other payables excluded accrued expenses.

(d) *Cash flow and fair value interest rate risk*

As the Target Company has no significant interest-bearing assets, the Target Company's income and operating cash flows are substantially independent of changes in market interest rates.

The interest rate risk of the Target Company arises from the equity holders' loans. The equity holders' loans are interest-free and stated at amortised costs using the effective interest method calculated with the market rate prevailing in the period when the loans are obtained. The equity holders' loans expose the Target Company to fair value interest rate risk.

3.2 ***Capital risk management***

The Target Company's considers the capital contribution and the equity holders' loans as its capital. Its objectives when managing capital are to safeguard the Target Company's ability to continue as a going concern in order to provide returns for equity holders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Company may adjust the amount of dividends paid and return loans to equity holders to reduce debt.

3.3 ***Fair value estimation***

The carrying value less impairment provision, if any, for financial assets and liabilities with a maturity of less than one year, is a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Target Company for similar financial instruments.

4 **Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The directors of the Target Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) ***Amortisation of concession intangible assets***

As described in Note 2.6, the Target Company recognises concession intangible assets under the service concession arrangements and provides amortisation thereon. Amortisation of concession intangible assets is provided under the Traffic Flow Amortisation Method.

Material adjustments may need to be made to the carrying amounts of concession intangible assets should there be a material difference between total projected traffic volume and the actual results. The latest independent professional traffic study on the total projected traffic volume of Airport-Heao Expressway was performed by relevant professional party in 2006. If the expected total projected traffic volume increase/decrease by 5%, the net profit would be increased/decreased by RMB1,757,000, RMB1,976,000 and RMB2,162,000 for the Relevant Periods.

The directors of the Target Company had performed an assessment and concluded that there was no significant change in the directors' estimate of the total projected traffic volume during the Relevant Periods.

(b) ***Provisions for maintenance/resurfacing obligations***

The Target Company has contractual obligations under the Service Concessions to maintain the toll road infrastructure to a specified level of serviceability. These obligations to maintain or restore the infrastructure, except for upgrade services, are to be recognised and measured as a provision. Provisions for maintenance and resurfacing obligations of approximately RMB266,959,000, RMB325,690,000, RMB369,789,000 have been provided as at 31 December 2006, 2007 and 2008, respectively, at the present value of expenditures expected to be incurred by the Target Company to settle the obligations at the balance sheet date.

The expenditures expected to be required to settle the obligations at the balance sheet date is determined based on the number of major maintenance and resurfacing to be undertaken throughout the allowed operating periods of each toll roads operated by the Target Company under the Service Concessions and the expected costs to be incurred for each event. The costs are then discounted to the prevent value based on pre-tax discount rates of 10%, 10% and 6.62% for the years ended 31 December 2006, 2007 and 2008 respectively. The discount rates used in discounting reflect the time value of money and the risks specific to the obligations, as determined by the directors.

The expected costs for maintenance and resurfacing and the timing of such events to take place involve estimates made by the directors of the Target Company, which were developed based on the Target Company's resurfacing plan and historical costs incurred for similar activities.

If the expected expenditures for the resurfacing plan were different from management's current estimates, the change in provision for maintenance/resurfacing is required to be accounted for prospectively. If the expected expenditures increase/decrease by 5%, the net profit would be decreased/increased by RMB1,900,000, RMB2,200,000 and RMB1,650,000 for the Relevant Periods.

(c) ***Equity holders' loans***

As described in Note 2.12, the difference between the gross amount of equity holders' loans (after deducting the equity portion) and the redemption value of the equity holders' loans is recognised in the income statement over the estimated period of the borrowings using the effective interest method.

The equity portion of the equity holders' loans is estimated based on the estimated repayments throughout the period of the borrowings, which are discounted with the market borrowing rate of 12.4% prevailing at the time when the loans were obtained from the equity holders.

Furthermore, the expected repayments are in turn estimated with reference to the estimated depreciation of property, plant and equipment and amortisation of concession intangible assets. As indicated in Note 4(a), concession intangible assets are amortised under the Traffic Flow Amortisation Method. In case there is a material difference between the projected traffic volume with the actual traffic flow, material adjustments may need to be made to the estimated repayment pattern and thus the carrying amount of the equity holders' loans.

Based on the assessment performed by the directors of the Target Company on the projected traffic flow as mentioned in Note 4(a) above, it was concluded that there were no significant changes need to be made to the carrying amounts of the loan balances as at the end of each of the Relevant Periods.

5 **Property, plant and equipment**

	Buildings and structures *RMB'000*	Equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2006				
Cost	47,000	41,477	2,099	90,576
Accumulated depreciation	(11,859)	(21,146)	(1,299)	(34,304)
Net book amount	35,141	20,331	800	56,272
Year ended 31 December 2006				
Opening net book amount	35,141	20,331	800	56,272
Additions	—	1,132	272	1,404
Disposals	—	(26)	(27)	(53)
Depreciation	(1,467)	(4,165)	(200)	(5,832)
Closing net book amount	33,674	17,272	845	51,791
At 31 December 2006				
Cost	47,000	42,304	2,099	91,403
Accumulated depreciation	(13,326)	(25,032)	(1,254)	(39,612)
Net book amount	33,674	17,272	845	51,791
Year ended 31 December 2007				
Opening net book amount	33,674	17,272	845	51,791
Transfer from construction in progress (Note 6)	—	807	—	807
Additions	—	1,720	235	1,955
Disposals	—	(18)	(75)	(93)
Depreciation	(1,467)	(4,217)	(244)	(5,928)
Closing net book amount	32,207	15,564	761	48,532
At 31 December 2007				
Cost	47,000	44,707	1,581	93,288
Accumulated depreciation	(14,793)	(29,143)	(820)	(44,756)
Net book amount	32,207	15,564	761	48,532

	Buildings and structures *RMB'000*	Equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Year ended 31 December 2008				
Opening net book amount	32,207	15,564	761	48,532
Transfer from construction in progress (Note 6)	—	3,896	—	3,896
Additions	—	934	161	1,095
Disposals	—	(53)	—	(53)
Depreciation	(1,467)	(2,439)	(258)	(4,164)
Closing net book amount	30,740	17,902	664	49,306
At 31 December 2008				
Cost	47,000	48,608	1,742	97,350
Accumulated depreciation	(16,260)	(30,706)	(1,078)	(48,044)
Net book amount	30,740	17,902	664	49,306

All depreciation expenses were included in the 'cost of services' during the Relevant Periods.

6 **Construction in progress**

	Year ended 31 December		
	2006 *RMB'000*	**2007** *RMB'000*	**2008** *RMB'000*
At 1 January	420	1,069	4,543
Additions	649	4,281	1,705
Transfer to property, plant and equipment (Note 5)	—	(807)	(3,896)
At 31 December	1,069	4,543	2,352

Construction in progress at 31 December 2006, 2007 and 2008 mainly represents construction costs incurred for equipment of the Target Company.

No borrowing costs were capitalised during the Relevant Periods as there was no qualifying asset.

7 Concession intangible assets

	Year ended 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	1,100,483	1,063,482	1,016,386
Amortisation	(37,001)	(47,096)	(49,527)
At 31 December	1,063,482	1,016,386	966,859

The Target Company has been granted by the relevant local government authorities in the PRC the rights to operate the Airport-Heao Expressway for a period of 30 years from October 1997. According to the relevant governments' approval documents and the related regulations, the Target Company is responsible for the construction of the toll roads and the acquisition of the related facilities and equipment. It is also responsible for the operations and management, maintenance and overhaul of the toll roads during the approved operating periods. The toll fees collected and collectible during the operating periods are attributable to the Target Company. The relevant toll roads assets are required to be returned to the local government authorities when the operating rights periods expire without any considerations payable to the Target Company. According to the relevant regulations, these operating rights are not renewable and the Target Company does not have any termination options.

Amortisation is included in 'cost of services' during the Relevant Periods.

8 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The gross amounts of deferred tax offset against each other are shown as follows:

	As at 31 December		
	2006	2007	2008
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets			
- to be recovered after more than 12 months	40,044	81,422	92,447
	40,044	81,422	92,447
Deferred tax liabilities			
- to be settled within 12 months	1,223	1,467	1,629
- to be settled after more than 12 months	32,261	49,411	47,480
	33,484	50,878	49,109
Deferred tax assets (net)	6,560	30,544	43,338

The movements on the deferred tax assets and liabilities for the Relevant Periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets	**Provision for maintenance/ resurfacing obligations** *RMB'000*
At 1 January 2006	32,432
Recognised in the income statement	7,612
At 31 December 2006	40,044
At 1 January 2007	40,044
Recognised in the income statement	14,682
Adjustment to the enacted tax rate	26,696
At 31 December 2007	81,422
At 1 January 2008	81,422
Recognised in the income statement	11,025
At 31 December 2008	92,447

Deferred tax liabilities	**Concession intangible assets** *RMB'000*
At 1 January 2006	32,653
Recognised in the income statement	831
At 31 December 2006	33,484
At 1 January 2007	33,484
Recognised in the income statement	(1,986)
Adjustment to the enacted tax rate	19,380
At 31 December 2007	50,878
At 1 January 2008	50,878
Recognised in the income statement	(1,769)
At 31 December 2008	49,109

9 **Trade and other receivables**

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables (Note (a))	5,772	8,266	9,104
Others	668	2,108	2,320
	6,440	10,374	11,424

(a) ***Trade receivables***

The trade receivables mainly represent amounts for toll fees receivable from stored value cards which are settled on a monthly basis.

At 31 December 2006, 2007 and 2008, the ageing of trade receivables was all within one month.

As at 31 December 2006, 2007 and 2008, no trade receivable was past due or impaired.

As at 31 December 2006, 2007 and 2008, all of the trade receivables are denominated in RMB.

10 **Cash and cash equivalents**

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and on hand	48,456	62,591	78,572

The cash and cash equivalents are denominated in the following currencies:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
RMB	46,706	62,520	78,570
HKD	1,750	71	2
	48,456	62,591	78,572

11 **Paid-in capital**

The total registered capital of the Target Company was RMB440,000,000. It has been fully paid up.

12 **Provision for maintenance/resurfacing obligations**

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Opening net book amount	216,215	266,959	325,690
Charged to the income statement:			
— Additions	29,123	32,035	22,538
— Unwinding of the interests due to passage of time (Note 19)	21,621	26,696	21,561
Closing net book amount	266,959	325,690	369,789

13 **Equity holders' loans and capital reserve**

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Opening balance	277,813	268,464	250,672
Accrual of interests (Note 19)	34,504	33,343	31,134
Repayments	(43,853)	(51,135)	(52,102)
	268,464	250,672	229,704
Less: current portion	(45,486)	(46,346)	(36,799)
Ending balance	222,978	204,326	192,905

As stipulated in the Cooperative Agreement entered into by the Company and Intersafe, dated 5 September 1996, the total investment committed by the two equity holders in the Target Company is RMB1,300,000,000, amongst which RMB440,000,000 was designated as paid-in capital of the Target Company and the remaining RMB860,000,000 was designated as equity holders' loans to the Target Company. The loans are unsecured, non-interest bearing and are repayable out of funds generated from the operations of the toll road operated by the Target Company.

The difference between the gross amount of the equity holder' loans of RMB860,000,000 and their assessed fair value of the loans at the date of inception was RMB548,605,000. It was recognised as capital surplus contributed from the equity holders and recorded as a credit to capital reserve.

The effective interest rate of the liability portion of the equity holders' loan was 12.4% during the Relevant Periods.

At 31 December 2006, 2007 and 2008, the Target Company's equity holders' loans are expected to be repayable as follow:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	45,486	46,346	36,799
Between 1 and 2 years	41,226	32,733	33,456
Between 2 and 5 years	80,053	82,454	85,634
Wholly payable within 5 years	166,765	161,533	155,889
Over 5 years	101,699	89,139	73,815
	268,464	250,672	229,704

As at 31 December 2006, 2007 and 2008, the fair values of equity holders' loans are RMB338,421,000, RMB297,398,000 and RMB290,148,000 respectively. The fair values are determined based on cash flows discounted using the interest rates for general bank borrowings at 6.84%, 7.83% and 5.94% per annum as at 31 December 2006, 2007 and 2008, respectively.

14 **Trade and other payables**

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Trade payable due to the Company (Note 26(d))	1,931	2,166	1,688
Management fees payables for toll road network	6,660	11,607	17,157
Payables for maintenance	3,940	2,772	7,985
Payables for construction projects	434	6,298	2,140
Accrued payroll	1,308	1,654	1,993
Quality deposit payable	658	1,079	1,671
Other taxes payable	892	1,187	1,134
Others	1,402	2,350	1,313
	17,225	29,113	35,081

At 31 December 2006, 2007 and 2008, the ageing analysis of trade payables was as follows:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	—	478	—
1-5 years	1,931	1,688	1,688
	1,931	2,166	1,688

15 **Segment information**

No segment information is presented as all turnover of the Target Company is toll fees earned in the PRC, and all its assets and capital expenditures are located/incurred in the PRC.

16 **Other income**

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Subsidies from local government (a)	4,634	5,967	—
Others	291	113	637
	4,925	6,080	637

(a) This represents government subsidies granted by the Shenzhen Municipal Government in relation to the cancellation of certain preferential policies on the PRC enterprise income tax of the Target Company.

17 **Expenses by nature**

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation and amortisation (Notes 5 and 7)	42,833	53,024	53,691
Provision for maintenance/resurfacing obligations (Note 12)	29,123	32,035	22,538
Road maintenance expenses	9,600	10,696	13,917
Business tax and surcharges	10,082	12,760	13,656
Employee benefit expenses (Note 18)	7,753	8,814	10,811
Utility expenses	4,635	5,120	7,482
Management charges from toll road network	3,711	4,947	5,550
Others	4,535	6,142	6,186
	112,272	133,538	133,831
Representing:			
Cost of services	95,238	111,911	111,071
Business tax and surcharges	10,082	12,760	13,656
Administrative expenses	6,952	8,867	9,104
	112,272	133,538	133,831

18 **Employee benefit expenses**

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries and bonus	6,746	7,593	9,584
Pension costs - defined contribution plans	872	1,070	1,035
Other staff welfare benefits	135	151	192
	7,753	8,814	10,811

(a) The Target Company participates in the municipal retirement schemes managed by the local social security administration bureau. Pursuant to the relevant provisions, the Target Company is required to make a monthly contribution equivalent to 8% to 10%, 10% to 11% and 10% to 11% of the monthly salary of the employees during the Relevant Period. The bureau is responsible for making the pension payments to the retired employees of the Target Company and the Target Company has no further obligations.

(b) ***Directors' and senior management's emoluments***

All the directors and senior management's emoluments are borne by the Target Company's equity holders.

(c) ***Five highest paid individuals***

Five highest paid individuals' basic salary, bonus, pensions and other welfare benefits for the years ended 31 December 2006, 2007 and 2008 is set out below. These do not include any directors nor senior management mentioned in note (b) above.

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Basic salaries	272	307	397
Bonuses	78	101	194
Pensions	25	25	28
Other welfare benefits	15	15	40
	390	448	659

The emoluments for all the above senior management fell within the band of nil to HKD1,000,000 during Relevant Periods.

19 **Finance costs - net**

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
Interest income from bank deposits	(450)	(512)	(945)
Finance costs			
Time value of provision for maintenance /resurfacing obligation (Note 12)	21,621	26,696	21,561
Deemed interest expenses on equity holders' loans (Note 13)	34,504	33,343	31,134
Net foreign exchange losses/(gains)	47	(72)	(63)
Others	21	29	25
	56,193	59,996	52,657
	55,743	59,484	51,712

20 **Income tax expense**

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Current income tax			
— Tax on financial subsidies received in previous years (Note (b))	—	—	2,485
— Current income tax	36,472	49,327	63,069
	36,472	49,327	65,554
Deferred income tax			
— Origination and reversal of temporary differences	(6,781)	(16,668)	(12,794)
— Adjustment to enacted tax rate	—	(7,316)	—
	(6,781)	(23,984)	(12,794)
Income tax expense	29,691	25,343	52,760

(a) In 2006 and 2007, the Target Company is subject to PRC enterprise income tax at a rate of 15%, the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone.

The Corporate Income Tax Law of the People's Republic of China (the "new CIT Law") is effective from 1 January 2008. According to the new CIT Law and the relevant regulations, the income tax rate applicable to the Target Company will be gradually increased to 25% over a five-year period from 2008 to 2012. The rates are 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012.

The PRC enterprise income tax charged to the income statement had been calculated based on the assessable profits of the Target Company of 2006, 2007 and 2008 at the applicable tax rate at 15%, 15% and 18%, respectively.

(b) Pursuant to the results of a special examination performed on the local tax bureau of Shenzhen, which was conducted by the Shenzhen Finance Supervision Commissioner's Office of the Ministry of Finance in 2008, the Target Company was demanded by the Futian Tax Bureau in the Notice to pay PRC enterprise income tax back taxes amounting to RMB2,485,000. The back taxes were levied on certain local financial subsidies granted by local government authorities, obtained and received by the Target Company in previous years, which were initially exempt from income taxes according to the provisions of certain policies promulgated by the local government authorities. Such exemptions were revoked by the authorities as a result of the examination. The directors consider that there is no other subsidies subject to the same examination and no additional provision need to be made.

In addition, as of the date of this report, the amount of the related penalty could not be reasonably ascertained and had not been provided as a liability on the balance sheet of the Target Company, and was disclosed as contingent liability (see also Note 25).

(c) The tax on the Target Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to the Target Company as follows:

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	168,344	233,689	265,185
Tax calculated at applicable tax rate of 15%, 15% and 18% in 2006, 2007 and 2008 respectively	25,252	35,053	47,733
Tax effects of:			
Adjustment to the enacted tax rate	—	(7,316)	—
Adjustment to deferred tax assets and liabilities due to change in enacted tax rates	—	(5,873)	(3,087)
Expenses not deductible for tax purposes	5,176	5,001	5,629
Tax on financial subsides received in previous years	—	—	2,485
Others	(737)	(1,522)	—
Income tax expense	29,691	25,343	52,760

21 **Dividends**

The interim dividends declared in 2006, 2007 and 2008 were RMB207,131,000, RMB270,140,000 and RMB267,698,000 respectively. These dividends had been approved by the directors, representing both equity holders of the Target Company. Dividends are declared with reference to the expected retained earnings of the statutory financial statements of the Target Company prepared in accordance with the generally accepted accounting principles in the PRC ("PRC GAAP") during the Relevant Periods. Since 1 January 2009 and up to the date of this report, the directors of the Target Company have agreed to declare an interim dividend totalling RMB59,109,000 payable to equity holders.

22 **Accumulated losses**

As at 31 December 2008, the Target Company recorded accumulated losses of RMB488,811,000. Included in the amount were cumulative deemed interest expenses on equity holders' loans amounting to approximately RMB388,124,000 and provision for maintenance and resurfacing obligation, after related deferred tax upon retrospective adoption of HK(IFRIC)-Int 12 in 2008 amounting to RMB277,341,000 (Note 7 and Note 12). In addition, the amount was stated after deduction of interim dividends made to the equity holders.

23 **Earnings per share**

No earnings per share is presented as the Target Company is not a company registered with share capital and the calculation of earning per share is not relevant for the Target Company.

24 **Cash generated from operations**

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	138,653	208,346	212,425
Adjustments for:			
— Income tax expense	29,691	25,343	52,760
— Depreciation	5,832	5,928	4,164
— Amortisation	37,001	47,096	49,527
— Time value of provision for maintenance/resurfacing obligations	21,621	26,696	21,561
— Interest of equity holders' loans	34,504	33,343	31,133
— Provision for maintenance/resurfacing obligations	29,123	32,035	22,538
Changes in working capital:			
— Inventories	166	63	(113)
— Trade and other receivables	(2,049)	(3,934)	(1,050)
— Trade and other payables	1,257	11,888	5,969
Cash generated from operations	295,799	386,804	398,914

25 **Contingencies**

As mentioned in Note 20(b), the Target Company had been demanded by the Futian Tax Bureau to pay certain back taxes. However, the amount of any related penalty could not be reasonably estimated. The directors of the Target Company consider that the possibility of any outflow in settlement is remote.

26 **Related party transactions**

(a) Names and relationship with related parties:

The directors of the Target Company are of the view that the following companies are related parties of the Target Company during the Relevant Periods.

Name of related parties	**Relationship with the Target Company**
The Company	Equity holder
Intersafe	Equity holder

The Target Company considers that there is no ultimate parent company.

(b) ***Toll income collection***

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Toll income collected by the Target Company on behalf of the Company	66,998	97,651	106,403
Toll income collected by the Company on behalf of the Target Company	82,508	85,940	87,359

Due to the geographical layout of the toll roads operated by the Target Company, certain toll gates of the toll roads of the Target Company and the Company are overlapping. All toll income collected was paid back to the counterparties within three days after collection without charging any handling fees.

(c) ***Key management compensation***

Since the Target Company operates as a special purpose project company, all emoluments of senior management, who are representatives from both equity holders, are borne by these equity holders without any charge back to the Target Company.

(d) ***Related party balances***

Apart from the equity holders' loans (Note 13), other related party balances, which arose as a result of the transactions described in (b) above, are as follow:

	As at 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivable			
— The Company	215	—	—
Trade payable			
— The Company	1,931	2,166	1,688

The trade receivable and payable with the Company is interest-free and repayable on demand.

27 **Commitments**

There was no any significant commitment during the Relevant Periods.

28 **Subsequent events**

On 1 June 2009, Intersafe and the Company entered into an agreement, pursuant to which, the Company has conditionally agreed to acquire from Intersafe the 45% equity interest in the Target Company and the equity holder's loan owed by the Target Company to Intersafe at a purchase consideration of RMB1,068,800,000. The Company has also agreed to reimburse to Intersafe the income tax payable by Intersafe which arises from transfer of interest under the agreement. Upon completion of the transaction, the Target Company will become a wholly-owned subsidiary of the Company. As at the date of this report, the transaction has not been completed.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Target Company in respect of any period subsequent to 31 December 2008. Save as disclosed in Note 21 of Section II, no dividends or distributions have been declared or paid by the Target Company in respect of any period subsequent to 31 December 2008.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

Management Discussion and Analysis on Jihe East Company for the three years ended 31 December 2008

For the year ended 31 December 2008 ("Year of 2008")

Business Review

During the Year of 2008, resulting from the continuous growth in traffic volume and toll revenue of Jihe Expressway (Eastern Section), Jihe East Company recorded a turnover of RMB450,000,000, representing an increase of approximately 7% as compared to 2007. During the Year of 2008, the operating costs and administrative expenses of Jihe East Company amounted to a total of RMB120,000,000, which remained the same as 2007; the income tax amounted to RMB53,000,000, representing an increase of approximately RMB27,000,000 as compared to 2007, which was primarily due to the increase in income tax rate arising from the implementation of the new PRC Enterprise Income Tax Law during the Year of 2008. During the Year of 2008, Jihe East Company recorded a profit after tax of approximately RMB212,000,000, representing an increase of RMB4,000,000 or 1.96% as compared to 2007.

Liquidity and Financial Resources

As at 31 December 2008, Jihe East Company had cash and cash equivalents amounted to RMB79,000,000 (as at 31 December 2007: RMB63,000,000); the total liabilities was RMB652,000,000 which was mainly the provision for maintenance/resurfacing obligations and equity holders' loans. As at 31 December 2008, the debt-to-asset ratio of Jihe East Company was 56.62% and there were no outstanding bank loans.

For the year ended 31 December 2007 ("Year of 2007")

Business Review

During the Year of 2007, benefited from the continuous economic growth and growth in vehicles ownership, the continuous improvement on the traffic network in surrounding areas, Jihe East Company recorded a turnover of RMB421,000,000, representing an increase of approximately 26.91% as compared to 2006; the operating costs and administrative expenses amounted to a total of RMB121,000,000, representing an increase of RMB19,000,000 or 18.19% as compared to 2006, which was primarily due to the increase in amortization expenses for toll road assets as the traffic volume increased and the increase in toll road maintenance expenses. During the Year of 2007, Jihe East Company recorded a profit after tax of approximately RMB208,000,000, representing an increase of RMB70,000,000 or 50.26% as compared to 2006.

Liquidity and Financial Resources

As at 31 December 2007, Jihe East Company had cash and cash equivalents amounting to RMB63,000,000 (as at 31 December 2006: RMB48,000,000); the total liabilities was RMB618,000,000 which was mainly the provision for maintenance/resurfacing obligations and equity holders' loans. As at 31 December 2007, the debt-to-asset ratio of Jihe East Company was 52.69% and there were no outstanding bank loans.

For the year ended 31 December 2006 ("Year of 2006")

Business Review

During the Year of 2006, the turnover of Jihe East Company was approximately RMB331,000,000, representing an increase of approximately 15% as compared to 2005. In addition to the organic growth in traffic volume, the opening of Yanpai Expressway and the measures of restricted use of certain city roads by large trucks imposed by the local government also contributed to the increase in traffic volume and toll revenue of Jihe East Company. During the Year of 2006, Jihe East Company recorded a profit after tax of approximately RMB139,000,000, representing an increase of RMB24,000,000 or 20.87% as compared to 2005.

Liquidity and Financial Resources

As at 31 December 2006, Jihe East Company had cash and cash equivalents amounting to RMB48,000,000 (as at 31 December 2005: RMB41,000,000); the total liabilities was RMB561,000,000 which was mainly the provision for maintenance/resurfacing obligations and equity holders' loans. As at 31 December 2006, the debt-to-asset ratio of Jihe East Company was 47.64% and there were no outstanding bank loans.

Segment Information

The turnover and profit of Jihe East Company are all derived from the toll road business in the PRC and accordingly no segment analysis in relation to business or geographical segments.

Interest Rate Risk

As at 31 December 2006, 2007 and 2008, respectively, Jihe East Company had no bank loans. The shareholders of Jihe East Company had provided unsecured and interest-free shareholders' loans to Jihe East Company and those loans bear no interest rate risk.

Foreign Exchange Risk

Jihe East Company conducts its business in the PRC and all transactions are denominated in RMB and therefore it has no foreign exchange risk exposure.

Investment and Acquisition

During the three years ended 31 December 2008, Jihe East Company did not have any material investment or acquisition.

Employees and Remuneration Policy

As at 31 December 2006, 2007 and 2008, Jihe East Company employed a total of 287 staff, 290 staff and 324 staff, respectively, among which, 33 staff, 29 staff and 33 staff were management and technical staff and 254 staff, 261 staff and 291 staff were toll collection staff, respectively. Staff remuneration was based on the job nature and market conditions with other employee benefits including retirement plan, basic medical insurance, industrial injury insurance and unemployment insurance implemented in accordance with the relevant rules and regulations promulgated by the government.

Collateral of Jihe East Company

As at 31 December 2006, 2007 and 2008, respectively, Jihe East Company had no material collateral.

Contingent liabilities

As at 31 December 2006, 2007 and 2008, respectively, Jihe East Company had no material contingent liabilities.

Review and Prospect of Jihe East Company

Jihe Expressway (Eastern Section) is the main asset of Jihe East Company. Jihe Expressway (Eastern Section) is a part of Jihe Expressway and a dual six-lane expressway with a length of approximately 23.9 kilometres. Jihe Expressway is a main east-to-west expressway in Shenzhen, connecting with Yantian Port through its subsidiary route Yanpai Expressway in the east, passing through many connecting expressways to reach Huizhou, Shantou and surrounding areas in eastern Guangdong, and linking Shenzhen Bao'an International Airport and Guangshen Expressway (Guangzhou - Shenzhen) in the west. It forms part of the coastal national trunk highway of Tongsan Highway (Tongjiang, Heilongjiang — Sanya, Hainan) and is also a major artery in the Pearl River Delta.

Benefiting from the rapid economic growth in the PRC, operation performance of Jihe Expressway (Eastern Section) has shown high growth trend since its opening. In 2008, Jihe Expressway (Eastern Section) had a daily average mixed traffic volume of 90,991 vehicles and a daily average toll revenue of approximately RMB1,227,300. The major operational figures of Jihe Expressway (Eastern Section) for the last ten years are as follows:

Year	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
daily average traffic volume (unit: vehicle)	16,799	21,602	25,103	26,547	33,308	44,446	56,468	70,278	88,675	90,991
daily average toll revenue (unit: RMB'000)	269.3	364.2	420.4	430.1	499.5	631.1	786.6	904.5	1,150.6	1,227.3

Since the third quarter of 2008, impact of the global financial tsunami on the PRC economy has gradually emerged. Slow-down in the growth of regional economy and decrease or drop in the growth of import and export trading has affected the continuous rapid growth in the operation performance of Jihe Expressway (Eastern Section). Whereas, the Central Government and local government at various levels have successively initiated measures to expand domestic demand and boost economic growth, and these measures are beneficial to revitalizing economy and shortening the economic revival period. The overall trend of continued growth for China's economy will not change in the long term. On the other hand, Jihe Expressway (Eastern Section) has excellent location which connects major ports and airport in Shenzhen, forming an important part of national trunk highways and interconnecting with many highways. Meanwhile, the Pearl River Delta where Jihe Expressway (Eastern Section) is located is one of the most economically-developed regions in the PRC. All these set the basis for good operation prospect of Jihe Expressway (Eastern Section) in the future. Following the gradual recovery of the economy, the progress of urbanization in the PRC and continuous growth in vehicles ownership, and the continuous improvement on the road network in surrounding areas, Jihe Expressway (Eastern Section) is expected to have a good development prospect.

1. FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group as at and for the last three financial years is depicted below. The 2008 figures are extracted from the Group's audited financial statements for the year ended 31 December 2008. The 2007 figures are extracted from the comparatives in the Group's audited financial statements for the year ended 31 December 2008. The 2006 figures are unaudited and compiled based on the audited financial statements of the Group for the year ended 31 December 2006 and restated for changes in accounting policies adopted by the Group in 2008, details of which are explained in note 2.2 of the Group's audited financial statements for the year ended 31 December 2008.

RESULTS

	Year ended 31 December		
	2006	**2007**	**2008**
	(Restated)	*(Restated)*	
	RMB'000	*RMB'000*	*RMB'000*
Turnover	1,805,983	3,845,511	4,242,041
Profit before income tax	576,007	715,030	560,785
Income tax expenses	31,673	98,093	66,257
Profit/(loss) attributable to:			
Equity holders of the Company	532,651	622,392	503,195
Minority interests	11,683	(5,455)	(8,667)

ASSETS, LIABILITIES AND EQUITY

	As at 31 December		
	2006	**2007**	**2008**
	(Restated)	*(Restated)*	
	RMB'000	*RMB'000*	*RMB'000*
Total assets	9,400,124	14,711,393	18,263,578
Total liabilities	3,100,670	7,104,868	10,511,437
Minority interests	—	713,450	704,783
Capital and reserves attributable to the Company's equity holders	6,299,454	6,893,075	7,047,358
Total equity	6,299,454	7,606,525	7,752,141

2. FINANCIAL INFORMATION

The following are the audited financial statements of the Group together with the accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2008.

CONSOLIDATED BALANCE SHEET

	Note	**As at 31 December 2008** *RMB'000*	**2007** *RMB'000 (Restated) (Note 2.2)*
ASSETS			
Non-current assets			
Property, plant and equipment	6	696,976	344,800
Investment properties	7	18,132	—
Construction in progress	8	267,562	349,410
Concession intangible assets	9	13,777,469	10,741,681
Prepaid lease payments	10	15,912	—
Investments in jointly controlled entities	13	1,212,980	1,423,810
Investments in associates	14	1,264,681	1,141,828
		17,253,712	14,001,529
Current assets			
Inventories		3,075	2,956
Trade and other receivables	15	323,626	223,886
Restricted cash	16	140,580	16,032
Cash and cash equivalents	17	536,293	466,990
Derivatives financial instruments	25	6,292	—
		1,009,866	709,864
Total assets		18,263,578	14,711,393
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	18	2,180,700	2,180,700
Other reserves	19	3,594,861	3,541,124
Retained earnings			
— Proposed final dividend	32	261,684	348,912
— Others		1,010,113	822,339
		7,047,358	6,893,075
Minority interest in equity		704,783	713,450
Total equity		7,752,141	7,606,525

	Note	As at 31 December 2008 RMB'000	2007 RMB'000 (Restated) (Note 2.2)
LIABILITIES			
Non-current liabilities			
Borrowings	20	6,903,730	5,251,963
Deferred income tax liabilities	21	390,279	441,741
Provision for maintenance/resurfacing obligations	22	304,133	237,720
		7,598,142	5,931,424
Current liabilities			
Other payables and accrued expenses	23	1,735,603	754,895
Current income tax liabilities		58,716	27,565
Borrowings	20	1,118,976	390,984
		2,913,295	1,173,444
Total liabilities		10,511,437	7,104,868
Total equity and liabilities		18,263,578	14,711,393
Net current liabilities		(1,903,429)	(463,580)
Total assets less current liabilities		15,350,283	13,537,949

BALANCE SHEET

		As at 31 December	
	Note	**2008**	**2007**
		RMB'000	*RMB'000*
			(Restated)
			(Note 2.2)
ASSETS			
Non-current assets			
Property, plant and equipment	6	646,785	292,890
Investment properties	7	18,132	—
Construction in progress	8	19,836	311,587
Concession intangible assets	9	5,128,213	4,443,762
Investments in subsidiaries	11	3,484,365	3,518,193
Investments in jointly controlled entities	13	601,296	723,088
Investments in associates	14	1,342,050	1,242,424
Loan to a subsidiary	12	818,700	807,837
		12,059,377	11,339,781
Current assets			
Inventories		2,071	1,971
Trade and other receivables	15	306,318	206,115
Restricted cash	16	140,580	16,032
Cash and cash equivalents	17	441,915	307,783
Derivatives financial instruments		6,292	—
		897,176	531,901
Total assets		12,956,553	11,871,682
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	2,180,700	2,180,700
Other reserves	19	3,636,097	3,582,360
Retained earnings			
— Proposed final dividend	32	261,684	348,912
— Others		877,931	605,821
Total equity		6,956,412	6,717,793

	Note	As at 31 December 2008 *RMB'000*	2007 *RMB'000* *(Restated)* *(Note 2.2)*
LIABILITIES			
Non-current liabilities			
Borrowings	20	3,557,613	3,929,292
Deferred income tax liabilities	21	16,981	68,493
Provision for maintenance/resurfacing obligations	22	304,133	237,720
		3,878,727	4,235,505
Current liabilities			
Other payables and accrued expenses	23	956,594	508,863
Current income tax liabilities		45,844	18,537
Borrowings	20	1,118,976	390,984
		2,121,414	918,384
Total liabilities		6,000,141	5,153,889
Total equity and liabilities		12,956,553	11,871,682
Net current liabilities		(1,224,238)	(386,483)
Total assets less current liabilities		10,835,139	10,953,298

CONSOLIDATED INCOME STATEMENT

	Note	As at 31 December 2008 RMB'000	2007 RMB'000 (Restated) (Note 2.2)
Revenue	5	4,242,041	3,845,511
Business tax and surcharges	26	(36,699)	(37,427)
Cost of services	26	(3,624,357)	(3,089,012)
Gross profit		580,985	719,072
Other income	24	1,619	11,103
Other gains — net	25	5,690	349
Administrative expenses	26	(54,012)	(50,232)
Operating profit		534,282	680,292
Finance income	28	7,390	9,085
Finance costs	28	(255,260)	(149,864)
Share of profit of jointly controlled entities	13	291,500	189,003
Share of loss of associates	14	(17,127)	(13,486)
Profit before income tax		560,785	715,030
Income tax expenses	29	(66,257)	(98,093)
Profit for the year from continuing operations		494,528	616,937
Attributable to:			
Equity holders of the Company		503,195	622,392
Minority interest		(8,667)	(5,455)
		494,528	616,937
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic and diluted	31	0.231	0.285
Dividends	32	261,684	348,912

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company					
		Share capital	Other reserves	Retained earnings	Total	Minority interest	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 18)	*(Note 19)*				
Balance at 1 January 2007, as previously stated		2,180,700	3,264,104	1,159,834	6,604,638	—	6,604,638
Adjustment for changes in accounting policies	2.2	—	(38,109)	(267,074)	(305,183)	—	(305,183)
Balance at 1 January 2007, as restated		2,180,700	3,225,995	892,760	6,299,455	—	6,299,455
Equity component of convertible bonds, net of transaction costs		—	327,914	—	327,914	—	327,914
Deferred tax for convertible bonds		—	(73,195)	—	(73,195)	—	(73,195)
Acquisition of a subsidiary		—	—	—	—	718,905	718,905
Profit for the year		—	—	622,392	622,392	(5,455)	616,937
Transfer to reserve fund		—	60,410	(60,410)	—	—	—
Dividend relating to 2006		—	—	(283,491)	(283,491)	—	(283,491)
Balance at 31 December 2007		2,180,700	3,541,124	1,171,251	6,893,075	713,450	7,606,525
Balance at 1 January 2008, as previously stated		2,180,700	3,586,887	1,482,626	7,250,213	712,480	7,962,693
Adjustment for changes in accounting policies	2.2	—	(45,763)	(311,375)	(357,138)	970	(356,168)
Balance at 1 January 2008, as restated		2,180,700	3,541,124	1,171,251	6,893,075	713,450	7,606,525
Profit for the year		—	—	503,195	503,195	(8,667)	494,528
Transfer to reserve fund		—	53,737	(53,737)	—	—	—
Dividends related to 2007		—	—	(348,912)	(348,912)	—	(348,912)
Balance at 31 December 2008		2,180,700	3,594,861	1,271,797	7,047,358	704,783	7,752,141

CONSOLIDATED CASH FLOW STATEMENTS

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000 (Restated) (Note 38)
Cash flows from operating activities			
Cash received from toll income		1,030,160	998,447
Cash paid to suppliers		(111,290)	(66,662)
Cash paid to employees		(93,237)	(72,490)
Other cash received		206,806	25,052
Cash generated from operations	33	1,032,439	884,347
Income tax paid		(86,568)	(83,726)
Government subsidies received		—	11,103
Net cash generated from operating activities		945,871	811,724
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE), investment in construction in progress and concession intangible assets		(2,697,265)	(3,373,383)
Deposits returned to contractors for road construction projects		(46,456)	(59,236)
Proceeds from sales of PPE		10	30
Proceeds from disposal of non-current assets classified as held for sale		—	10,800
Acquisition of a subsidiary, net of cash acquired		—	(451,089)
Profit distribution and appropriation from jointly controlled entities		378,116	375,502
Advance from an associate		—	26,250
Profit distribution and appropriation from associates		21,750	24,050
Interest received		3,164	8,917
Settlement of consideration payable for acquisition of a jointly controlled entity		—	(18,459)
Increase in investments in associates		(37,500)	—
Net cash used in investing activities		(2,378,181)	(3,456,618)

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000 (Restated) (Note 38)
Cash flows from financing activities			
Proceeds from borrowings		4,876,835	5,195,472
Proceeds from issuance of convertible bonds		—	1,458,885
Proceeds from issuance of corporate bonds		—	790,283
Government grant received		—	5,000
Repayments of borrowings		(2,545,236)	(4,173,339)
Interest paid		(364,084)	(204,748)
Payments for other borrowing costs		(119,273)	(326)
Dividends paid to the Company's shareholders		(348,912)	(283,491)
Net cash generated from financing activities		1,499,330	2,787,736
Net increase in cash and cash equivalents		67,020	142,842
Cash and cash equivalents at beginning of the year		466,990	328,494
Exchange differences on cash and cash equivalents		2,283	(4,346)
Cash and cash equivalents at end of the year		536,293	466,990

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 **General information**

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") are the development, operation and management of toll highways and expressways in the PRC.

The address of the registered office of the Company is 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, the PRC.

The H shares and A shares of the Company are listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange of the PRC, respectively.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 2 April 2009.

The names of some of the companies referred to in these financial statements represent management's best efforts on translating the Chinese names of these companies as no English names have been registered.

2 **Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 ***Basis of preparation***

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The PRC statutory financial statements of the Group have been prepared in accordance with the Accounting Standards for Business Enterprises (2006) of the People's Republic of China ("CAS"). Appropriate restatements have been made to the PRC statutory financial statements to conform with HKFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The Group reported net current liabilities of approximately RMB1,903,429,000 as at 31 December 2008. The directors of the Company had made an assessment and concluded that there is no going concern issue of the Group based on the facts that the Group has been generating positive and increasing operating cash flows. It has not experienced any difficulties in renewing its banking facilities and there is no evidence indicating that the banks will not renew the facilities. In addition, the Group had unutilized banking facilities of approximately RMB6.61 billion at 31 December 2008, within the amount, facilities expiring beyond one year amounted to approximately RMB4.02 billion, in order to meet its obligations and commitments. Consequently, the financial statements have been prepared by the directors of the Company on a going concern basis.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) The following amendments to standards and interpretations are mandatory for the financial year beginning 1 January 2008:

- HK(IFRIC) - Int 11, 'HKFRS 2 - Group and Treasury Share Transactions'. This interpretation is not currently relevant to the Group.

- HK(IFRIC) - Int 12, 'Service Concession Arrangements'. Adoption of the interpretation resulted in changes in accounting policies on accounting for the service concession arrangements of the Group. The details and impact on the financial statements are described in Note 2.2 below.

- HK(IFRIC) - Int 14, 'HKAS 19 - The Limit On a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction'. This interpretation is not currently relevant to the Group.

- The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

(b) The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted or are not relevant to the Group's operations:

- HK(IFRIC) - Int 13, 'Customer Loyalty Programmes', effective for annual periods beginning on or after 1 July 2008. This interpretation is not relevant to the Group.

- HKFRS 8, 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Management is currently assessing the impact of HKFRS 8.

- HKAS 1 (Revised), HKAS 1 (Amendment), 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009. The revised disclosure requirements of the standard will be followed by the Group from 1 January 2009.

- HKFRS 2 (Amendment), 'Share-based Payment', effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group.

- HKAS 32 (Amendment), 'Financial Instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group, as the Group does not have any puttable instruments.

- HKAS 23 (Revised), HKAS 23 (Amendment), 'Borrowing Costs', effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group currently applies a policy of capitalising borrowing costs which is similar to the requirements under the amendments.

- HKFRS 3 (Revised), 'Business Combinations' and HKAS 27 (Revised) 'Consolidated and Separate Financial Statements', effective from 1 July 2009. Management is going to adopt the e new requirements for the future acquisitions of the Group.

- Amendments to HKAS 27, 'Consolidated and Separate Financial Statements', HKAS 28, 'Investments in Associates' and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures' and HKAS 31, 'Interests in Joint Ventures' and consequential amendments to HKAS 32 and HKFRS 7, effective from 1 January 2009. Management is assessing the impact of the new requirements regarding subsidiaries, jointly controlled entities and associates of the Group.

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). This amendment is not relevant to the Group, as the Group is not a first-time adopter of HKFRS.

- HK(IFRIC) - Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008) and HKAS 39 (amendment) 'Financial Instruments: Recognition and Measurement' - 'Eligible hedged items' (effective from 1 July 2009). Both requirements are not relevant to the Group as the Group does not have any hedges.

- HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

  — The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  — The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  — The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  — HKAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent.

  The Group will apply the HKAS 19 (Amendment) from 1 January 2009.

- HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009 onwards.

- HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the HKAS 38 (Amendment) from 1 January 2009 onwards.

- HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement', effective for an annual period beginning on or after 1 January 2009. This is not relevant to the Group, as the Group does not have any derivatives qualified as a hedging instrument or financial assets and liabilities held for trading.

- HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply the HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010 onwards.

- HK(IFRIC) - Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009), supercedes HK Int-3, 'Revenue - Pre-completion contracts for the sale of development properties'. HK(IFRIC) - Int 15 clarifies whether HKAS 18, 'Revenue' or IAS 11, 'Construction contracts' should be applied to particular transactions. It is likely to result in HKAS 18 being applied to a wider range of transactions. HK(IFRIC) - Int 15 is not relevant to the Group's operations.

- HK(IFRIC) - Int 17 - 'Distributions of non-cash assets to owners' (effective from 1 July 2009).This interpretation applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies that:

  — a dividend payable shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.

  — the dividend payable shall be measured at the fair value of the assets to be distributed.

  — the difference between the dividend paid and the carrying amount of the assets distributed shall be recognised in profit or loss.

  The Group will apply HK(IFRIC) - Int 17 from 1 July 2009 onwards.

- HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective from 1 January 2009). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to HKAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have any impact on the Group's operations because none of the group companies' ordinary activities comprise renting and subsequently selling assets.

- HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortization than the straight line method. The expected impact is still being assessed in detail by management.

- The minor amendments to HKAS 20 'Accounting for government grants and disclosure of government assistance', HKFRS 7 'Financial instruments: Disclosures', HKAS 8 'Accounting policies, changes in accounting estimates and errors', HKAS 10 'Events after the balance sheet date', HKAS 18 'Revenue', HKAS 34 'Interim financial reporting' and HKAS 40, 'Investment property' which are not addressed above. Management is assessing the impact of these new requirements.

- There are a number of minor amendments to HKAS 29, 'Financial reporting in hyperinflationary economies' and HKAS 41, 'Agriculture', which are not addressed above. These amendments will not have an impact on the Group's operations as described above.

2.2 ***Changes in accounting policies***

In previous years, the costs incurred for constructing the related infrastructures for toll roads, under the service concession arrangements ("Service Concessions") of the Group made with relevant local governments, were accounted for as property, plant and equipment of the Group. These expenditures were depreciated based on a units-of-usage basis, making reference to the proportion of actual traffic volume achieved for a particular period out of the total projected traffic volume throughout the periods within which the Group is granted the rights to operate the related toll roads (the "Traffic Flow Amortisation Method"). HK(IFRIC) - Int 12 ("IFRIC 12") requires the Group to account for these Service Concessions under this interpretation from 1 January 2008 onwards. The application of the interpretation results in changes in accounting policies of the Group, which have been applied retrospectively and the comparative figures have been restated accordingly.

The accounting policies changed arising from the adoption of IFRIC 12 include the following:

Concession arrangements

The Group has entered into contractual service arrangements with local government authorities for its participation in the development, financing, operation and maintenance of various toll road infrastructures. Under the arrangements, the Group carries out the construction or upgrade work of toll roads for the granting authorities and receives in exchange for the right to operate the toll roads concerned; and the entitlement to toll fees collected from users of the toll road services. In accordance with IFRIC 12, the assets under the Service Concessions are classified as intangible assets or financial assets. The assets are classified as intangible assets if the Group receives a right to charge users of the respective toll roads or as financial assets if it is paid by the grantor.

Construction contracts

The Group recognises income and expenses associated with construction services and upgrade services provided under the Service Concessions in accordance with HKAS 11, "Construction Contracts".

Revenue generated by construction and upgrade services rendered by the Group is measured at the fair value of the consideration received or receivable, where total income and expenses associated with the construction contract and the stage of completion can be determined reliably. The consideration may be rights to attain a financial asset or an intangible asset.

The Group uses the percentage of completion method to determine the appropriate amount of income and expenses to be recognised in a given period. The stage of completion is measured by reference to the construction costs of the related infrastructures incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

Intangible asset model

The Group applies the intangible asset model to account for the Service Concessions where the Group is paid by the users of the toll roads, and the concession grantors (the respective local governments) have not provided any contractual guarantees in respect of the amounts of construction costs incurred to be recoverable. The intangible asset corresponds to the right granted by the respective concession grantors to the Group to charge users of the toll road services.

Intangible assets resulting from the application of IFRIC 12 are recorded in the balance sheet as 'Concession intangible assets'. Once the underlying infrastructure of the Service Concessions is completed, the intangible assets are amortised, on the Traffic Flow Amortisation Method, as allowed under HK-Int 1, 'The Appropriate Policies for Infrastructure Facilities', over the operating periods granted.

For certain Service Concessions contracts, the Group receives from the concession grantors certain monetary grants (the "Grants") in addition to the entitlements and rights to receive the toll fees from users of the toll road services. The consideration receivable is divided into two components, financial assets recognised based on the amount of Grants payable by the concession grantors, and the residual balance is recognised as intangible assets. The Grants were previously recognised as deferred income or advances from government, where deferred income was credited to the income statement of the Group based on the actual traffic volume of a period and the basis as determined based on the Grants and the total projected traffic volume throughout the whole approved operating period of the relevant toll roads, over the operating periods of the respective toll roads before the adoption of IFRIC 12.

Financial assets resulting from the application of IFRIC 12 are recorded in the balance sheet as financial assets.

Provisions

As part of its obligations under the respective Service Concessions, the Group assumes responsibility for maintenance and resurfacing of the toll roads it manages. The resulting maintenance and resurfacing costs, except for upgrade services, are recognised as provisions according to the requirements of HKAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', 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 the amount has been reliably estimated.

Provision for maintenance/resurfacing obligations are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

Land use rights

Land use rights acquired in conjunction with the Service Concessions which the Group has no discretion or latitude to deploy for other services other than the use in the Service Concessions are treated as intangible assets acquired under the Service Concessions. They were previously separately presented as long-term assets of the Group before the adoption of IFRIC 12.

These changes in accounting policies have been applied retrospectively and resulted in the following financial impact (including the retrospective adjustment made to statutory surplus reserve):

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Increase in concession intangible assets	13,777,469	10,741,681
Decrease in property, plant and equipment	9,883,979	7,065,518
Decrease in construction in progress	4,077,923	3,859,022
Decrease in land use rights	204,182	215,526
Decrease in investments in jointly controlled entities	109,859	89,820
Decrease in deferred income tax liabilities	48,853	32,494
Increase in provision for maintenance/resurfacing obligations	304,133	237,720
Decrease in government grants	321,145	337,263
Decrease in other reserve	45,763	45,763
Decrease in retained earnings	387,816	311,375
Increase in minority interest	970	970
Increase in revenue	3,178,980	2,742,056
Increase in cost of services	3,211,851	2,750,344
Increase in finance costs	23,772	18,087
Decrease in other income	16,118	18,199
Decrease in share of profit of jointly controlled entities	20,039	14,947
Decrease in income tax expenses	16,359	8,538
Increase in minority interest	—	970
Decrease in basic and diluted earnings per share (in RMB per share)	0.035	0.024

The opening retained earnings at 1 January 2007 has been decreased by RMB267,074,000 as a result of these changes in accounting policies.

The above changes reflect the impact of application of IFRIC 12 to the Group, including its share of net assets and operating results in associates and jointly controlled entities engaged in Service Concessions accounted for under the equity method of accounting, to the extent that they are significant to the Group.

2.3 ***Consolidation***

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

(a) *Subsidiaries*

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.10). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(c) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment losses) identified on acquisition, net of any accumulated impairment loss. See note 2.10 for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (2.10). The results of associates are accounted for by the Company on the basis of dividend received and receivable.

(d) *Joint ventures*

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.

Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in jointly controlled entities include goodwill (net of accumulated impairment losses) indentified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

In the Company's balance sheet the investments in jointly controlled entities are stated at cost less provision for impairment losses (Note 2.10). The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

2.4 ***Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.5 ***Foreign currency translation***

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other (losses)/gains' net.

2.6 ***Property, plant and equipment***

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation of buildings and structures is calculated to write off their costs to their estimated residual values on a straight-line basis over the unexpired periods of the leases or their expected useful lives, whichever is shorter. The estimated useful lives of buildings and structures are 10 to 30 years.

Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate cost to their estimated residual values over their estimated useful lives, as follows:

Equipment	
— traffic related	8 - 10 years
— electronic and others	5 - 10 years
Motor vehicles	5 - 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

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

2.7 ***Investment properties***

Investment properties, principally comprising car park spaces, are held for long-term rental yields and are not occupied by the Group. Investment properties are treated as long-term investments and are carried at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment properties over their estimated useful lives of 30 years. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The cost of maintenance, repairs and minor equipment is charged to the income statement as incurred; the cost of major renovations and improvements is capitalised when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. The profit or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the investment property and is recognised in the income statement.

2.8 ***Construction in progress***

Construction in progress is stated at cost which includes development expenditure and other direct costs, including borrowing costs on the related borrowed funds during the construction period, attributable to the development of the qualifying assets (Note 2.20). Costs are transferred to property, plant and equipment upon completion.

2.9 ***Concession intangible assets***

Under Service Concessions, where the Group has entered into contractual service arrangements with local government authorities for its participation in the development, financing, operation and maintenance of various toll road infrastructures, the Group carries out the construction or upgrade work of toll roads for the granting authorities and receives in exchange for the right to operate the toll roads concerned and the entitlement to toll fees collected from users of the toll road services. Concession intangible assets correspond to the rights granted by the respective concession grantors to the Group to charge users of the toll road services and the fact that the concession grantors (the respective local governments) have not provided any contractual guarantees in respect of the amounts of construction costs incurred to be recoverable.

For certain Service Concessions contracts, the Group receives from the concession grantors certain monetary grants (the "Grants") in addition to the entitlements and rights to receive the toll fees from users of the toll road services. The consideration receivable is divided into two components, financial assets recognised based on the amount of Grants payable by the concession grantors, and the residual balance is recognised as intangible assets.

Land use rights acquired in conjunction with the Service Concessions which the Group has no discretion or latitude to deploy for other services other than the use in the Service Concessions are treated as intangible assets acquired under the Service Concessions.

Amortisation of concession intangible assets is calculated to write off their costs on an units-of-usage basis according to the HK Int-1, 'The Appropriate Policies for Infrastructure Facilities', issued by the Hong Kong Institute of Certified Public Accountants, whereby amortisation is 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's 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.

2.10 ***Impairment of investments in subsidiaries, joint ventures and associates and non-financial assets***

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 ***Financial assets***

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During the year, the Group only held financial assets in the category of loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables', 'loan to a subsidiary', 'restricted cash' and 'deposits held in banks' in the balance sheet (Notes 2.14 and 2.15). Loans and receivables are carried at amortised cost using the effective interest method.

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.14.

2.12 ***Derivative financial instruments***

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within 'other gains/(losses) - net'.

2.13 ***Inventories***

Inventories mainly represent toll tickets and 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.

2.14 ***Trade and other receivables***

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'other gains/(losses)'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other gains/(losses)' in the consolidated income statement.

2.15 ***Cash and cash equivalents***

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 ***Borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 ***Current and deferred income tax***

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries, joint controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 ***Employee benefits***

(a) *Pension obligations*

The Group participates in the municipal retirement schemes which are organised by the local government authorities in the PRC. The schemes are defined contribution plans, under which the Group pays fixed contributions to the local social security administration bureaus and the Group has no legal or constructive obligations to pay further contributions if the bureaus do not have sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to the schemes by the Group are calculated as a percentage of employees' basic salaries, subject to a certain ceiling.

The Group pays contributions to the schemes on a mandatory basis and the contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Bonus plans*

The Group recognises a liability and an expense for bonuses based on a computation method which takes into consideration the amount of profit attributable to the Company's shareholders, after making certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.19 ***Provisions***

As part of its obligations under the respective Service Concessions, the Group assumes responsibility for the maintenance and resurfacing of the toll roads it operates. The resulting maintenance and resurfacing costs, except for upgrade services, are recognised as provisions 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 the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 ***Borrowing costs***

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.21 ***Revenue recognition***

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Toll revenue*

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

(b) *Construction revenue under Service Concessions*

Revenue generated by construction and upgrade services rendered by the Group is measured at the fair value of the consideration received or receivable, where total income and expenses associated with the construction contract and the stage of completion can be determined reliably. The consideration may be rights to attain a financial asset or an intangible asset.

The Group uses the percentage of completion method to determine the appropriate amount of income and expenses to be recognised in a given period. The stage of completion is measured by reference to the construction costs of the related infrastructures incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

(c) *Construction management services income*

Construction management services income represents the amount of cost savings (the "Savings") achieved in toll road construction management projects engaged by the Group which are determined by comparing the total actual construction costs with the budgeted total construction costs of the projects; or represents a proportion of the Savings as defined in the service agreements entered into with the contract parties.

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 estimated 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.

(d) *Income from other services*

Income from advertising services are derived from advertisements placed by advertisers on the outdoor advertising billboards owned by the Group. The related revenue is recognised ratably over the period in which the advertisements are displayed.

(e) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(f) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2.22 ***Share capital***

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.23 ***Dividend distribution***

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 **Financial risk management**

3.1 ***Financial risk factors***

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Risk Management Committee under policies approved by the Board of Directors.

(a) *Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions settled in RMB. It did not have significant exposure to foreign exchange risk in the PRC, except for certain cash at bank balances of RMB2,906,000 (2007: RMB12,210,000) and bank borrowings of RMB207,329,000 (2007: RMB95,511,000) which were denominated in Hong Kong dollars ("HKD"); and other borrowings of RMB10,180,000 (2007: RMB16,864,000) which were denominated in United States dollars ("USD"), respectively as at 31 December 2008. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2008, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, post-tax profit for the year would have been RMB3,569,000 (2007: RMB4,179,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated cash in banks and borrowings. As at 31 December 2008, if RMB had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit for the year would have been RMB413,000 (2007: RMB711,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated borrowings.

During 2008, the Company had executed a foreign exchange forward contract for buying HKD138,867,000 by selling RMB in one year's time in order to control the exposure to foreign exchange fluctuations between Hong Kong dollars and RMB related to a one-year term loan of principal amount of HKD133 million.

(b) *Cash flow and fair value interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings and bonds. Borrowings and bonds issued at variable rates expose the Group to cash flow interest rate risk. Borrowings and bonds issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain approximately 50% of its borrowings in fixed rate instruments. During 2008 and 2007, the Group's borrowings at variable rates were denominated in RMB and HKD.

The Company's long-term borrowings, bonds and loan to a subsidiary were issued at fixed rates, and expose the Company to fair value interest rate risk.

The Group's borrowings to the extent of RMB1,600 million (2007: RMB1,612 million) were issued at variable rates. As at 31 December 2008, if the interest rates had increased or decreased by 0.5%, the finance costs would have been approximately RMB8 million (2007: RMB5 million) higher or lower.

During the year ended 31 December 2008, the Group adopted a floating-to-fixed interest rate swap instrument to manage its cash flow interest rate risk for a long-term borrowing. This interest rate swap has the economic effect of converting borrowings form floating rates to fixed rates. Under the interest rate swap arrangement, the Company agreed with other party to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

(c) *Credit risk*

The Group has no significant concentration of credit risk, except for the amount due from the Shenzhen Communications Bureau amounting to approximately RMB137,585,000 for management services income recognised (Note 15(a)). The carrying amounts of cash and cash equivalents and trade and other receivables represent the Group's maximum exposure in relation to financial assets.

The table below shows the bank deposits balance of the major counterparties of the Group as at 31 December 2008 and 2007:

	As at 31 December	
	2008	**2007**
	RMB'000	*RMB'000*
Counterparty		
State-owned banks	323,064	274,207
Other banks	353,273	208,471
	676,337	482,678

It is expected that there is no significant credit risk associated with the bank deposits as the state-owned banks have the support of the government and others are the listed banks or commercial banks at medium/large size. Management do not expect any losses from non-performance by these counterparties.

(d) *Liquidity risk*

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by arranging banking facilities and other external financing.

Management monitors the liquidity of the Group through performing rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facilities (Note 20 (i)) and cash and cash equivalents (Note 17)) based on expected future cash flows.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Group				
At 31 December 2008				
Borrowings	1,145,873	703,681	1,875,082	5,964,169
Bonds	59,000	59,000	1,677,000	1,196,000
Other payables	1,734,393	—	—	—
At 31 December 2007				
Borrowings	390,984	425,984	1,415,807	3,410,172
Bonds	59,000	59,000	177,000	2,755,000
Other payables	750,185	—	4,710	—
Company				
At 31 December 2008				
Borrowings	1,145,873	294,341	826,752	802,591
Bonds	59,000	59,000	1,677,000	1,196,000
Other payables	955,386	—	—	
At 31 December 2007				
Borrowings	390,984	425,984	1,034,896	2,300,535
Bonds	59,000	59,000	177,000	2,755,000
Other payables	508,863	—	—	—

3.2 ***Capital risk management***

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with other industry players, the Group monitors its capital to debt position based on its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt.

The Group's strategy is to maintain a gearing ratio within 50% to 60% and an AAA credit rating. The gearing ratio of the Group at 31 December 2008 and 2007 were as follows:

	2008	2007
	RMB'000	*RMB'000*
		(Restated)
Total borrowings (Note 20)	8,022,706	5,642,947
Less: Cash and cash equivalents (Note 17)	(536,293)	(466,990)
Net debt	7,486,413	5,175,957
Total equity	7,752,141	7,606,525
Total capital	15,238,554	12,782,482
Gearing ratio	49.13%	40.49%

The increase in the gearing ratio during 2008 resulted primarily from the increase of borrowings to finance certain toll road construction projects.

3.3 ***Fair value estimation***

The carrying value less impairment provision, if any, for financial assets and liabilities with a maturity of less than one year, is a reasonably approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 **Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) ***Construction revenue recognition relating to concession contracts***

As described in Note 2.2, income and expenses associated with construction services and upgrade services provided under the concession service arrangements are recognised in accordance with HKAS 11 using the percentage of completion method. Revenue generated by construction services rendered by the Group is measured at the fair value of the consideration received or receivable.

Due to the fact there was no real cash inflow realised/realisable during the construction phase of the infrastructure under the Service Concessions, in order to determine the construction revenue to be recognised during a reporting period, the directors of the Company made estimates of the respective amounts by making reference to the management service fees derived from the provision of project management services by the Group for construction of toll roads for respective PRC local governments without the corresponding grants of the related toll road operating rights and entitlement to future toll revenues. The directors of the Company have drawn an analogy of the construction of toll roads under the Service Concessions as if the Group were providing construction and project management services. Accordingly, construction revenue under the respective Service Concessions is recongised at the total expected construction costs of the related toll roads plus management fees, computed at a percentage of the costs.

In ascertaining the total construction costs, the directors made estimates based on information available such as budgeted project costs, actual project costs incurred/settled to date, and relevant third party evidence such as signed construction contracts and their supplements, the related variation orders placed and the underlying construction and design plans, etc. In ascertaining the amount of management fee, the directors have made reference to the practice for determining management fees for management construction contracts transacted by the Group, whereby the fee is determined based on a range of 1.5% to 2.5% on the total budgeted costs of each project.

The construction revenue recognised by the Group under the percentage of completion method for the Service Concessions amounted to approximately RMB3,178,980,000 (2007: RMB2,742,056,000) for 2008. Due to the significant rise in construction and related costs during 2008, the actual costs were higher than the budget and the gross profit derived from the construction activities was insignificant and it had not been recognised in the income statement of 2008 (2007: RMB23,450,000). The directors of the Company consider that these are their current best estimates on the magnitude of construction revenue and related profits. Were the magnitudes of the final construction costs and the management fee applied as a percentage of the construction costs were to be differed from management's current estimates, the Group would account for the change prospectively.

(b) ***Amortisation of concession intangible assets***

As mentioned in Note 2.2, the Group applied IFRIC 12 and recognised concession intangible assets under the service concession arrangements and provides amortisation thereon.

Amortisation of concession intangible assets is provided under the Traffic Flow Amortisation Method, which resembles the method of depreciation of toll roads previously recorded as property, plant and equipment before the adoption of IFRIC 12. Consequently, the estimate and assumptions in relation to depreciation of toll roads recognised under property, plant and equipment as disclosed in the 2007 annual financial statements are applicable to the amortisation of concession intangible assets in 2008.

Material adjustments may need to be made to the carrying amounts of concession intangible assets should there be a material difference between total projected traffic volume and the actual results. The directors had performed an assessment and concluded that there was no significant change in the directors' estimate of the total projected traffic volume throughout the approved operating rights period of respective toll roads during the year.

(c) ***Provisions for maintenance/resurfacing obligations***

As described in Note 2.2, the Group has contractual obligations under the Service Concessions to maintain the toll road infrastructure to a specified level of serviceability. These obligations to maintain or restore the infrastructure, except for upgrade services, are to be recognised and measured as a provision. Provision for resurfacing obligations at 31 December 2008 of RMB304,133,000 had been provided at the present value of expenditures expected to be incurred by the Group to settle the obligations at the balance sheet date.

The expenditures expected to be required to settle the obligations at the balance sheet date is determined based on the number of major maintenance and resurfacing to be undertaken throughout the allowed operating periods of each toll roads operated by the Group under the Service Concessions and the expected costs to be incurred for each event. The costs are then discounted to the prevent value based on a pre-tax discount rate of 10%.

The expected costs for maintenance and resurfacing and the timing of such events to take place involve estimates made by the directors of the Company, which were developed based on the Group's resurfacing plan and historical costs incurred for similar activities.

In addition, the directors are of the view that the discount rate currently used in the current estimate reflects the time value of money and the risks specific to the obligations.

If the expected expenditures, resurfacing plan and discount rate were different from management's current estimates, the change in provision for maintenance/resurfacing is required to be accounted for prospectively.

(d) ***Impairment provision of investment in a jointly control entity***

In accordance with the accounting policy stated in Note 2.10, the Group performs impairment tests on its investments in jointly controlled entities whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In prior years, there was indication that the toll road assets of Changsha Shenchang Expressway Company Limited ("Shenchang Company"), a jointly controlled entity of the Company, were subject to impairment losses. In order to assess the recoverable amount of the investment in Shenchang Company, management reassessed the recoverable amount of the relevant assets of Shenchang Company. According to the assessment results, impairment losses on fixed assets had been further provided for by the Shenchang Company in 2007. The Group shared such impairment loss in 2007 according to its equity interest held in the Shenchang Company amounting to RMB89,000,000. The amount has been reflected as the Group's share of results of this jointly controlled entity in the consolidated income statement.

The directors had reassessed the situation during 2008, which include a review of the update government plans about development of the toll road infrastructure in the region as well as the actual traffic flow derived. As a result of such reassessment, the directors concluded that no additional impairment provision or reversal of previously made provision against the concession intangible assets of Shenchang Company was required.

(e) ***Current and deferred income tax***

As described in more details in Note 29 (c), the Group and one of its jointly controlled entities were collectively demanded by the Administration of Local Taxation of Shenzhen Municipality Futian Branch (the "Futian Tax Bureau") in a notice (the "Notice") issued on 4 February 2009 to pay PRC enterprise income tax back taxes on certain local subsidies and incentives granted by the local government authorities in prior years, amounting to approximately RMB60,472,000. The amount attributable to the Group is RMB57,986,000 (the "Back Taxes").

The Company had lodged an application to the Futian Tax Bureau for a reassessment of the computation basis of the Back Taxes, waiver of the related penalty, as well as a deferral of the payment. Subsequently, several rounds of discussion were held between the Company and the Futian Tax Bureau. According to these communications, the directors of the Company consider that the final amount of the Back Taxes would highly probable be reduced by RMB18,750,000. As of the date of approval of these financial statements, the amount of the Back Taxes, the related penalty and the exact settlement arrangements had not yet been finalised.

Accordingly, the Group had recognised additional income tax liabilities attributable to the Group in the amount of RMB39,236,000 in the current year. Deferred tax assets of RMB25,313,000 had also been recognized on deductible temporary differences originating from the levy of such Back Taxes. The net profit of the Group for the year ended 31 December 2008 was reduced by RMB13,923,000.

The directors of the Company consider that these accounting treatments reflect their best estimates made based on the current circumstances and conditions.

Were the amount finally approved by the Futian Tax Bureau and other relevant authorities be more than RMB39,236,000, the income tax liabilities and deferred tax assets of the Group would be increased and the change would be reflected in the reported net profit of the year when these Back Taxes are finalised.

5 **Segment information**

Due to the adoption of IFRIC 12 during the year, as at 31 December 2008, the Group reassessed its operations to be organised in two main business segments:

— Toll roads operations; and

— Construction under Service Concession

Other operations mainly comprise provision of advertising services and other services. None of these operations constitutes a separately reportable segment.

The segment results for the year ended 31 December 2008 are as follows:

Business segment	**Toll roads operations**	**Construction under Service Concessions**	**Others**	**Unallocated**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	984,818	3,178,980	78,243	—	4,242,041
Segment results	541,365	—	39,620	—	580,985
Other income	—	—	—	1,619	1,619
Other gains - net	—	—	—	5,690	5,690
Administrative expenses	—	—	—	(54,012)	(54,012)
Operating profit	—	—	—	—	534,282
Finance income	—	—	—	7,390	7,390
Finance costs	(262,087)	—	—	6,827	(255,260)
Share of post-tax profit of jointly controlled entities	291,500	—	—	—	291,500
Share of post-tax loss of associates	(18,651)	—	1,524	—	(17,127)
Profit before income tax	—	—	—	—	560,785
Income tax expenses	—	—	—	—	(66,257)
Profit for the year	—	—	—	—	494,528

The segment results for the year ended 31 December 2007 (restated, note (a)) are as follows:

Business segment	Toll roads operations	Construction under Service Concessions	Others	Unallocated	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	965,850	2,742,056	137,605	—	3,845,511
Segment results	583,167	23,450	112,455	—	719,072
Other income	—	—	—	11,103	11,103
Other gains - net	—	—	—	349	349
Administrative expenses	—	—	—	(50,232)	(50,232)
Operating profit	—	—	—	—	680,292
Finance income	—	—	—	9,085	9,085
Finance costs	(158,413)	—	—	8,549	(149,864)
Share of post-tax profit of jointly controlled entities	189,003	—	—	—	189,003
Share of post-tax loss of associates	(14,457)	—	971	—	(13,486)
Profit before income tax	—	—	—	—	715,030
Income tax expenses	—	—	—	—	(98,093)
Profit for the year	—	—	—	—	616,937

Other segment items included in the income statement are as follows:

	Year ended 31 December 2008				
	Toll roads operations	Construction under Service Concessions	Others	Unallocated	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation	50,786	—	1,214	4,681	56,681
Amortisation	144,546	—	2,843	—	147,389

	Year ended 31 December 2007 (restated, note (a))				
	Toll roads operations	Construction under Service Concessions	Others	Unallocated	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation	33,239	—	1,262	4,153	38,654
Amortisation	143,978	—	—	—	143,978

Note (a): During 2007, construction management services qualified as a disclosable segment. However, the segment does not qualify as a separate segment for disclosure purposes in 2008 and comparative figures for 2007 have been restated accordingly.

Segment assets consist primarily of property, plant and equipment, construction in progress, concession intangible assets, prepaid lease payments, inventories, trade and other receivables, restricted cash and cash and cash equivalents. Unallocated assets comprise investments in jointly controlled entities and investments in associates.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation and borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 6), construction in progress (Note 8) and concession intangible assets (Note 9) and prepaid lease payments (Note 10) including those additions resulting from acquisitions through business combination.

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Toll roads operations	**Construction under Service Concessions**	**Others**	**Unallocated**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	10,671,147	4,083,400	143,344	3,365,687	18,263,578
Liabilities	798,991	1,036,801	41,979	8,633,666	10,511,437
Capital expenditure (Notes 6, 8, 9 and 10)	392,884	3,178,980	3,408	43,524	3,618,796

Segment assets and liabilities are reconciled to the Group's assets and liabilities at 31 December 2008 as follows:

	Assets	**Liabilities**
	RMB'000	*RMB'000*
Segment assets/liabilities	14,897,891	1,877,771
Unallocated:		
Property, plant and equipment	364,102	—
Investment properties	18,132	—
Construction in progress	68,378	—
Investments in jointly controlled entities	1,212,980	—
Investments in associates	1,264,681	—
Cash and cash equivalents	271,632	—
Trade and other receivables	159,490	—
Derivatives financial instruments	6,292	—
Other payables	—	161,965
Current income tax liabilities	—	58,716
Deferred income tax liabilities	—	390,279
Current borrowings	—	1,118,976
Non-current borrowings	—	6,903,730
Total	18,263,578	10,511,437

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year ended are as follows:

	Toll roads operations	**Construction under Service Concessions**	**Others**	**Unallocated**	**Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	7,785,614	3,889,961	172,177	2,863,641	14,711,393
Liabilities	391,260	432,585	30,602	6,250,421	7,104,868
Capital expenditure (Notes 6, 8, 9 and 10)	232,993	6,991,717	3,574	123,064	7,351,348

Segment assets and liabilities are reconciled to the Group's assets and liabilities at 31 December 2007 as follows:

	Assets	**Liabilities**
	RMB'000	*RMB'000*
Segment assets/liabilities	11,847,752	854,447
Unallocated:		
Property, plant and equipment	36,642	—
Construction in progress	134,204	—
Investments in jointly controlled entities	1,423,810	—
Investments in associates	1,141,828	—
Cash and cash equivalents	88,781	—
Trade and other receivables	38,376	—
Other payables	—	138,168
Current income tax liabilities	—	27,565
Deferred income tax liabilities	—	441,741
Current borrowings	—	390,984
Non-current borrowings	—	5,251,963
Total	14,711,393	7,104,868

No geographical segment information is presented as substantially all the Group's business activities were carried out and substantially all the Group's assets are located in the PRC.

6 **Property, plant and equipment**

Group

	Toll roads	Buildings and structures	Equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007, as previously stated	3,300,304	169,457	160,035	4,859	3,634,655
Adjustment for changes in accounting policies (Note 2.2)	(3,300,304)	—	—	—	(3,300,304)
At 1 January 2007, as restated	—	169,457	160,035	4,859	334,351
At 1 January 2007, as restated					
Cost	—	217,049	274,507	14,932	506,488
Accumulated depreciation	—	(47,592)	(114,472)	(10,073)	(172,137)
Net book amount	—	169,457	160,035	4,859	334,351
Year ended 31 December 2007, as restated					
Opening net book amount	—	169,457	160,035	4,859	334,351
Transfer from construction in progress (Note 8)	—	8,207	27,662	—	35,869
Acquisition of a subsidiary	—	286	5,920	1,445	7,651
Additions	—	200	3,710	3,935	7,845
Disposals	—	—	(2,253)	(9)	(2,262)
Depreciation	—	(8,560)	(28,097)	(1,997)	(38,654)
Closing net book amount	—	169,590	166,977	8,233	344,800
At 31 December 2007, as restated					
Cost	—	225,742	306,354	20,224	552,320
Accumulated depreciation	—	(56,152)	(139,377)	(11,991)	(207,520)
Net book amount	—	169,590	166,977	8,233	344,800
Year ended 31 December 2008					
Opening net book amount, as restated	—	169,590	166,977	8,233	344,800
Transfer from construction in progress (Note 8)	—	195,639	199,147	—	394,786
Additions	—	200	9,176	4,829	14,205
Disposals	—	—	(80)	(102)	(182)
Depreciation	—	(11,589)	(42,444)	(2,600)	(56,633)
Closing net book amount	—	353,840	332,776	10,360	696,976
At 31 December 2008					
Cost	—	421,581	513,842	23,003	958,426
Accumulated depreciation	—	(67,741)	(181,066)	(12,643)	(261,450)
Net book amount	—	353,840	332,776	10,360	696,976

Company

	Toll roads *RMB'000*	Buildings and structures *RMB'000*	Equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2007, as previously stated	2,655,873	146,445	136,745	2,652	2,941,715
Adjustment for changes in accounting policies (Note 2.2)	(2,655,873)	—	—	—	(2,655,873)
At 1 January 2007, as restated	—	146,445	136,745	2,652	285,842
At 1 January 2007, as restated					
Cost	—	173,218	216,565	5,442	395,225
Accumulated depreciation	—	(26,773)	(79,820)	(2,790)	(109,383)
Net book amount	—	146,445	136,745	2,652	285,842
Year ended 31 December 2007, as restated					
Opening net book amount	—	146,445	136,745	2,652	285,842
Transfer from construction in progress (Note 8)	—	8,207	27,662	—	35,869
Additions	—	—	1,337	3,495	4,832
Disposals	—	—	(1,564)	—	(1,564)
Depreciation	—	(6,354)	(24,163)	(1,572)	(32,089)
Closing net book amount	—	148,298	140,017	4,575	292,890
At 31 December 2007, as restated					
Cost	—	181,425	242,372	8,937	432,734
Accumulated depreciation	—	(33,127)	(102,355)	(4,362)	(139,844)
Net book amount	—	148,298	140,017	4,575	292,890
Year ended 31 December 2008					
Opening net book amount, as restated	—	148,298	140,017	4,575	292,890
Transfer from construction in progress (Note 8)	—	194,915	199,147	—	394,062
Additions	—	2,408	10,016	8,462	20,886
Disposals	—	—	(59)	(51)	(110)
Depreciation	—	(13,060)	(41,468)	(6,415)	(60,943)
Closing net book amount	—	332,561	307,653	6,571	646,785
At 31 December 2008					
Cost	—	378,748	451,073	16,376	846,197
Accumulated depreciation	—	(46,187)	(143,420)	(9,805)	(199,412)
Net book amount	—	332,561	307,653	6,571	646,785

The buildings of the Group are all located in the PRC.

7 **Investment properties**

The Investment property is the parking space of the office building of the Company. Depreciation is calculated using the straight-line method over the estimated useful lives of 30 years. The net book value is analysed as follows:

	Group and Company	
	2008	**2007**
	RMB'000	*RMB'000*
At 1 January	—	—
Transfer from construction in progress (Note 8)	18,180	—
Depreciation	(48)	—
At 31 December	18,132	—

8 **Construction in progress**

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January, as previously stated	4,208,432	857,525	2,524,507	857,308
Adjustment for changes in accounting policies (Note 2.2)	(3,859,022)	(816,159)	(2,212,920)	(816,159)
At 1 January, as restated	349,410	41,366	311,587	41,149
Additions	405,502	344,135	194,273	306,453
Transfer to property, plant and equipment and investment properties (Notes 6 and 7)	(412,966)	(35,869)	(412,242)	(35,869)
Other transfers	(74,384)	(222)	(73,782)	(146)
At 31 December	267,562	349,410	19,836	311,587

Construction in progress at 31 December 2008 mainly represents construction costs incurred for toll road equipment of the Group not yet completed.

9 **Concession intangible assets**

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January, as previously stated	—	—	—	—
Adjustments for changes in accounting policies (Note 2.2)	10,741,681	3,919,473	4,443,762	3,074,592
At 1 January, as restated	10,741,681	3,919,473	4,443,762	3,074,592
Additions	3,180,334	2,762,588	766,264	1,463,978
Acquisition of a subsidiary	—	4,229,129	—	—
Disposals	—	(25,531)	—	(25,531)
Amortisation	(144,546)	(143,978)	(81,813)	(69,277)
At 31 December	13,777,469	10,741,681	5,128,213	4,443,762

The Group have been granted by the relevant local government authorities in the PRC the rights to operate the respective toll roads for a period of 19 to 30 years. According to the relevant governments' approval documents and the relevant regulations, the Group is responsible for the construction of the toll roads and the acquisition of the related facilities and equipment. It is also responsible for the operations and management, maintenance and overhaul of the toll roads during the approved operating periods. The toll fees collected and collectible during the operating periods are attributable to the Group. The relevant toll roads assets are required to be returned to the local government authorities when the operating rights periods expire without any considerations payable to the Group. According to the relevant regulations, these operating rights are not renewable and the Group does not have any termination options.

10 **Prepaid lease payments**

The Group's prepaid lease payments represent payments for billboard use right. Amortisation is calculated using the straight-line method over the lease. The net book value is analysed as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	—	—	—	—
Addition	18,755	—	—	—
Amortisation	(2,843)	—	—	—
At 31 December	15,912	—	—	—

11 **Investments in subsidiaries**

	Company 2008	Company 2007
	RMB'000	*RMB'000*
Unlisted investments, at cost	3,484,365	3,518,193

The following is a list of the principal subsidiaries of the Company at 31 December 2008:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Interest held *Direct*	Interest held *Indirect*
Shenzhen Meiguan Expressway Company Limited ("Meiguan Company")	PRC, limited liability company	Construction, operation and management of an expressway in the PRC	RMB332,400,000	100%	—
Shenzhen Expressway Advertising Company Limited	PRC, limited liability company	Advertising agency in the PRC	RMB2,000,000	95%	5%
Mei Wah Industrial (Hong Kong) Limited ("Mei Wah")	Hong Kong, limited liability company	Investment holding in Hong Kong	795,381,300 Ordinary shares of HKD1 each	100%	—
Maxprofit Gain Limited ("Maxprofit")	British Virgin Islands, limited liability company	Investment holding in British Virgin Islands	1 Ordinary share of USD1 each	—	100%
Qinglian Company	PRC, limited liability company	Development, operation and management of highways in the PRC	RMB1,200,000,000	51.37%	25%

12 **Loan to a subsidiary**

The balance represent a loan granted to Qinglian Company, which is unsecured, bearing interest at 5.5% per annum and is repayable out of the funds to be generated from the operations of the Qinglian Expressway (upon completion of construction) of Qinglian Company. The loan and interest should be fully repaid by 2022. The fair value of the loan to Qinglian Company at 31 December 2008 is approximately RMB790,924,000 (2007: RMB709,283,000), which is determined based on expected cash flows discounted using a rate based on the borrowing rate of 5.65% per annum.

13 **Investments in jointly controlled entities**

	Note	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
At 1 January, as previously stated		1,513,630	1,685,182	723,088	958,859
Adjustments for changes in accounting policies (Note 2.2)		(89,820)	(74,873)	—	(94,146)
At 1 January, as restated		1,423,810	1,610,309	723,088	864,713
Share of profit		291,500	189,003	—	—
Dividends declared and appropriation made by jointly controlled entities		(378,100)	(375,502)	(57,161)	(74,875)
Provision for impairment		—	—	—	(66,750)
Transfer to an associate	(b)	(124,230)	—	(64,631)	—
At 31 December		1,212,980	1,423,810	601,296	723,088

The year end balance comprises the following:

	Note	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
Unlisted investments, at cost, as restated		—	—	360,107	424,738
Share of net assets other than goodwill		810,701	962,734	—	—
Goodwill on acquisition		—	1,636	—	—
Provision for impairment	(c)	—	—	(161,090)	(161,090)
		810,701	964,370	199,017	263,648
Advances to jointly controlled entities	(d)	402,279	459,440	402,279	459,440
		1,212,980	1,423,810	601,296	723,088

(a) The following is a list of all jointly controlled entities of the Company at 31 December 2008:

Name	Place of incorporation and nature of legal entity	Principal activities and place of operation	Interest held *Direct*	*Indirect*
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao Eastern Company")	PRC, Sino-foreign cooperative enterprise an expressway in the PRC	Construction, operation and management of	55%	—
Shenchang Company	PRC, limited liability company	Construction, operation and management of a ring road in the PRC	51%	—
Jade Emperor Limited ("JEL")	Cayman Islands, limited liability company	Investment holding in Cayman Islands	—	*55%
Hubei Magerk Expressway Management Company Limited ("Magerk Company")	PRC, wholly foreign owned enterprise	Operation and management of an expressway in the PRC	—	**55%

* The interest in JEL is held indirectly through Mei Wah, a subsidiary of the Company.

** JEL is the sole equity holder of Magerk Company. The Company holds an effective 55% interest in Magerk Company through Mei Wah and JEL.

(b) During the year, the equity owners of a jointly controlled entity, Shenzhen Qinglong Expressway Company Limited ("Qinglong Company"), jointly resolved to revise the articles of association of Qinglong Company. As a result, Qinglong Company is no longer subject to joint control of the Group and the Group can only exercise significant influence on Qinglong Company. Consequently, Qinglong Company became an associate of the Group and the investment in Qinglong Company was transferred to investments in associates accordingly. There was no gain or loss arising from such conversion.

(c) As described in Note 4(d), the amount represents the provision for impairment loss made against the Company's investment in Shenchang Company arising from impairment of the underlying toll road assets operated by Shenchang Company. During the year ended 31 December 2007, the directors had made an assessment on the recoverable amount of the toll road of Shenchang Company with reference to the valuation report from a professional valuer in the PRC and as a result, an impairment provision of RMB66,750,000 was recognized, leading to a cumulative impairment provision of RMB161,090,000 as of 31 December 2007. During the year ended 31 December 2008, the directors made a reassessment and the result indicated no additional impairment provision or reversal of previously made provision was required to be recognised for the Company's investment in Shenchang Company.

(d) Amounts represent advances made to Airport-Heao Eastern Company of RMB141,229,000 (2007: RMB192,150,000) and Shenchang Company of RMB261,050,000 (2007: RMB267,290,000) respectively. The advances were made by the Company as part of its investment commitments in these jointly controlled entities as stipulated in the provisions under the relevant investment agreements. In the opinion of the directors, these advances are investment in nature and are therefore stated at cost.

The advances are unsecured, non-interest bearing and are repayable out of the funds to be generated from the operations of the respective toll road projects of Airport-Heao Eastern Company and Shenchang Company. The directors consider that there was no recoverability problem associated with these amounts as at 31 December 2008.

(e) The Group's share of the results and aggregated assets (including goodwill) and liabilities of its jointly controlled entities are as follows:

	Airport-Heao Eastern Company		**Shenchang Company**		**JEL (consolidated with Magerk Company)**		**Total**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	604,189	621,847	197,417	201,780	731,515	771,196	1,533,121	1,594,823
Current assets	49,652	40,014	2,782	2,601	36,889	20,376	89,323	62,991
Total assets	653,841	661,861	200,199	204,381	768,404	791,572	1,622,444	1,657,814
Non-current liabilities	240,940	204,090	—	40	130,092	135,160	371,032	339,290
Current liabilities	29,066	23,015	3,662	3,880	5,704	8,156	38,432	35,051
Total liabilities	270,006	227,105	3,662	3,920	135,796	143,316	409,464	374,341
Revenue	247,550	231,347	12,088	12,350	204,747	211,184	464,385	454,881
Cost and expenses	(122,524)	(109,818)	(9,772)	(77,459)	(124,154)	(163,958)	(256,450)	(351,235)
Profit/(loss) after income tax	125,026	121,529	2,316	(65,109)	80,593	47,226	207,935	103,646

Other than the commitment in respect of handing over the underlying toll roads assets to the respective local government authorities upon expiration of the operating periods under the service concession grants, as mentioned in Note 9, there were no other material contingent liabilities and commitments arising from the Group's investments in these jointly controlled entities, and there were no material outstanding contingent liabilities and commitments in the jointly controlled entities as at 31 December 2008.

14 **Investments in associates**

	Note	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
At 1 January		1,141,828	3,006,665	1,242,424	2,691,624
Increase in investments in associates	(b)	37,500	11,899	37,500	—
Share of loss		(17,127)	(13,486)	—	—
Dividends declared and appropriation made by associates		(21,750)	(24,050)	(2,505)	—
Transfer from investment in a jointly controlled entities	13(b)	124,230	—	64,631	—
Transfer to investment in a subsidiary as a result of business combination		—	(1,839,200)	—	(1,449,200)
At 31 December		1,264,681	1,141,828	1,342,050	1,242,424

The year end balance comprises the following:

	Note	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
Unlisted investments, at cost		—	—	1,342,050	1,242,424
Share of net assets other than goodwill		1,187,745	1,066,528	—	—
Goodwill on acquisition	(c)	76,936	75,300	—	—
		1,264,681	1,141,828	1,342,050	1,242,424

(a) The Group's share of the results and aggregated assets (including goodwill) and liabilities of its associates, all of which were established and are operating in the PRC, are as follows:

Name	Nature of legal entity and paid-in capital	Principal activities	Assets		Liabilities		Revenue		Profit/(loss)		*Interest held	
			2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	%	%
Shenzhen Qinglong Company Limited ("Qinglong Company")	PRC, Sino-foreign cooperative enterprise RMB 100,000,000	Construction, operation and management of an expressway in the PRC	391,498	404,726	268,904	264,389	148,372	141,556	83,565	85,357	40%	40%
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Company") *(Note (b))*	Limited liability company, RMB 1,015,000,000	Development, operation and management of expressways and related facilities	704,162	763,527	475,130	505,661	59,639	53,092	(6,199)	(6,627)	25%	25%
Guangzhou Western Second Ring Expressway Company Limited ("GZ W2 Company") *(Note (b))*	Limited liability company, RMB820,000,000	Development, operation and management of expressway	714,304	714,071	556,746	564,745	28,466	16,490	(21,767)	(22,979)	25%	25%
Shenzhen Huayu Expressway Investment Company Limited	Limited liability company, RMB150,000,000	Development, nvestment, operation and management of expressway	229,670	232,775	164,803	168,165	26,442	26,670	256	3,262	40%	40%

Name	Nature of legal entity and paid-in capital	Principal activities	Assets		Liabilities		Revenue		Profit/(loss)		*Interest held	
			2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*%*	*%*
Shenzhen Expressway Engineering Consulting Company Limited ("Consulting Company")	Limited liability company, RMB7,000,000	Project management consulting, construction consulting and sales of construction materials	15,218	13,239	8,412	7,957	20,169	13,672	1,524	971	30%	30%
Nanjing Yangzi River Third Bridge Company Limited ("Nanjing Third Bridge Company")	Limited liability company, RMB1,080,000,000	Development, operation and management of bridges	851,012	868,674	608,136	619,032	58,572	574,420	(6,768)	(4,040)	25%	25%
Guangdong Yangmao Expressway Company Limited ("Yangmao Company")	Limited liability company, RMB200,000,000	Development, operation and management of expressway	562,727	637,829	364,869	392,300	83,445	83,317	19,245	18,049	25%	25%
Yunfu Guangyun Expressway Company	Limited liability company, RMB10,000,000	Development, operation and management of expressway	428,036	435,032	261,882	265,459	29,095	29,114	(3,418)	(2,122)	30%	30%
			3,896,627	4,069,873	2,708,882	2,787,708	454,200	938,331	66,438	71,871		

* There were no material contingent liabilities arising form the Group's interests in associates, and there were no material contingent liabilities and commitments in the associates as at 31 December 2008.

(b) According to the provisions of the investment agreements of GZ W2 Company, the Company is required to make further capital contributions amounting to RMB45,000,000 (2007: RMB75,000,000), in aggregate, to the associate based on the funding requirements determined according to the progress of construction of the toll road projects undertaken by the associate.

(c) The balance represents the goodwill arising from the acquisition of equity interests in Jiangzhong Company, Yangmao Company and Qinglong company amounting to RMB30,135,000, RMB45,165,000 and RMB1,636,000 respectively. After the assessment made by the directors, there was no impairment loss to be recognised as at 31 December 2008.

15 **Trade and other receivables**

		Group		Company	
	Note	**2008**	**2007**	**2008**	**2007**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	(a)	166,883	152,560	153,234	145,481
Other receivables	(c)	150,084	54,213	146,948	53,540
Prepayments		4,252	17,113	3,729	7,094
Interest receivables		2,407	—	2,407	—
		323,626	223,886	306,318	206,115

(a) Trade receivables mainly represent amounts due from the Shenzhen Communications Bureau of RMB137,585,000 (2007: RMB131,337,000) for management services income recognised.

The Company was engaged by the local government authorities to manage the construction of four main toll road construction projects, namely the Nanping Freeway (Phase I) Project ("Nanping (Phase I) Project"), Nanping Freeway (Phase II) Project ("Nanping (Phase II) Project") , the Western section of Hengping Highway Project ("Hengping Project") and the Wutong Mountain Avenue (Supplementary Road) and Airport-Heao Expressway Yantian Subsidiary Road Checkpoint Station Project ("Wutong Mountain Project"). In return, the Company is entitled to management services income which is determined based on the Savings achieved in managing these construction management projects according to the provisions of the relevant contracts.

The construction management services income of the Nanping (Phase II) Project and Hengping Project recognised during the year, using the percentage of completion method in accordance with the accounting policies of the Group, amounted to approximately RMB8,619,000 (2007: Nil) and RMB10,928,000 (2007: Nil), respectively.

The Company undertakes to bear cost overruns for the above projects. For the Hengping Project and the Nanping (Phase II) Project, the Company is obliged to bear all the cost overruns incurred in construction as compared to the original budget. For the Nanping (Phase I) Project and Wutong Mountain Project, the Company is obliged to bear solely all the cost overruns incurred in construction as compared to the original budget in case the overrun does not exceed by 2.5% of the total budgeted contract costs; while the related government departments would share the portion of any overruns exceeding 2.5% of the total budgeted contract costs jointly with the Company. Nevertheless, the outflow of resources arising from expected cost overruns of these projects is considered remote by the directors of the Company, after taking into account the actual progress and the status of these projects.

(b) Trade receivables are neither past due nor impaired at 31 December 2008 and 2007 and are analysed as below:

	2008	2007
	RMB'000	*RMB'000*
Unbilled	148,698	131,337
Billed	18,185	21,223
	166,883	152,560

Credit quality of trade receivables can be assessed by reference to historical information about counterparty default rates:

	2008	2007
	RMB'000	*RMB'000*
Counterparty		
— Government authorities in the PRC	145,585	134,337
— Existing customers with no defaults in the past	14,717	17,776
— New customers	6,581	447
	166,883	152,560

At 31 December 2008 and 2007, the ageing analysis of trade receivables was as follows:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	33,144	121,140	19,495	114,088
Over 1 year	133,739	31,420	133,739	31,393
	166,883	152,560	153,234	145,481

The ageing analysis is presented based on the time lag from the initial recognition of the receivables up to the balance sheet date.

(c) Due to the fact that the Group is mainly engaged in toll road operations, its income is mainly received in cash and it usually does not maintain any accounts receivable balances. Accordingly, the Group does not have any specified credit period for its customers.

(d) Other receivables at 31 December 2008 mainly included payments of RMB120,928,000 for the Shenzhen Section of Yanjiang Highway ("Yanjiang Project") (see details in Note 23(d)).

16 **Restricted cash**

		Group and Company	
	Note	**2008**	**2006**
		RMB'000	*RMB'000*
Bank fixed deposit denominated in RMB with a maturity of one year	29(e)	116,272	—
Project funds retained for construction management contracts	23(b)	24,308	16,032
		140,580	16,032

17 **Cash and cash equivalents**

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	533,668	461,469	441,915	307,783
Short-term bank deposits	2,625	5,521	—	—
	536,293	466,990	441,915	307,783

The effective interest rate on short-term bank deposits denominated in HKD was 0.05% (2007: 3.03%) per annum. The deposits have a maturity of 14 days (2007: 7 days).

18 **Share capital and premium**

	2008	**2007**
	RMB'000	*RMB'000*
Registered, issued and fully paid 2,180,700,000 shares of RMB1 each		
Liquid shares subject to sale restrictions		
— Shares held by the State	654,780	654,780
— Shares held by legal persons	560,620	560,620
	1,215,400	1,215,400
Listed shares		
— Ordinary shares, listed in the Mainland ("A shares")	217,800	217,800
— Foreign invested shares, listed in Hong Kong ("H shares")	747,500	747,500
	965,300	965,300
Total	2,180,700	2,180,700

After implementation of the Shareholding Structure Reallocating Scheme in February 2006, the formerly non-liquid shares of the Company were converted into shares with liquidity but subject to certain restrictions in their sales. These shares cannot be traded until 2 March 2009 according to the relevant restriction provisions.

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

19 **Other reserves**

(a) ***The Group***

	Share premium	Statutory surplus reserve	Discretionary surplus reserve	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January, as previously stated	2,060,009	791,940	453,391	(41,236)	3,264,104
Adjustments for changes in accounting policies *(Note 2.2)*	—	(38,109)	—	—	(38,109)
At 1 January, as restated	2,060,009	753,831	453,391	(41,236)	3,225,995
Equity component of convertible bonds, net of transaction costs	—	—	—	327,914	327,914
Deferred tax arising on initially stating the convertible bonds at fair value	—	—	—	(73,195)	(73,195)
Transfer from retained earnings	—	60,410	—	—	60,410
At 31 December 2007	2,060,009	814,241	453,391	213,483	3,541,124
Transfer from retained earnings	—	53,737	—	—	53,737
At 31 December 2008	2,060,009	867,978	453,391	213,483	3,594,861

(b) ***Company***

At 1 January, as previously stated	2,060,009	791,940	453,391	—	3,305,340
Adjustments for changes in accounting policies *(Note 2.2)*	—	(38,109)	—	—	(38,109)
At 1 January, as restated	2,060,009	753,831	453,391	—	3,267,231
Equity component of convertible bonds, net of transaction costs	—	—	—	327,914	327,914
Deferred tax arising on initially stating the convertible bonds at fair value	—	—	—	(73,195)	(73,195)
Transfer from retained earnings	—	60,410	—	—	60,410
At 31 December 2007	2,060,009	814,241	453,391	254,719	3,582,360
Transfer from retained earnings	—	53,737	—	—	53,737
At 31 December 2008	2,060,009	867,978	453,391	254,719	3,636,097

(a) Pursuant to relevant PRC regulations and the articles of association of the Company, profit after tax shall be appropriated according to the following sequence from 2006 onwards:

— make up any accumulated losses;

— transfer 10% of the profit after tax 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;

— transfer to the discretionary surplus reserve an amount as approved by the shareholders in the Annual General Meeting; and

— distribute as dividends to shareholders.

The amounts of transfer to the statutory surplus reserve shall be determined based on profit after tax reported in the PRC statutory financial statements of the Company prepared in accordance with the CAS.

(b) Share premium

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

(c) Statutory surplus reserve and discretionary surplus reserve

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

According to the relevant PRC regulations, the Company is not required to provide statutory public welfare fund for profit appropriation effective from 1 January 2006, accordingly, the balance of statutory public welfare fund as at 31 December 2005 was transferred to the statutory surplus reserve.

(d) 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 the CAS as stated in the PRC statutory financial statements and the accumulated distributable profits adjusted based on HKFRS. The profit attributable to shareholders at 31 December 2008 amounted to RMB 1,001,991,000.

20 **Borrowings**

		Group		Company	
	Note	**2008**	**2007**	**2008**	**2007**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current					
Bank borrowings					
— Secured	(a)	3,355,193	1,322,671	—	—
— Unsecured		1,885,000	1,985,000	1,885,000	1,985,000
		5,240,193	3,307,671	1,885,000	1,985,000
Other borrowings - guaranteed	(b)	10,180	16,864	10,180	16,864
Convertible bonds	(c)	1,198,032	1,143,129	1,198,032	1,143,129
Corporate bonds	(d)	790,924	790,283	800,000	790,283
		7,239,329	5,257,947	3,893,212	3,935,276
Less: Current portion of long-term borrowings — guaranteed		(335,599)	(5,984)	(335,599)	(5,984)
		6,903,730	5,251,963	3,557,613	3,929,292
Current					
Bank borrowings					
— Secured	(e)	117,377	—	117,377	—
— Unsecured		666,000	385,000	666,000	385,000
		783,377	385,000	783,377	385,000
Current portion of long-term borrowings		335,599	5,984	335,599	5,984
		1,118,976	390,984	1,118,976	390,984
Total borrowings		8,022,706	5,642,947	4,676,589	4,320,276

(a) For the secured bank borrowings, RMB89,953,0000 (HKD102,000,000) is secured by a pledge of the 55% equity interest of JEL held by Mei Wah and RMB3,265,240,000 is secured by a pledge of the operating rights of Qinglian Class I Highway, Qinglian Class II Highway and Qinglian Expressway (upon completion of its reconstruction) of Qinglian Company, a subsidiary of the Company.

(b) Other borrowings totaling USD1,489,000 (equivalent to RMB10,180,000) were extended by the Spanish Government through the China Construction Bank Corporation. The loans comprise two portions, USD 1,117,000 bearing interest at 1.8% per annum and another portion of USD372,000 which is interest-bearing at 7.17% per annum. The borrowings are guaranteed by Xin Tong Chan Development (Shenzhen) Company Limited ("Xin Tong Chan"), a shareholder of the Company.

(c) The Company issued 15,000,000 1% convertible bonds with attached warrants subscription rights at a par value of RMB1,500,000,000 on 9 October 2007. The bonds will mature 6 years from the issue date at their nominal value of RMB1,500,000,000. The holders of the bonds have warrants subscription rights to subscribe newly issued A shares of the Company at the rate of 7.2 shares per bond. The fair values of the liability component and the equity conversion component embedded in the bond offer were determined at the date of issuance of the bonds.

The fair value of the liability component, included in non-current borrowings, was calculated using a market interest rate for a non-convertible bond in the market with equivalent terms. The residual amount, representing the carrying value of the bonds after deduction of the fair value of the liability component, represents fair value of the equity conversion option, was included in shareholders' equity under other reserves, net of the attributable transaction costs. The full amount of the principal and related interests of the bonds is guaranteed by the Shenzhen Branch of the Agricultural Bank of China, which is in turn secured by the 47.30% of the operating rights of Nanguang Expressway.

The computation of the fair value of different components of the convertible bonds recognised in the balance sheet is as follows:

	2008	**2007**
	RMB'000	*RMB'000*
Face value of convertible bonds on 9 October 2007	1,500,000	1,500,000
Fair value of liability component	(1,162,802)	(1,162,802)
Equity component	337,198	337,198
Fair value of liability component on 9 October 2007	1,162,802	1,162,802
Transaction costs attributable to liability component	(32,018)	(32,018)
Liability component on initial recognition on 9 October 2007	1,130,784	1,130,784
From issuing date to 31 December		
Interest expenses	67,248	12,345
Liability component at 31 December	1,198,032	1,143,129

(d) The Company also issued long-term corporate bonds of RMB800 million for a term of 15 years bearing interest at 5.5% per annum in August 2007. Interest is paid annually and the principal is repayable in full upon maturity. The full amount of principal and interest of the bonds is unconditionally and irrevocably guaranteed by China Construction Bank Corporation, which is in turn secured by the Company's 100% equity interest in Meiguan Company.

(e) The bank loan was secured by a fixed deposit of RMB116,272,000 with a maturity of one year (note 16).

(f) The effective interest rates at the balance sheet date are as follows:

	2008	2007
	RMB'000	*RMB'000*
Unsecure bank borrowings		
— non-current	4.86%-6.12%	5.67%-6.723%
— current	4.536%-5.508%	5.265%-5.832%
Secured bank borrowings - non-current	1.30%-7.047%	4.64%-6.48%
Convertible bonds	5.5%	5.5%
Corporate bonds	5.5%	5.5%

(g) At 31 December 2008, the Group's borrowings are repayable as follows:

	Bank borrowings		Other borrowings and bonds	
Group	**2008**	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,113,377	385,000	5,599	5,984
Between 1 and 2 years	382,012	420,000	3,055	5,984
Between 2 and 5 years	1,040,080	1,410,911	1,199,559	4,896
Wholly repayable within 5 years	2,535,469	2,215,911	1,208,213	16,864
Over 5 years	3,488,100	1,476,760	790,924	1,933,412
	6,023,569	3,692,671	1,999,137	1,950,276

	Bank borrowings		Other borrowings and bonds	
Company	**2008**	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,113,377	385,000	5,599	5,984
Between 1 and 2 years	209,999	420,000	3,055	5,984
Between 2 and 5 years	655,000	1,030,000	1,199,559	4,896
Wholly repayable within 5 years	1,978,376	1,835,000	1,208,213	16,864
Over 5 years	690,000	535,000	800,000	1,933,412
	2,668,376	2,370,000	2,008,213	1,950,276

(h) The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2008	2007	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings	4,910,196	3,307,671	4,986,357	3,142,586
Other borrowings	4,578	10,880	4,406	9,764
Convertible bonds	1,198,032	1,143,129	1,198,032	1,143,129
Corporate bonds	790,924	790,283	790,924	790,283
	6,903,730	5,251,963	6,979,719	5,085,762

The fair values of bank borrowings and other borrowings are determined based on cash flows discounted using effective interest rates ascertained based on the rates of general bank borrowings at 5.4% to 5.94% (2007: 7.56% to 7.83%) per annum.

The fair values of the convertible bonds and corporate bonds are calculated using cash flows discounted at a rate based on a market interest rate for an equivalent non-convertible bond at 6.01% per annum and that of a comparable corporate bond at 5.65% per annum respectively.

The fair values of current borrowings approximate their respective carrying amounts, and the effect of discounting is not significant.

(i) The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	7,805,197	5,530,572	4,549,033	4,303,412
USD	10,180	16,864	10,180	16,864
HKD	207,329	95,511	117,376	—
	8,022,706	5,642,947	4,676,589	4,320,276

(j) The Group has the following undrawn banking facilities:

	2008	2007
	RMB'000	*RMB'000*
Floating rate		
— Expiring within one year	2,591,000	2,972,000
— Expiring beyond one year	3,759,000	3,123,000
	6,350,000	6,095,000
Fixed rate		
— Expiring beyond one year	260,000	2,205,000
	6,610,000	8,300,000

21 **Deferred income tax**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The gross amounts of deferred tax offset against each other are shown as follows:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)		*(Restated)*
Deferred tax assets				
— to be recovered after more than 12 months	99,749	57,552	99,749	57,552
— to be recovered within 12 months	1,597	1,878	1,597	1,878
	101,346	59,430	101,346	59,430
Deferred tax liabilities				
— to be settled after more than 12 months	480,369	491,382	107,198	118,238
— to be settled within 12 months	11,256	9,789	11,129	9,685
	491,625	501,171	118,327	127,923
Deferred tax liabilities (net)	390,279	441,741	16,981	68,493

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

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January, as previous stated	474,235	24,989	112,539	22,611
Adjustment for changes in accounting policies (Note 2.2)	(32,494)	(23,957)	(44,046)	(34,139)
At 1 January, as restated	441,741	1,032	68,493	(11,528)
Acquisition of a subsidiary	—	357,997	—	—
Deferred tax liability arising on initially stating convertible bonds at fair value charged directly to equity (Note 19)	—	73,195	—	73,195
Adjustment to the enacted tax rate	—	16,875	—	15,455
Deferred tax assets arising from taxable financial subsidies (Note 29(c))	(25,313)	—	(25,313)	—
Recognised in the income statement	(26,149)	(7,358)	(26,199)	(8,629)
At 31 December	390,279	441,741	16,981	68,493

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Group

	Deferred tax assets			
	Provision for impairment losses of assets	**Provision for resurfacing obligations**	**Taxable financial subsidies**	**Total**
	RMB'000	*RMB'000*	*RMB'000* *(Note b)*	*RMB'000*
At 1 January 2007, as previously stated	1,878	—	—	1,878
Adjustment for changes in accounting policies (Note 2.2)	—	45,218	—	45,218
At 1 January 2007, as restated	1,878	45,218	—	47,096
Recognised in the income statement	(1,878)	14,212	—	12,334
At 31 December 2007	—	59,430	—	59,430
At 1 January 2008, as previously stated	—	—	—	—
Adjustment for changes in accounting policies (Note 2.2)	—	59,430	—	59,430
At 1 January 2008, as restated	—	59,430	—	59,430
Recognised in the income statement	—	16,603	25,313	41,916
At 31 December 2008	—	76,033	25,313	101,346

	Deferred tax liabilities				
	Depreciation of property, plant and equipment	Toll road assets resulted from acquisition of a subsidiary	Concession intangible assets	Convertible bonds	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007, as previously stated	26,867	—	—	—	26,867
Adjustment for changes in accounting policies (Note 2.2)	—	—	21,261	—	21,261
Reclassifications (Note (a))	(26,867)	—	26,867	—	—
At 1 January 2007, as restated	—	—	48,128	—	48,128
Acquisition of a subsidiary	—	—	357,997	—	357,997
Recognised in the income statement	—	—	4,976	—	4,976
Adjustment to the enacted tax rate	—	—	16,875	—	16,875
Deferred tax on convertible bonds	—	—	—	73,195	73,195
At 31 December 2007	—	—	427,976	73,195	501,171
At 1 January 2008, as previously stated	43,043	357,997	—	73,195	474,235
Adjustment for changes in accounting policies (Note 2.2)	—	—	26,936	—	26,936
Reclassifications (Note (a))	(43,043)	(357,997)	401,040	—	—
At 1 January 2008, as restated	—	—	427,976	73,195	501,171
Recognised in the income statement	—	—	(624)	(8,922)	(9,546)
At 31 December 2008	—	—	427,352	64,273	491,625

Company

	Deferred tax assets			
	Provision for impairment losses of assets	Provision for resurfacing obligations	Taxable financial subsidies	Total
	RMB'000	*RMB'000*	*RMB'000* *(Noteb)*	*RMB'000*
At 1 January 2007, as previously stated	1,878	—	—	1,878
Adjustment for changes in accounting policies	—	45,218	—	45,218
At 1 January 2007, as restated	1,878	45,218	—	47,096
Recognised in the income statement	(1,878)	14,212	—	12,334
At 31 December 2007	—	59,430	—	59,430
At 1 January 2008, as previously stated	—	—	—	—
Adjustment for changes in accounting policies (Note 2.2)	—	59,430	—	59,430
At 1 January 2008, as restated	—	59,430	—	59,430
Recognised in the income statement	—	16,603	25,313	41,916
At 31 December 2008	—	76,033	25,313	101,346

	Deferred tax liabilities				
	Depreciation of property, plant and equipment	Toll road assets resulted from acquisition of a subsidiary	Concession intangible assets	Convertible bonds	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007, as previously stated	24,489	—	—	—	24,489
Adjustment for changes in accounting policies	—	—	11,079	—	11,079
Reclassifications (Note (a))	(24,489)	—	24,489	—	—
At 1 January 2007, as restated	—	—	35,568	—	35,568
Acquisition of a subsidiary	—	—	—	—	—
Recognised in the income statement	—	—	3,705	—	3,705
Adjustment to the enacted tax rate	—	—	15,455	—	15,455
Deferred tax on convertible bonds	—	—	—	73,195	73,195
At 31 December 2007	—	—	54,728	73,195	127,923
At 1 January 2008, as previously stated	39,344	—	—	73,195	112,539
Adjustment for changes in accounting policies (Note 2.2)	—	—	15,384	—	15,384
Reclassifications (Note (a))	(39,344)	—	39,344	—	—
At 1 January 2008, as restated	—	—	54,728	73,195	127,923
Recognised in the income statement	—	—	(674)	(8,922)	(9,596)
At 31 December 2008	—	—	54,054	64,273	118,327

(a) Due to the adoption of IFRIC 12 as explained in Note 2.2, the toll road related assets previously recorded as property, plant and equipment were captured under intangible assets. Accordingly, the related deferred taxation associated with temporary differences derived from these assets were also reclassified.

(b) As explained in further details in Note 29 (c), the Group became liable to pay PRC enterprise income tax of RMB39,236,000 during the year for certain past financial subsidies and incentives granted by local governments and received by the Group in prior years. They were initially exempt from taxation according to the provisions of certain policies promulgated by the local government authorities. The Company was advised by the relevant local tax authorities that after settlement of these tax charges, any future amortization of the related financial subsidies, which have been deferred on the balance sheet of the Group, would be allowed to claim tax deductions for income tax reporting purposes in the future.

Accordingly, deferred tax assets of RMB25,313,000 had been recognized on such deductible temporary differences originating from the accounting base and tax base of these subsidies based on a tax rate of 25%, which is the tax rate expected to enact when a substantial portion of such temporary differences reverse. The amount was recorded as a credit to income tax expenses for the year ended 31 December 2008.

22 **Provision for maintenance/resurfacing obligations**

	Group and Company	
	31 December 2008	**31 December 2007**
	RMB'000	*RMB'000*
Opening net book amount, recognised as a result of adoption of IFRIC 12	237,720	180,870
Charged to the income statement:		
— Additions	42,641	38,763
— Increase due to passage of time (Note 28)	23,772	18,087
Closing net book amount	304,133	237,720

23 **Other payables and accrued expenses**

		Group		Company	
	Note	**2008**	**2007**	**2008**	**2007**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payables for construction projects and quality deposits	(a)	977,127	237,509	282,519	173,738
Guaranteed deposits for construction projects contracts	(a)	203,060	187,118	145,395	187,118
Project funds retained for construction management contracts	(b)	24,308	16,032	24,308	16,032
Notes payable	(a)	13,992	94,323	13,992	20,993
Advance from an associate	(c)	46,500	46,500	46,500	46,500
Advance from a jointly controlled entity	(c)	—	21,300	—	—
Loan from local government for the Yanjiang Project	(d)	300,000	—	300,000	—
Interest payable		42,711	33,922	36,322	31,422
Salary payable		39,189	43,454	31,797	30,257
Others		88,716	74,737	75,761	2,803
		1,735,603	754,895	956,594	508,863

At 31 December 2008 and 2007, the ageing analysis of trade and other payables were as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,560,410	413,572	906,914	168,035
Over 1 year	175,193	341,323	49,680	340,828
	1,735,603	754,895	956,594	508,863

The ageing analysis is presented based on the time lag from the date of initial recognition of the related payables to the balance sheet date.

(a) These represent liabilities and quality deposits arising from progress project payments payable for the construction of certain toll roads projects of the Group amounting to approximately RMB977,127,000 (2007: RMB237,509,000); deposits received from the contractors as guarantees for bidding the projects and their performance commitment for the construction of these projects amounting to RMB203,060,000 (2007: RMB187,118,000); and bills payable of RMB13,992,000 (2007: RMB94,323,000) for projects construction, respectively. Bills payable are bearing interest at 4.08% to 4.8% (2007: 4.56% to 6.48%) per annum and are required to be settled within one year.

(b) This represents projects fund paid in advance by the Shenzhen Communications Bureau to the Company for the management of the project of main route of Hengping Project under a construction management contract entered by the government authority and the Company.

(c) These represent the advances from Nanjing Third Bridge Company Limited, an associate of the Group, and Magerk Company, a jointly controlled entity of the Group, amounting to approximately RMB46,500,000 and RMB21,300,000, respectively. The advance from Magerk Company had been fully repaid during the year.

(d) This represents a loan from Shenzhen Investment Holding Company Limited ("Shenzhen Investment Holding Company"), concerning the Yanjiang Project managed by the Company under a management service contract. Under this contract, the Company provides project management services for construction, operation and maintenance of the Yanjiang Project for the government authority. The Company received the 6-month loan of RMB300 million from Shenzhen Investment Holding Company, which acts on behalf of the government authority.

24 **Other income**

	2008	**2006**
	RMB'000	*RMB'000*
Investment income	1,619	—
Subsidies from local government	—	11,103
	1,619	11,103

25 **Other gains - net**

	Note	**2008** *RMB'000*	**2006** *RMB'000*
Change in fair value of derivative financial instruments	(a)	6,292	614
Excess of fair value of net identifiable assets acquired in a business combination over the cost of acquisition	(b)	—	127,206
Adjustment on fair value of the equity interest previously held in the acquiree at the effective date of the acquisition	(b)	—	(127,206)
Gain on disposals of non-current assets classified as held for sale		—	1,902
Others		(602)	(2,167)
		5,690	349

(a) This represents the change in fair value of RMB1,210,000 and RMB5,082,000 (2007: RMB614,000 and nil) arising from a RMB interest SWAP agreement and a foreign exchange forward contract, respectively. The RMB interest SWAP agreement was to swap for fixed rates with floating rates for a 2-year loan extended by the Shanghai branch of ABN-AMRO at a principal balance of RMB300 million. The foreign currency forward contract was intended to control the foreign exchange exposure associated with a one-year term loan with principal amount at HKD133 million.

(b) These relate to the acquisition of 20.09% additional equity interest in Qinglian Company by the Company at a cash consideration of RMB484,000,000 in 2007. After the Group determined the respective fair values of the identifiable assets acquired and liabilities assumed in the transaction, the difference between the cost of acquisition and the fair value of the Group's share of net assets acquired amounted to RMB127,206,000. The amount was recognised as other gain in the income statement for the year ended 31 December 2007. The change in fair value of the 56.28% equity interest previously held by the Group up to the effective date of the acquisition amounting to approximately RMB127 million (a revaluation loss) was charged to the income statement against other gain.

26 **Expenses by nature**

	Note	**2008**	**2006**
		RMB'000	*RMB'000*
Construction costs under Service Concessions	(a)	3,178,980	2,718,607
Business tax and surcharges	(b)	36,699	37,427
Employee benefit expenses	27	100,907	80,733
Road maintenance expenses		60,942	49,611
Depreciation and amortization		204,070	182,632
Provision for maintenance resurfacing obligations		42,640	38,763
International auditor's remuneration			
— Annual audit		1,970	1,950
— Other audit/review services		200	—
Statutory auditor's remuneration			
— Annual audit		880	990
— Other audit/review services		300	—
Rental expenses		2,713	1,678
Agency fee		5,367	3,989
Utility expenses		16,387	11,137
Management fee of toll road network		10,765	9,807
Material consumption		5,667	4,017
Transportation expenses		6,037	1,676
Other expenses		40,544	33,654
Total cost of services and administrative expenses		3,715,068	3,176,671

(a) This represents the construction costs recognised for the year associated with the construction and upgrade services provided under the Service Concessions using the percentage of completion method.

(b) The amount represents PRC business tax and surcharges levied on the Group's toll road income at RMB32,320,000 (2007: RMB30,135,000); on service income derived from the provision of construction management services income at RMB513,000 (2007: RMB3,190,000); as well as on income arising from the provision of other services at RMB3,866,000 (2007: RMB4,102,000).

Toll income of the Group is subject to the following taxes and surcharges:

— PRC business tax at 3% or 5% of toll income;

— City development tax at 1% of the PRC business tax; and

— Education supplementary fee at 3% of the PRC business tax.

27 **Employee benefit expenses**

	Note	**2008**	**2006**
		RMB'000	*RMB'000*
Wages salaries and bonus		76,934	64,594
Pension costs - defined contribution plans	(a)	3,981	4,085
Other staff welfare benefits		19,992	12,054
		100,907	80,733

(a) The Group participates in the municipal retirement schemes managed by the local social security administration bureaus. Pursuant to the relevant provisions, the Group is required to make a monthly contribution equivalent to 10% to11% (2007: 10% to 11%) of the monthly salary of the employees during the year. The bureaus are responsible for making the pension payments to the retired employees of the Group and the Group has no further obligations. There was no forfeited contribution utilised during the year to reduce future contribution. Contributions totalling RMB125,000 (2007: RMB39,000) were payable to the fund at 31 December 2008.

(b) Directors' and senior management's emoluments

An analysis of the directors' fees, salary and discretionary bonuses paid and payable to each of the director of the Company for the year ended 31 December 2008 is set out below:

Name of director/supervisor	**Fees**	**Salary**	**Discretionary bonuses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Yang Hai	—	705	178	883
Mr. Wu Ya De	—	542	389	931
Mr. Li Jing Qi	—	—	—	
Mr. Wang Ji Zhong	—	—	—	
Mr. Liu Jun	—	—	—	
Mr. Lin Xiang Ke	—	—	—	
Ms. Zhang Yang	—	—	—	
Mr. Chiu Chi Cheong, Clifton	264	—	—	264
Mr. Li Zhi Zheng	150	—	—	150
Mr. Zhang Zhi Xue	150	—	—	150
Mr. Poon Kai Leung, James	132	—	—	132
Mr. Wong Kam Ling	132	—	—	132
Mr. Jiang Lu Ming (ii)	—	502	111	613
Mr. Zhang Yi Ping	—	—	—	—
Mr. Yi Ai Guo	—	49	10	59
Mr. Zhong Shan Qun (i)	—	—	—	—
Mr. Fong Kit (iii)	—	121	74	195

An analysis of the directors' fees, salary and discretionary bonuses paid and payable to each of the director of the Company for the year ended 31 December 2007 is set out below:

Name of director/supervisor	Fees	Salary	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Yang Hai	—	705	190	895
Mr. Wu Ya De	—	542	446	988
Mr. Li Jing Qi	—	—	—	—
Mr. Wang Ji Zhong	—	—	—	—
Mr. Liu Jun	—	—	—	—
Mr. Lin Xiang Ke	—	—	—	—
Ms. Zhang Yang	—	—	—	—
Mr. Chiu Chi Cheong, Clifton	282	—	—	282
Mr. Li Zhi Zheng	150	—	—	150
Mr. Zhang Zhi Xue	150	—	—	150
Mr. Poon Kai Leung, James	141	—	—	141
Mr. Wong Kam Ling	141	—	—	141
Mr. Jiang Lu Ming (ii)	—	167	47	214
Mr. Zhang Yi Ping	—	—	—	—
Mr. Yi Ai Guo	—	276	163	439
Mr. Zhong Shan Qun (i)	—	—	—	—

(i) Resigned on 3 September 2007.

(ii) Appointed on 3 September 2007.

(iii) Appointed on 4 August 2008.

In addition, the directors are also entitled to other benefits and allowances including employer's contributions made to medical schemes, allowance paid to the directors and supervisors for their attendance in board or directors' meetings.

During the year ended 31 December 2008, Mr. Yang Hai, Mr. Wu Ya De, Mr. Li Jing Qi, Mr. Wang Ji Zhong, Mr. Liu Jun, Mr. Lin Xiang Ke, Ms. Zhang Yang, Mr. Chiu Chi Cheong, Mr. Li Zhi Zheng, Clifton, Mr. Zhang Zhi Xue, Mr. Poon Kai Leung, James, Mr. Wong Kam Ling, Mr. Jiang Lu Ming, Mr. Zhang Yi Ping, Mr. Yi Ai Guo, Mr. Zhong Shan Qun and Mr. Fong Kit were entitled to these benefits and the respective amounts were RMB24,000 (2007: RMB20,000), RMB22,000 (2007: RMB18,000), Nil (2007: Nil), RMB5,000 (2007: RMB10,000), Nil (2007: Nil), RMB5,000 (2007: RMB10,000), RMB9,600 (2007: RMB13,000), RMB11,500 (2007: RMB11,000) , RMB8,500 (2007: RMB13,000), RMB6,500 (2007: RMB11,000), RMB11,500 (2007: RMB15,000), RMB11,000 (2007: RMB14,000), RMB33,700 (2007: RMB15,000), RMB5,000 (2007: RMB9,000), RMB13,000 (2007: RMB71,000), Nil (2007: RMB4,000) and RMB28,700 (2007: Nil), respectively.

In 2008, Mr. Yang Hai, Mr. Wu Ya De, Mr. Jiang Lu Ming, Mr. Yi Ai Guo and Mr. Fong Kit were entitled to the employer's contribution to pension schemes of RMB44,000 (2007: RMB43,000), RMB44,000 (2007: RMB43,000), RMB44,000 (2007: RMB22,000), RMB7,000 (2007: RMB31,000) and RMB14,000 (2007: Nil), respectively.

During the year ended 31 December, 2008, Mr. Yang Hai, Mr. Wu Ya De, Mr. Li Jing Qi and Mr. Liu Jun waived their entitlement to allowance granted for their attendance in the board of directors' meetings at RMB10,500 (2007: RMB 13,000), RMB9,000 (2007: RMB 13,000), RMB6,500 (2007: RMB 8,000) and RMB5,000 (2007: RMB 7,000), respectively. No other directors and supervisors waived any emoluments during the years ended 31 December 2008 and 2007.

During the years ended 31 December 2008 and 2007, 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.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2007: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2007: three) individuals during the year are as follows:

	2008	**2007**
	RMB'000	*RMB'000*
Basic salaries, housing allowances, share options, other allowances and benefits in kind	1,308	1,241
Bonuses	1,150	922
Contributions to the retirement scheme	130	123
Other benefits and allowances	211	156
	2,799	2,442

The emoluments for all the above senior management fell within the band of nil to RMB880,000 (HKD1,000,000) during the years ended 31 December 2008 and 2007.

28 **Finance income and costs**

	2008	2007
	RMB'000	*RMB'000*
		(Restated)
Finance income		
Interest income from bank deposits	7,390	9,085
Finance costs		
Interest on bank and other borrowings	315,441	229,097
Interest on convertible bonds and corporate bonds	113,781	15,756
Less: interest expenses capitalised in construction in progress	(190,907)	(104,527)
	238,315	140,326
Other interest expense (Note 22)	23,772	18,087
Other borrowing costs	2,836	326
Net foreign exchange gains	(9,663)	(8,875)
	255,260	149,864

Borrowing costs of RMB190,907,000 (2007: RMB104,527,000) arising on financing specifically arranged for the construction of toll roads and related facilities were capitalised during the year and had been included in additions to construction in progress. Capitalisation rates ranged from 5.93% to 7.05% (2007: 4.86% to 6.48%) per annum were used, representing the borrowing costs of the loans used to finance the projects.

29 **Income tax expenses**

	2008	2007
	RMB'000	*RMB'000*
Current income tax		
— Tax on financial subsides and incentives received by the Group in prior years (Note (c))	39,236	—
— Current income tax	78,483	88,576
	117,719	88,576
Deferred income tax		
— Deferred tax assets arising from taxable financial subsidies (Note 21)	(25,313)	—
— Origination and reversal of temporary differences	(26,149)	(7,358)
— Adjustment to enacted tax rate	—	16,875
Subtotal	(51,462)	9,517
Income tax expense	66,257	98,093

(a) The Corporate Income Tax Law of the People's Republic of China (the "new CIT Law") is effective from 1 January 2008. According to the new CIT Law and the relevant regulations, the income tax rate applicable to the Company and all of its subsidiaries established in the PRC will be gradually increased to 25% over a five-year period from 2008 to 2012. The rates are 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012.

The PRC enterprise income tax charged to the consolidated income statement had been calculated based on the assessable profits of the Company and its subsidiaries located in the PRC of the year at a rate of tax applicable to the respective companies at 18% (2007: 15%).

(b) The applicable tax rate to Mei Wah, a subsidiary of the Company incorporated in Hong Kong, is 17.5% (2007: 17.5%). No provision for Hong Kong profits tax has been made in the financial statements since the subsidiary has no income assessable under Hong Kong profits tax. Maxprofit is incorporated in the British Virgin Islands, which is not subject to profits tax.

(c) Pursuant to the results of a special examination performed on the local tax bureau of Shenzhen, which was conducted by the Shenzhen Finance Supervision Commissioner's Office of the Ministry of Finance in 2008, the Group and one of its jointly controlled entity were collectively demanded by the Futian Tax Bureau in the Notice to pay PRC enterprise income tax back taxes amounting to approximately RMB60,472,000. The amount attributable to the Group is RMB57,986,000 (the "Back Taxes"). The Back Taxes were levied on certain local financial subsidies and incentives granted by local government authorities, obtained and received by the Group in previous years, which were initially exempt from income taxes according to the provisions of certain policies promulgated by the local government authorities. Such exemptions were revoked by the authorities as a result of the examination.

The Company had lodged an application to the Futian Tax Bureau for a reassessment of the computation basis of the Back Taxes, waiver of the related penalty, as well as a deferral of the payment. Subsequently, several rounds of discussion were held between the Company and the Futian Tax Bureau. According to these communications, the directors of the Company consider that the final amount of the Back Taxes would highly probable be reduced by RMB18,750,000. As of the date of approval of these financial statements, the amount of the Back Taxes, the related penalty and the exact settlement arrangements had not yet been finalised.

Accordingly, the Group had recognised a provision for the Back Taxes amounting to RMB39,236,000 as current year income tax expense in the consolidated income statement for the year ended 31 December 2008, based on the best estimate made by the directors of the Company.

In addition, as of the date of approval of these financial statements, no formal notice of such waiver of the related penalty had been issued by the Futian Tax Bureau and other relevant authorities. The amount of the related penalty could not be reasonably ascertained and had not been provided as a liability on the consolidated balance sheet of the Group as of the same date, and was disclosed as contingent liability (see also Note 34).

(d) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2008	2007
	RMB'000	*RMB'000*
Profit before tax	560,785	715,030
Tax calculated at domestic tax rate of 18% applicable to profits (2007: 15%)	100,941	107,255
Tax effects of:		
Adjustment to the enacted tax rate	—	16,875
Effects on deferred income tax as a result of IFRIC 12	(4,581)	(5,685)
Amortisation of transaction costs of convertible bonds	(279)	—
Income not subject to tax	(1,987)	(18,117)
Expenses not deductible for tax purpose	1,233	20,062
Tax losses of which no deferred income tax was recognised	6,394	4,078
Share of profit of jointly controlled entities and associates	(56,254)	(41,507)
Share of losses of jointly controlled entities and associates of which no deferred income tax was recognised	6,867	15,132
Tax Levies on certain local financial subsidies received in previous years (Note (c))	39,236	—
Deferred income tax asset arising from PRC enterprise income tax paid on local financial subsidies received in previous years (Note 21 (b))	(25,313)	—
Income tax expenses	66,257	98,093

30 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB587,531,000 (2007: RMB637,477,000).

The movement of retained earnings of the Company during the year is as follows:

	Company	
	2008	2007
	RMB'000	*RMB'000*
At 1 January, as previously stated	1,328,346	970,210
Adjustment for changes in accounting policies (Note 2.2)	(373,613)	(309,053)
At 1 January, as restated	954,733	661,157
Profit for the year	587,531	637,477
Transfer to reserve fund	(53,737)	(60,410)
Dividend relating to 2007 (2007: relating to 2006)	(348,912)	(283,491)
At 31 December	1,139,615	954,733

31 **Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the number of ordinary shares in issue during the year.

	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	503,195	622,392
Number of ordinary shares in issue (thousands)	2,180,700	2,180,700
Basic earnings per share (RMB per share)	0.231	0.285

The Company had no dilutive potential shares in both 2008 and 2007 and the diluted earnings per share presented is the same with basic earnings per share.

As mentioned in Note 20(c), the Company issued convertible bonds with attached warrants subscription rights in 2007. Though the contingently issuable shares of the Company due to the exercise of the warrants subscription rights by the bonds holders may potentially dilute basic earnings per share in the future, the exercise price of those rights is higher than the prevailing share price of the Company as at 31 December 2008 and therefore, they had not been included in the calculation of diluted earnings per share for the year.

32 **Dividends**

The dividends paid in 2008 and 2007 were RMB348,912,000 (RMB0.16 per share) and RMB283,491,000 (RMB0.13 per share), respectively. The directors recommend the payment of a final dividend of RMB 261,684,000 per ordinary share, totalling RMB 0.12. Such dividend is to be approved by the shareholders at the 2008 Annual General Meeting. This proposed dividends was not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2009.

	2008	2007
	RMB'000	*RMB'000*
Proposed final dividend of RMB 0.12 (2007: RMB0.16) per ordinary share	261,684	348,912

33 **Cash generated from operations**

	2008	2007
	RMB'000	*RMB'000*
Profit for the year from continuing operations	494,528	616,937
Adjustments for:		
— Income tax	66,257	98,093
— Depreciation	56,681	38,654
— Amortisation	147,389	143,978
— Profit from construction services under Service Concessions	—	(23,450)
— Gain on disposal of non-current assets classified as held for sale	—	(1,902)
— Gain on disposal of property, plant and equipment	145	2,126
— Fair value gains on derivative financial instruments	(6,292)	(614)
— Investment income	(1,619)	
— Interest income	(7,390)	(9,085)
— Subsidies from local government	—	(11,103)
— Interest expense	238,315	140,326
— Other interest expenses	23,772	18,087
— Other borrowing costs	2,836	326
— Share of loss of associates	17,127	13,486
— Share of profit of jointly controlled entities	(291,500)	(189,003)
— Exchange gains	(9,663)	(8,875)
— Changes in provision for maintenance/resurfacing obligations	42,641	38,763
Changes in working capital (excluding the effects of acquisition):		
— Inventories	(119)	(333)
— Trade and other receivables	(106,032)	(91,324)
— Other payables	365,363	109,260
Cash generated from operations	1,032,439	884,347

34 **Contingencies**

(a) ***Project Construction Management Contracts***

The Company has entered into certain project construction management contracts with government authorities. For Hengping Project, the Company had arranged a bank to issue irrevocable performance guarantees on its behalf to the Shenzhen Longgang Highway Bureau amounting to RMB15,000,000. The Company also paid a guarantee deposit of RMB9,425,000 to the authority for assuring the progress, quality and safety standards for the construction of the Hengping Project.

For Nanping (Phase II) Project and the renovation project of the Shenyun-North Ring Interchange in Shenzhen, the Company had arranged with banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Communications Bureau amounting to RMB50,000,000 and RMB1,000,000 respectively.

On 8 December 2004, the Company signed a construction contract ("the Contract") with Shenzhen Pengcheng Construction Company Limited ("Shenzhen Pengcheng") for Nanping (Phase I) Project. As disputes concerning the unit prices of some items under the Contract arose that were not resolved by mutual agreement, Shenzhen

Pengcheng applied for arbitration to Shenzhen Arbitration Commission against the Company in 2008. As of the date of approval of these financial statements, the arbitration process was still in progress. The directors had sought advice from the legal counsel and concluded that the result of the arbitration would not lead to any significant adverse impact on the Company's operating results.

(b) ***Penalty on Back Taxes***

As explained in Note 29 (c), the Group had been demanded by the Futian Tax Bureau to pay certain Back Taxes. The Group had lodged an application for a reassessment of the amount of the Back Taxes and a wavier of the related penalty. As of the date of approval of these financial statements, no formal notice of such reassessment/waiver had been issued by the Futian Tax Bureau and other relevant authorities. The directors of the Company had made a provision for the Back Taxes liabilities as of 31 December 2008 in the amount of RMB39,236,000 based on their best estimate. However, the amount of any related penalty could not be ascertained with reasonably certainty.

35 **Commitments**

Capital expenditure and investment commitments at the balance sheet date not yet incurred are as follows:

	2008	**2007**
	RMB'000	*RMB'000*
Capital commitments		
— Expenditure of Concession intangible assets		
— contracted but not provided for	218,892	3,458,803
— authorised but not contracted for	2,218,195	787,374
	2,437,087	4,246,177
Investment commitments		
— contracted but not provided for	45,000	83,750
	2,482,087	4,329,927

In the opinion of the directors, the above commitments could be fulfilled by internal financial resources, banking facilities and external financing arrangement made available to the Group.

36 **Related party transactions**

Shenzhen International Holdings Limited ("Shenzhen International") used to indirectly hold 31.153% interests in the Company. Upon completion of additional 18.868% equity interests in the Company held by Shenzhen Shen Guang Hui Highway Development Company ("Shen Guang Hui"), a shareholder of the Company, on 30 Dec 2008, Shenzhen International began to hold, in aggregate, 50.021% of indirect interests in the Company and it became the ultimate holding company of the Company. Shenzhen International is de facto controlled by Shenzhen Investment Holding Company, which is supervised and managed by the Shenzhen Municipal State-owned Assets Supervision and Administration Commission, which is a state-owned authority.

Apart from the related party transactions and balances in relation to construction management services, payments made for the Yanjiang Project, guarantee for borrowings, and advance and loan received, which have already been disclosed in Notes 15(a), 15(c), 20(b), 23(c) and 23(d) respectively to these financial statements, the following material transactions were carried out with related parties on a normal commercial basis during the year:

(a) ***Bank deposits and interest income***

	2008	**2007**
	RMB'000	*RMB'000*
Bank deposits balance		
State-owned banks	323,064	274,207
Interest income from bank deposits		
State-owned banks	5,379	2,505

(b) ***Borrowings and interest expenses***

	2008	**2007**
	RMB'000	*RMB'000*
Loans from state-owned banks		
Beginning of the year	2,494,755	1,745,162
Acquisition of a subsidiary	—	584,235
New borrowings	2,923,830	3,270,660
Repayments	(677,130)	(3,107,246)
Interest expense	233,726	149,496
Interest paid	(244,984)	(147,552)
End of the year	4,730,197	2,494,755

The loans from state-owned banks are mainly bearing interest rates ranging from 4.27% to 7.047% (2007: 4.86% to 6.723%).

As at 31 December 2008, the secured loans from state-owned banks amounted to RMB3,218,949,000 (2007: RMB1,322,671,000).

(c) ***Capital expenditure and payable balances for construction in progress***

	2008	**2007**
	RMB'000	*RMB'000*
Capital expenditure incurred for service concession projects and construction in progress		
State-owned contractors	1,847,732	2,199,018
Payables for construction projects and guaranteed deposits		
State-owned contractors	1,090,606	221,093

(d) ***Payment of project management service fee***

The Group entered into project management service contracts with Consulting Company, another associate of the Group, under which Consulting Company assumes the management of the reconstruction project of the group. The value of the management service contract is approximately RMB86,327,000. During the year, the Group paid a management fee of approximately RMB17,569,000 (2007: RMB15,260,000) to Consulting Company. The cumulative management fee paid by the Group to Consulting Company amounted to approximately RMB48,666,000 up to 31 December 2008.

(e) ***Toll income collection***

Due to the geographical layout of the toll roads operated by the Group, certain toll gates of the toll roads of the Group and Airport-Heao Eastern Company are overlapping. As a result, the Group and Airport-Heao Eastern Company collect toll income for each other. During the year, the aggregate toll income collected by the Group on behalf of Airport-Heao Eastern was RMB136,891,000 (2007: RMB117,721,000), while the aggregate toll income collected by Airport-Heao Eastern on behalf of the Group was RMB125,043,000 (2007: RMB139,137,000). All toll income collected was paid back to the counterparties within three days after collection without charging any handling fees.

(f) ***Management entrustment***

On 7 January 2008, the Company entered into an operation and management entrustment agreement with Yibin Industrial (Shenzhen) Company Limited ("Yibin Company"), a wholly-owned subsidiary of Shenzhen Investment Holding Company. Pursuant to the agreement, Yibin Company entrusts the Company to manage its 100% equity interest held in Shenzhen Baotong Expressway Construction Company Limited ("Baotong Company") and the 89.93% equity interests held in Shenzhen Longda Expressway Company Limited ("Longda Company") by Baotong Company. The term of the operation and management entrustment agreement commenced on 8 January 2008 and will expire on 31 December 2009. However, Yibin Company retains the legal ownership in and its entitlement to risks and rewards/obligations of the two investee companies. In return for the services rendered, the Company is entitled to a management entrustment fee determined at the higher amount of an annual fee of RMB15 million, or at 8% of the annual audited net profit of Longda Company (but in any event shall not exceed RMB25 million). The management entrustment fee for the year amounted to RMB15,000,000, which was recognised on a pro rata basis based on the minimum agreed annual fee. The amount had been settled by Yibin Company as at 31 December 2008.

(g) ***Key management compensation***

	2008	**2007**
	RMB'000	*RMB'000*
Salaries, bonus and other short-term employee benefits	9,019	7,536

The key management includes directors (executive and non-executive) and senior management and there are in total 21 (2007:18) key management personnel of the Company.

37 **Comparative figures**

Apart from the restatements made based on the changes in accounting policies (Note 2.2), the Group has revised the classification of interest income in the income statement and interest payments in the cash flow statement. The Group previously reported interest income in the income statement as other income and interest payments as cash flows for operating activities in the cash flow statement. The directors of the Company believe that it is more appropriate to classify interest income as finance income in the income statement and interest payments as cash flows for financing activities in the cash flow statement. The comparative figures have been reclassified to conform with the current year presentation. There is no impact on net profit and net cash flows as a result of these reclassifications.

3. ADDITIONAL FINANCIAL INFORMATION OF THE ENLARGED GROUP

Statement of Indebtedness

As at 30 April 2009, being the latest practicable date for ascertaining certain information in this statement of indebtedness, the Enlarged Group had outstanding loans of RMB6,187 million which included secured (or pledged) long-term loans of RMB3,610 million with the toll collection rights of Qinglian Project as security for loans amounting to RMB3,520 million and 55% shareholding of Jade Emperor Limited, a jointly controlled entity of the Group, as security for loans amounting to RMB90 million; guaranteed long-term bank loans of RMB9 million; unsecured (or unpledged) and unguaranteed long-term bank loans of RMB1,885 million; secured (or pledged) short-term bank loans of RMB117 million with a one-year fixed term deposit of RMB116 million as security; and unsecured (or unpledged) and unguaranteed short-term bank loans of RMB566 million.

The Enlarged Group had 6-year-term secured convertible bonds, in which bonds and subscription warrants are tradable separately, in nominal value of RMB1,500 million which were guaranteed by Agricultural Bank of China with a pledge of the 47.3% toll collection rights of Nanguang Expressway by the Company as counter-guarantee; 15-year-term secured corporate bonds in nominal value of RMB800 million which were guaranteed by China Construction Bank, Shenzhen Branch with a pledge of the Company's 100% interests in Shenzhen Meiguan Expressway Company Limited as counter-guarantee; and unsecured and unguaranteed notes payable of RMB109 million.

As at 30 April 2009, the Enlarged Group had equity holders' loans and other net payable balances due to Intersafe with a total principal amount of 173 million. While pursuant to the Agreement, Intersafe conditionally agreed to transfer to the Company and the Company conditionally agreed to acquire from Intersafe the Target Interest, by adopting 31 March 2009 as the reference date for the transfer of interest, all the interests in Jihe East Company owned by Intersafe, including the 45% equity interest in Jihe East Company held by Intersafe and related equity holders' loan owed by Jihe East Company to Intersafe.

At the close of business on 30 April 2009, contingent liabilities of the Enlarge Group comprised the following:

(1) The Company was entrusted by Shenzhen Longgang Highway Bureau to manage the construction of Hengping Class 1 Highway ("Hengping Project"). Pursuant to the entrusted project construction management contract, the Company has arranged banks to issue irrevocable performance guarantees on its behalf to Shenzhen Longgang Highway Bureau in the amount of RMB15,000,000, and has also paid RMB9,425,400 as a guarantee deposit for ensuring the progress, quality and safety standards for the construction of Hengping Project.

    During 2007, the Company also entered into two project construction management contracts with Bureau of Communications of Shenzhen Municipality (representing Shenzhen Municipal Government). The Company was entrusted to manage the construction of the main route of Nanping (Phase II and the renovation project of the Shenyun-North Ring Interchange in Shenzhen. Pursuant to the terms of the relevant contracts, the Company had arranged banks to issue irrevocable performance guarantees on its behalf to Bureau of Communications of Shenzhen Municipality totalling to RMB51,000,000.

(2) Pursuant to the results of special examinations performed on local tax bureaus of Shenzhen conducted by the Shenzhen Finance Supervision Commissioner's Office of the Ministry of Finance in 2008, the Administration of Local Taxation of Shenzhen Municipality Futian Branch issued a notice to the Group. Pursuant to the notice, the Group and Jihe East Company were collectively demanded by the Administration of Local Taxation of Shenzhen Municipality Futian Branch to back-pay taxes of PRC Enterprise Income Tax amounting to RMB60,472,000 (the "Back-pay Taxes"). The Back-pay Taxes pertain to certain local financial subsidies and incentives granted by local government authorities to the Enlarge Group in previous years, which were initially exempt from PRC Enterprise Income Tax according to the regulations promulgated by the local government authorities. According to the notice, such exemptions were revoked by the relevant authorities.

The Company is of the view that the notice was based on an understanding of the recognition of certain tax-paying matters which is different from the Company's understanding. Accordingly, the Company has lodged an application to the Administration of Local Taxation of Shenzhen Municipality for a reassessment of the tax-paying matters stated in the "Notice on Paying Penalties for Taxes before the Deadline" (《限期繳納稅款罰款通知書》) and for a waiver of the related penalty. As at 30 April 2009, the Company and Jihe East Company had not received a formal written approval for the waiver of the penalty, therefore it could not make a reasonable estimate thereof. Accordingly, the Company and Jihe East Company have not made a provision for the relevant liabilities but have disclosed the potential penalty concerned as contingent liabilities.

(3) On 8 December 2004, the Company signed the Sub-contractor Construction Agreement on the 13th Section of Nanping Freeway (Phase I) (the "Contract") with Shenzhen Pengcheng Construction Company Limited ("Shenzhen Pengcheng") for Nanping (Phase I), a project for which the Company was entrusted by the Shenzhen Government to manage the construction. There were disputes concerning the unit prices of some items under the Contract that could not be resolved by mutual agreement, Shenzhen Pengcheng applied for arbitration to the Shenzhen Arbitration Commission against the Company. As at 30 April 2009, the arbitration process was still in progress. According to the terms of the Contract and the advice from the Company's legal counsel, the directors concluded that the result of the arbitration would not lead to any significant impact on the Company's operating results.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have, at the close of business on 30 April 2009, any mortgages, charges, debentures, debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding borrowings or indebtedness in the nature of borrowing including term loans, bank overdrafts, liabilities under acceptances, acceptance credits, hire purchase and finance lease commitments or other similar indebtedness, or any guarantees or other material contingent liabilities.

Working Capital Sufficiency

Taking into account the expected completion of the Transaction, and the financial resources available to the Enlarged Group, including the internally generated funds and the available banking facilities, the directors of the Company are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

Financial and Operational Prospect of the Group

China is in a stage of rapid industrialization and urbanization. With its huge domestic market size, enormous investment potential and the ever-improving macro economic control measures, the overall trend of continued growth for China's economy will not change in the long term. However, in the short term, especially in 2009, China's economy will continue to be impacted by the financial tsunami, and there is a risk that the impact may escalate further. Meanwhile, during the implementation of the first five-year strategic plan, the Company has adopted active expansion strategies, and so its assets scale has expanded rapidly while its gearing ratio has risen significantly. As its neighboring road networks could not be enhanced concurrently and new projects were still in their cultivation stage, the Company is facing downward pressure on its return on net assets and net profits.

Although the macro economy will still face significant uncertainties in the short term, the Central Government and local government at various levels have successively initiated measures to expand domestic demand and boost economic growth in response to the impact of the financial tsunami, and these measures are beneficial to revitalizing economy and shortening the economic revival period. Since 2009, the State has adopted a fuel tax policy removing six charges including road maintenance charges, while oil prices have been decreasing gradually. The decrease in vehicle usage costs and the increase in traffic efficiency of expressways are beneficial to attracting more vehicles to travel on expressways. In addition, the relatively relaxed credit environment at present, the increase in financing products and a relaxation of restrained conditions recently, bring forth the opportunities for the Company to optimize capital and debt structure and reduce financing costs. Under the prevailing situation where opportunities and challenges coexist, the Group will continue to adopt a prudent investment strategy, a sound financial strategy and a pro-active business strategy to realize a sustainable and healthy development of the Company.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma statement of assets and liabilities of the Enlarged Group which has been prepared based on the audited consolidated balance sheet of the Group as set out in the published annual report of the Group for the year ended 31 December 2008 after making pro forma adjustments as set out in Notes 2 to 6 below.

This unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to illustrate the effects of the Transaction, as if the Transaction had taken place on 31 December 2008. It has been prepared on the basis of the notes set out below and is consistent with the accounting policies adopted by the Group.

The unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Transaction been completed as at 31 December 2008 or any future date.

(a) **Unaudited pro forma consolidated assets and liabilities of the Enlarged Group**

	Audited consolidated assets and liabilities of the Group as at 31 December 2008	Audited assets and liabilities of Jihe East Company as at 31 December 2008	Pro forma adjustments Other adjustment	Other adjustment	Other adjustment	Other adjustment	Unaudited pro forma consolidated assets and liabilities of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
ASSETS							
Non-current assets							
Property, plant and equipment	696,976	49,306	—	—	—	—	746,282
Investment properties	18,132	—	—	—	—	—	18,132
Construction in progress	267,562	2,352	—	—	—	—	269,914
Concession intangible assets	13,777,469	966,859	—	2,344,852	—	—	17,089,180
Prepaid lease payments	15,912	—	—	—	—	—	15,912
Investments in jointly controlled entities	1,212,980	—	1,147,952	—	1,024,845	(2,556,632)	829,145
Investments in associates	1,264,681	—	—	—	—	—	1,264,681
Deferred income tax assets	—	43,338	—	(32,489)	—	—	10,849
	17,253,712	1,061,855	1,147,952	2,312,363	1,024,845	(2,556,632)	20,244,095
Current assets							
Inventories	3,075	281	—	—	—	—	3,356
Trade and other receivables	323,626	11,424	—	—	—	—	335,050
Restricted cash	140,580	—	—	—	—	—	140,580
Cash and cash equivalents	536,293	78,572	(50,000)	—	—	—	564,865
Derivatives financial instruments	6,292	—	—	—	—	—	6,292
	1,009,866	90,277	(50,000)	—	—	—	1,050,143
Total assets	18,263,578	1,152,132	1,097,952	2,312,363	1,024,845	(2,556,632)	21,294,238

			Pro forma adjustments				
	Audited consolidated assets and liabilities of the Group as at 31 December 2008	**Audited assets and liabilities of Jihe East Company as at 31 December 2008**	**Other adjustment**	**Other adjustment**	**Other adjustment**	**Other adjustment**	**Unaudited pro forma consolidated assets and liabilities of the Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
LIABILITIES							
Non-current liabilities							
Borrowings	6,903,730	—	1,097,952	—	—	—	8,001,682
Deferred income tax liabilities	390,279	—	—	610,580	—	—	1,000,859
Equity holders' loans — long-term portion	—	192,905	—	—	—	(192,905)	—
Provision for maintenance/ resurfacing obligations	304,133	369,789	—	(129,956)	—	—	543,966
	7,598,142	562,694	1,097,952	480,624	—	(192,905)	9,546,507
Current liabilities							
Other payables and accrued expenses	1,735,603	35,081	—	—	—	—	1,770,684
Equity holders' loans — current portion	—	36,799	—	—	—	(36,799)	—
Current income tax liabilities	58,716	17,764	—	—	—	—	76,480
Borrowings	1,118,976	—	—	—	—	—	1,118,976
	2,913,295	89,644	—	—	—	(36,799)	2,966,140
Total liabilities	10,511,437	652,338	1,097,952	480,624	—	(229,704)	12,512,647
Net assets	7,752,141	499,794	—	1,831,739	1,024,845	(2,326,928)	8,781,591

(b) **Notes to unaudited pro forma financial information of the Enlarged Group**

1. The amounts are extracted from the audited consolidated balance sheet of the Group as at 31 December 2008.

2. The adjustment represents the inclusion of the balances of assets and liabilities of Jihe East Company as at 31 December 2008 as extracted from the accountant's report of Jihe East Company as set out in Appendix IIIA of this circular.

3. The Company held 55% equity interest in Jihe East Company previously. The adjustment represents the total purchase consideration for the Transaction amounting to RMB1,147,952,000, comprising the purchase price for the Target Interest amounting to RMB1,068,800,000 and the income tax payable by Intersafe estimated to be RMB79,152,000 resulting from the gains derived by Intersafe in its disposal of the Target Interest, which the Company agrees to reimburse to Intersafe. The purchase consideration will be satisfied by a cash payment of RMB50,000,000 and financed by a bank borrowing of RMB1,097,952,000.

4. Upon completion of the Transaction, the identifiable assets and liabilities of Jihe East Company will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting in accordance with Hong Kong Financial Reporting Standard No. 3 "Business Combinations" ("HKFRS 3").

   The pro forma adjustment represents fair value adjustments and the corresponding estimated deferred income tax liabilities resulting from the Transaction. The fair value adjustments include the appreciation of concession intangible assets, the change to the provision for maintenance/resurfacing obligations and related deferred income tax assets, which are determined based on the fair value of the assets and liabilities of Jihe East Company as at 31 December 2008 estimated by the directors of the Company with reference to the valuation report issued by Jones Lang LaSalle Sallmanns Limited on Jihe East Company as at 31 March 2009.

   The fair value of the identifiable assets and liabilities of Jihe East Company acquired was larger than the purchase consideration and accordingly, the negative goodwill is recognised in the income statement in accordance with HKFRS 3.

   The fair value of the identifiable assets and liabilities of Jihe East Company at the date of completion may be substantially different from the estimated fair value used in the preparation of this unaudited pro forma financial information. Accordingly, the actual amount of excess of fair value of net assets acquired over purchase consideration may be different from the amount as adopted in this unaudited pro forma financial information.

5. It represents the fair value adjustment of the assets and liabilities of Jihe East Company attributable to the 55% equity interests in Jihe East Company originally held by the Company as at 31 December 2008.

6. Jihe East Company would become a wholly-owned subsidiary of the Company upon the completion of the Transaction. From then onwards, Jihe East Company should begin to be consolidated by the Company in accordance with the accounting policies of the Group.

   The adjustment reflects the elimination of the owners' equity and equity holders' loans of Jihe East Company and the investment of the Company in Jihe East Company which was previously accounted for as an interest in a jointly controlled entity.

7. Apart from the Transaction, no adjustment has been made to reflect any results or transactions of the Group and Jihe East Company which were entered into subsequent to 31 December 2008.

B. REPORT FROM THE REPORTING ACCOUNTANT

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group for the purpose of incorporation in this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF SHENZHEN EXPRESSWAY COMPANY LIMITED

We report on the unaudited pro forma financial information set out on pages 154 to 158 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix V of the circular dated 23 June 2009 (the "Circular") of Shenzhen Expressway Company Limited (the "Company"), in connection with the proposed acquisition of 45% equity interest in Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited (深圳機荷高速公路東段有限公司) (the "Transaction") by the Company. 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 Transaction might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 154 to 158 of the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) 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 engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated assets and liabilities of the Group as at 31 December 2008 with the audited consolidated financial statements of the Group for the year ended 31 December 2008, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2008 or 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 rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 23 June 2009

Set out below are the text of the letter received from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong and the text of the letter issued by the Company, both relating to the discounted future estimated cash flows, for the purpose of inclusion in this circular.

A. REPORT FROM REPORTING ACCOUNTANT ON DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF THE TARGET COMPANY

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

REPORT FROM REPORTING ACCOUNTANT ON DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF THE TARGET COMPANY

The Directors
Shenzhen Expressway Company Limited

Dear Sirs,

We have been engaged to report on the calculations of the discounted future estimated cash flows on which the business valuation (the "Valuation") dated 18 June 2009 prepared by Jones Lang LaSalle Sallmanns Limited in respect of the appraisal of the fair value of the 100% equity interests in Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited (the "Target Company"), is based. The Valuation is set out in Appendix I of the circular of Shenzhen Expressway Company Limited (the "Company") dated 23 June 2009 (the "Circular") in connection with the acquisition by the Company of 45% equity interest in the Target Company. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and as set out on pages 30 to 35 of the Circular. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting Accountant's Responsibility

It is our responsibility to report, as required by rule 14.62(2) of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions as set out on pages 30 to 35 of the Circular. We reviewed the arithmetical calculation and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted future estimated cash flows do not involve the adoption of accounting policies. The discounted future estimated 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. Our work has been undertaken for the purpose of reporting solely to you under rule 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in all material respects in accordance with the bases and assumptions made by the directors of the Company as set out on pages 30 to 35 of the Circular.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 23 June 2009

B. LETTER OF THE COMPANY ON DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF JIHE EAST 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 People's Republic of China with limited liability)

(Stock Code: 00548)

23 June 2009

Rules 14.62 and 14.71 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

We refer to the report of business valuation prepared by Jones Lang LaSalle Sallmanns Limited ("Sallmanns") in relation to the appraisal of the fair market value of 深圳機荷高速公路東段有限公司 (Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited) (the "Business Valuation") as set out in Appendix IV of the circular (the "Circular") issued by Shenzhen Expressway Company Limited (the "Company") dated 23 June 2009.

We have reviewed the Business Valuation for which Sallmanns are responsible and discussed with Sallmanns on different aspects in relation thereto including the bases and assumptions upon which the Business Valuation has been prepared. We have also considered the letter from PricewaterhouseCoopers, our reporting accountants, dated 23 June 2009 addressed to us 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.

Yours faithfully,
For and on behalf of
Shenzhen Expressway Company Limited
Yang Hai
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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

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 and 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 and 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:

Long positions in ordinary shares of Shenzhen International

Name of Directors	Number of ordinary shares held	Approximately % of issued share capital of Shenzhen International	Nature of interests	Capacity
Li Jing Qi	20,000,000	0.14%	Personal	Beneficial owner

Interests in share option of Shenzhen International

Name of Directors	Share option unexercised as at 1 January 2009	Number of share option granted during 2009	Number of share option exercised during 2009	Share option unexercised as at the Latest Practicable Date	Nature of interest	Capacity
Yang Hai	10,000,000	Nil	Nil	10,000,000	Personal	Beneficial owner
Li Jing Qi	27,210,000	Nil	Nil	27,210,000	Personal	Beneficial owner
Tse Yat Hong	9,500,000	Nil	Nil	9,500,000	Personal	Beneficial owner

The share options above granted to Mr. Li Jing Qi, Mr. Yang Hai and Mr. Tse Yat Hong were granted on 19 January 2005 and are exercisable from 19 January 2005 to 11 January 2010 at an exercise price of HK$0.282 per share of Shenzhen International.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors and chief executives of the Company was 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 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.

Mr. Yang Hai and Mr. Li Jing Qi are executive directors of Shenzhen International. Mr. Zhao Jun Rong is a vice-president of Shenzhen International and Mr. Tse Yat Hong is the chief financial controller of Shenzhen International.

3. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates were interested in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

4. INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors or Supervisors is materially interested in any contracts or arrangement entered into by any members of the Enlarged Group which is subsisting at the date of this circular and which is significant in relation to the business of the Enlarged Group.

None of the Directors or Supervisors has any direct or indirect interest in any assets which have been, since 31 December 2008, 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 Enlarged Group, or are proposed to be acquired or disposed of by, or leased to any members of the Enlarged Group.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, the date to which the latest published audited consolidated financial statements of the Group have been made up.

6. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group. In 2008, there was an immaterial arbitration against the Company, and the details of which is set out in note 34 of the Financial Information of the Group in Appendix IV.

7. 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 2009 to 31 December 2011. 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 Enlarged Group and the Directors.

8. EXPERTS

(a) The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	**Qualification**
Cinda	a deemed licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
PwC	certified public accountants
PBA	traffic consultants
Sallmanns	valuer

(b) As at the Latest Practicable Date, each of Cinda, PwC, PBA and Sallmanns had no beneficially shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group.

(c) Each of Cinda, PwC, PBA and Sallmanns 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 is included.

(d) As at the Latest Practicable Date, each of Cinda, PwC, PBA and Sallmanns was not interested, directly or indirectly, in any assets which had since 31 December 2008 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group.

(e) The letter from Cinda dated 23 June 2009 is set out on pages 16 to 29 of this circular.

(f) The letter from Sallmanns dated 23 June 2009 is set out in Appendix I to this circular.

(g) The letter from PBA dated 23 June 2009 is set out in Appendix II to this circular.

(h) The accountant's report of Jihe East Company is set out in Appendix IIIA to this circular.

(i) The unaudited pro forma financial information of the Enlarged Group is set out in Appendix V to this circular.

9. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and are, or may be, material:

(a) the Agreement;

(b) the main underwriter and sponsor agreement dated 14 September 2007 entered into between CITIC Securities Co., Ltd (中信證券股份有限公司) and the Company relating to the public offering of convertible corporate bonds, in which bonds and subscription warrants are tradable separately, in the aggregate amount of RMB1,500,000,000;

(c) the agreement dated 24 June 2008 entered into between the Shenzhen Longhua Branch of Bank of China (中國銀行股份有限公司深圳龍華支行) and the Company, pursuant to which the Company agreed to charge the one-year-fixed-term deposit of RMB116,000,000 as security for the HK$133,000,000 loan made by the aforesaid bank to the Company and the accrued interests;

(d) the agreement dated 11 July 2008 entered into between the Shenzhen Branch of Agricultural Bank of China (中國農業銀行深圳市分行) and the Company, pursuant to which the Company agreed to charge 47.3% of its toll collection rights of Nanguang Expressway to the aforesaid bank as counter-guarantee for the unconditional and irrevocable joint-liability guarantee provided by the aforesaid bank for the redemption of the convertible corporate bonds, in which bonds and subscription warrants are tradable separately, in the aggregate amount of RMB1,500,000,000 upon maturity;

(e) the agreement dated 8 July 2008 entered into between the Shenzhen Branch of Industrial and Commercial Bank of China (中國工商銀行股份有限公司深圳市分行) and the Company, pursuant to which the Company agreed to charge 52.7% of its toll collection rights of Nanguang Expressway to the aforesaid bank as security for its RMB1,500,000,000 loan to the Company; and

(f) the agreement dated 29 May 2009 entered into between the Shenzhen Branch of Industrial and Commercial Bank of China (中國工商銀行股份有限公司深圳市分行) and the Company, pursuant to which the Company agreed to charge its 40% of its interests in Shenzhen QingLong Expressway Co., Ltd (深圳清龍高速公路有限公司) to the aforesaid bank as security for its RMB1,500,000,000 loan to the Company. This agreement was entered into between the parties to replace the agreement as mentioned in paragraph (e) above.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Suites 2201-2203, 22/F., Jardine House, 1 Connaught Place, Central, Hong Kong up to and including 8 July 2009:

(a) the Agreement dated 1 June 2009;

(b) the articles of association of the Company and its attachments thereto;

(c) the annual reports of the Company for the two years ended 31 December 2007 and 2008;

(d) the letters of consent from each of Cinda, PwC, PBA and Sallmanns;

(e) the accountant's report of Jihe East Company, the text of which is set out in Appendix IIIA to this circular;

(f) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V to this circular;

(g) the letters from PwC and the Company on discounted future estimated cash flows in connection with the business valuation of Jihe East Company, the text of each of which is set out in Appendix VI to this circular;

(h) the business valuation report by Sallmanns, a summary of which is set out in Appendix I to this circular;

(i) the traffic study report prepared by PBA, a summary of which is set out in Appendix II to this circular;

(j) the service contracts referred to in this Appendix;

(k) the material contracts referred to in this Appendix; and

(l) all circulars issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which have been issued since the date to which the latest published audited consolidated financial statements of the Group have been made up (i.e. 31 December 2008).

11. MISCELLANEOUS

(a) The company secretary of the Company is Ms. Wu Qian, and she possesses the qualification of PRC Certified Public Accountant.

(b) The legal address of the Company is situated at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, PRC. The place of business of the Company in Hong Kong is at Suites 2201-2203, 22/F., Jardine House, 1 Connaught Place, Central, Hong Kong.

(c) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.