**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in **Shenzhen Expressway Company Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or to the 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: 548)**

## MAJOR AND CONNECTED TRANSACTION
## PROPOSED FURTHER ACQUISITION OF QINGLIAN COMPANY

**Financial Adviser to Shenzhen Expressway Company Limited**

**GD Guangdong Securities Limited**

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

**SC**

**South China Capital Limited**

A letter from the Independent Board Committee is set out on page 18 of this circular. A letter from South China, the independent financial adviser, is set out on pages 19 to 38 of this circular.

A notice convening an extraordinary general meeting (the "EGM") of Shenzhen Expressway Company Limited (the "Company") to be held at the meeting room of the Company at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, the People's Republic of China at 9:30 a.m. on 12 June 2006 (Monday) is set out on pages 170 to 172 of this circular. A form of proxy is also enclosed. Whether or not you intend to attend the said meeting, you are requested to complete the proxy in accordance with the instructions printed thereon and return the same to the registrar of H shares of the Company, Hong Kong Registrars Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or to the Company at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, the People's Republic of China as soon as possible and in any event not less than 24 hours before the holding of the EGM. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the EGM or any adjourned meeting(s) should you so wish.

25 April 2006

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# DEFINITIONS

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

| | |
|---|---|
| "associate(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Board" | the board of Directors |
| "Company" | Shenzhen Expressway Company Limited (深圳高速公路股份有限公司), a joint stock limited company incorporated in the PRC with limited liability of which the H Shares are listed on the Stock Exchange and of which the A Shares are listed on the Shanghai Stock Exchange |
| "Completion" | completion of the SE Acquisition |
| "Deloitte Touche Tohmatsu" | Deloitte Touche Tohmatsu, Certified Public Accountants registered in Hong Kong |
| "Directors" | the directors of the Company |
| "EGM" | the extraordinary general meeting of the Company to be held at the meeting room of the Company at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, PRC at 9:30 a.m. on 12 June 2006 (Monday) for the purpose of considering, and if thought fit, approving the Transfer Agreement and the SE Acquisition contemplated thereunder |
| "Enlarged Group" | the Group as enlarged by the SE Acquisition upon the Completion |
| "First Acquisition" | the acquisition of a total of 56.28% equity interest in Qinglian Company, of which details had been set out in the circular of the Company dated 6 April 2005 |
| "GDRB Company" | Guangdong Roads and Bridges Construction Development Company Limited (廣東省路橋建設發展有限公司), a company incorporated in the PRC with limited liability |
| "Group" | The Company, its subsidiaries and jointly controlled entities |
| "Guangdong Securities" | Guangdong Securities Limited, a licensed corporation to carry on Types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (assets management) regulated activities for the purpose of SFO, being financial adviser to the Company in relation to the SE Acquisition |
| "Guangzhou Cement" | Guangzhou Cement Joint Stock Limited Company (廣州水泥股份有限公司), a company incorporated in the PRC with limited liability, and is an Independent Third Party |

| | |
|---|---|
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | Hong Kong Special Administrative Region of the PRC |
| "Independent Board Committee" | the independent committee of the Directors comprising all the independent non-executive Directors, namely Messrs. Li Zhi Zheng, Zhang Zhi Xue, Poon Kai Leung, James and Wong Kam Ling |
| "Independent Shareholders" | Shareholders other than GDRB Company and its associates |
| "Independent Third Party" | person who, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, is third party independent of and is not connected person of the Company and its subsidiaries, its directors, chief executive, promoters, supervisors or substantial shareholders or their respective associates |
| "Latest Practicable Date" | 19 April 2006 being the latest practicable date before the printing of this circular for ascertaining information in this circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Maxprofit" | Maxprofit Gain Limited (高匯有限公司), a company incorporated in the British Virgin Islands with limited liability and indirectly wholly-owned by the Company |
| "Mei Wah" | Mei Wah Industrial (Hong Kong) Limited (美華實業(香港)有限公司), a company incorporated in Hong Kong with limited liability and wholly-owned by the Company |
| "PBA" | Parsons Brinckerhoff (Asia) Limited, an independent traffic consultant engaged by the Company |
| "PRC" | the People's Republic of China which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and the Taiwan region |
| "Qinglian Class One Highway" | a first grade highway which runs for 215.846 kilometers from Feng Tou Ling, Lian Zhou City (連州市鳳頭嶺) to Jing Kou Town, Qing Xin County, Qingyuan City (清遠市清新縣逕口鎮); |
| "Qinglian Class 2 Road" | a second grade highway which runs parallel to Qinglian Class One Highway for 253 kilometers from Feng Tou Ling, Lian Zhou City (連州市鳳頭嶺) to Jing Kou Town, Qing Xin County, Qingyuan City (清遠市清新縣逕口鎮) |

| | |
|---|---|
| "Qinglian Company" | Guangdong Qinglian Highway Development Company Limited (廣東清連公路發展有限公司), a Sino-foreign cooperative joint venture established in the PRC with limited liability |
| "Qinglian Highways" | the Qinglian Class One Highway and Qinglian Class 2 Road |
| "RMB" | renminbi, the lawful currency of the PRC |
| "Sallmanns" | Sallmanns (Far East) Limited, the independent valuer in respect of the SE Acquisition |
| "Share(s)" | share(s) of the Company |
| "SE Acquisition" | the acquisition of the SE Interests by the Company from Yueqing Liquidation Committee |
| "SE Interests" | the 20.09% shareholder's interest (including all the capital investment, shareholder's loan and interest, and all other rights) of Yueqing in Qinglian Company |
| "SFO" | The Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| "Shareholder(s)" | shareholders of the Company |
| "South China" | South China Capital Limited, a deemed licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity for the purpose of SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the SE Acquisition |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Transfer Agreement" | the agreement entered into between the Company and the Yueqing Liquidation Committee on 8 February 2006 relating to the SE Acquisition |
| "Yueqing" | Qingyuan City Yueqing Highway Construction and Development Company Limited (清遠市粵清公路建設發展有限公司), a company incorporated in the PRC with limited liability |
| "Yueqing Liquidation Committee" | the liquidation committee of Yueqing |
| "%" | per cent |

*Note: For the purpose of this circular, foreign currency amounts have been converted into Hong Kong dollars using an exchange rate of HK$1 = RMB1.04.*

深圳高速公路股份有限公司
# SHENZHEN EXPRESSWAY COMPANY LIMITED
*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*
**(Stock Code: 548)**

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

*Non-executive Directors:*
Mr. Li Jing Qi
Mr. Wang Ji Zhong
Mr. Liu Jun
Mr. Lin Xiang Ke
Ms. Zhang Yang
Mr. Chiu Chi Cheong, Clifton

*Independent non-executive Directors:*
Mr. Li Zhi Zheng
Mr. Zhang Zhi Xue
Mr. Poon Kai Leung, James
Mr. Wong Kam Ling

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

*Place of business in Hong Kong:*
Suites 2911-2912
29th Floor
Two International Finance Centre
No. 8 Finance Street
Central
Hong Kong

25 April 2006

*To the Shareholders*

Dear Sirs or Madams,

**MAJOR AND CONNECTED TRANSACTION**
**PROPOSED FURTHER ACQUISITION OF QINGLIAN COMPANY**

## INTRODUCTION

The Directors announced that on 8 February 2006, the Company entered into the Transfer Agreement with the Yueqing Liquidation Committee for the acquisition of Yueqing's 20.09% equity interest in Qinglian Company, together with all its shareholder's loan and all other distributable (but not yet distributed) interests in Qinglian Company at a cash consideration of RMB484,000,000 (approximately HK$465,384,615). Upon Completion, the Company will be directly and indirectly holding 76.37% equity interest in Qinglian Company and Qinglian Company will be accounted for as a subsidiary of the Company.

The SE Acquisition constitutes a major transaction for the Company under the Listing Rules. Since Yueqing is an associate of GDRB Company, which is a promoter of the Company, Yueqing is considered as a connected person of the Company and the SE Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The SE Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. Since GDRB Company, who holds approximately 2.84% equity interest in the Company, has interests in the SE Acquisition, GDRB Company and its associates will abstain from voting at the EGM on the relevant resolution approving the Transfer Agreement and the SE Acquisition contemplated thereunder. Apart from GDRB Company and its associates, no other Shareholder is required to abstain from voting on the relevant resolution at the EGM, which will be carried out by way of poll.

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

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

**TRANSFER AGREEMENT**

Yueqing authorized Guangzhou Assets Transfer Centre (廣州產權交易所) to sell its 20.09% shareholder's interest (including all the capital investment, shareholder's loan and interest, and all other rights) in Qinglian Company on 27 June 2005. The minimum price for the sale was set at RMB484,000,000 (approximately HK$465,384,615). A notice for the intended sale of the 20.09% interest in Qinglian Company was posted through Guangzhou Assets Transfer Centre (廣州產權交易所) on 3 July 2005. Pursuant to the Provisional Rules for the transfer and management of state assets of enterprises (企業國有產權轉讓管理暫行辦法), the transfer of state assets by enterprises shall be openly conducted through assets transfer centre with certain exceptions. As Yueqing is a state-owned company and its interest in Qinglian Company is considered as "state assets", Yueqing has to engage an assets transfer centre to conduct the transfer of its interest in Qinglian Company. During the offer period, save and except the bidding offer from the Company, there was no bidding offer from any other persons. Since Yueqing is in the process of liquidation, the Yueqing Liquidation Committee has been set up and it has the authority to deal with the assets of Yueqing. Against this background, the Company entered into the Transfer Agreement with the Yueqing Liquidation Committee.

Guangzhou Assets Transfer Centre (廣州產權交易所) is a regional institution approved by the provincial and city people's governments to engage in assets dealings, public auctions and ancillary services.

**Date of Transfer Agreement**

8 February 2006

**Parties**

(1) the Company; and

(2) the Yueqing Liquidation Committee.

On 8 February 2006, the Company entered into the Transfer Agreement with Yueqing Liquidation Committee for the acquisition of Yueqing's 20.09% equity interest in Qinglian Company, together with RMB198,809,120 (approximately HK$191,162,615) shareholder's loan previously extended by Yueqing to Qinglian Company and all other distributable (but not yet distributed) interests (including, but not limited to, the accrued interest of shareholder's loan as of 31 December 2005 of approximately RMB121,668,000 (approximately HK$116,988,462) as per the audited account of Qinglian Company) in Qinglian Company.

GDRB Company (the promoter of the Company holding approximately 2.84% equity interest of the Company) holds more than 50% equity interest in Yueqing. Yueqing is an investment holding company whose major asset is the SE Interests in Qinglian Company. According to the articles of association of Qinglian Company, Yueqing contributed RMB241,038,000 (approximately HK$231,767,308) as registered capital in Qinglian Company and RMB198,809,120 (approximately HK$191,162,615) as shareholder's loan to Qinglian Company. Since Yueqing is in the process of liquidation, the Yueqing Liquidation Committee has been set up and it has the authority to sell the assets of Yueqing.

**Consideration**

The consideration for the SE Acquisition is RMB484,000,000 (approximately HK$465,384,615) payable within 12 working days upon conditions precedent stated in the Transfer Agreement being fulfilled and that the registration of the equity transfer under the Transfer Agreement being completed with the original registration authority (i.e. the Administrative Bureau of Industry and Commerce of Qingyuan City (清遠市工商行政管理局)).

In case the Company defaults in payment of the consideration pursuant to the Transfer Agreement, the Company is liable to pay a daily default payment of 0.03% of the unpaid portion of the consideration from the date of default to the Yueqing Liquidation Committee.

The consideration of the SE Acquisition is the minimum bidding price set by Yueqing through Guangzhou Assets Transfer Centre (廣州產權交易所). Being compared with Yueqing's contribution of RMB241,038,000 (approximately HK$231,767,308) to the registered capital of Qinglian Company and the shareholder's loan of RMB198,809,120 (approximately HK$191,162,615), a total of RMB439,847,120 (approximately HK$422,929,923), the minimum bidding price set by Yueqing, RMB484,000,000 (approximately HK$465,384,615) represents a premium of approximately 10% to the aggregate amount Yueqing invested into Qinglian Company. The minimum bidding price was set by Yueqing and the Company offered this price which in return was the consideration pursuant to the SE Acquisition. To consider whether to accept the minimum bidding price, the Directors had considered the control over the operation and management of Qinglian Company and the decrease of average investment cost for increasing the equity interest to 76.37% in Qinglian Company. Based on the above together with the estimated market value of 20.09% equity interest of Qinglian Company of approximately RMB662 million (approximately HK$637 million) (estimated market value of Qinglian Company as at 31 January 2006 was approximately RMB3.3 billion (approximately HK$3.17 billion) and the summary of the valuation is included in Appendix I to the circular), the Directors consider the minimum bidding price is fair and reasonable and in the interest of the Shareholders as a whole.

The consideration represents a premium of 397.5% to the audited net asset value of Qinglian Company of approximately RMB97,293,660 (approximately HK$93,551,596) as at 31 December 2005 attributable to the 20.09% equity interest of Qinglian Company (prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certificate Public Accountants (the "HKIPCPA")). The consideration will be satisfied in cash by internal resources and borrowings of the Company. The Company will determine and split the payment of the consideration between its internal resources and borrowings by reference to its available banking facility and working capital resources at the time of payment. The Transfer Agreement was entered into on normal commercial terms after arm's length negotiation between the parties. The Directors including the independent non-executive Directors consider that the terms of the Transfer Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

There is no restriction in the Transfer Agreement restricting any party from subsequent sale of its equity interest in Qinglian Company.

**Conditions Precedent**

The Transfer Agreement is conditional upon the following conditions precedent:

(a) debtors of Yueqing (including but not limited to the taxation authority, employees and others debtors of Yueqing) do not object to the transfer of interests under the Transfer Agreement in accordance with the liquidation procedure under the Company Law of the PRC; and that the shareholders of Yueqing have given approval for the liquidation proposal of Yueqing (including but not limited to the disposal of interests under the Transfer Agreement) at a general meeting;

(b) approval of the Independent Shareholders at a general meeting of the Company being given for the Transfer Agreement and the transaction contemplated thereunder; and

(c) all other necessary third party consents, approvals and filings for the Transfer Agreement being obtained, including but not limited to the issue of the certificate of approval of foreign investment by the Department of Foreign Trade and Economic Cooperation of Guangdong Province (廣東省對外貿易經濟合作廳).

Should any of the aforesaid conditions not be fulfilled on or before 31 December 2006, the Transfer Agreement shall automatically lapse. The Company shall have the rights at its absolute discretion to waive any of the above conditions precedent. As at the date of this circular, the Company has no intention to waive any of the above conditions.

**Guarantee**

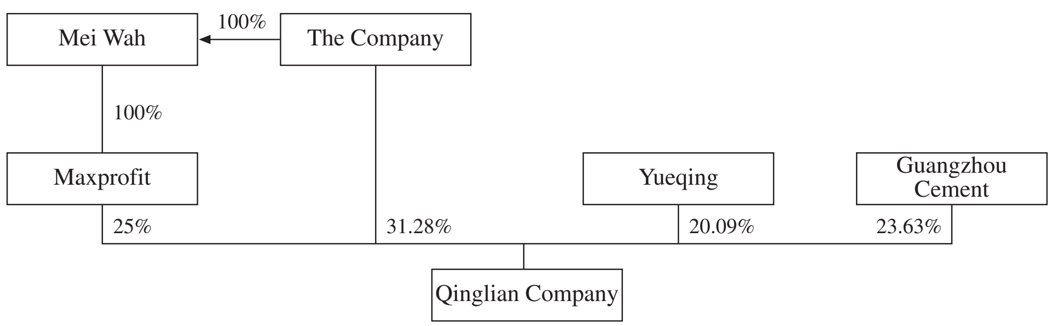
GDRB Company agrees to guarantee, inter alia, (1) the performance of obligations of the Yueqing Liquidation Committee under the Transfer Agreement; (2) the board of directors of Qinglian Company to approve the transfer under the Transfer Agreement; and (3) the other shareholders of Qinglian Company to waive their pre-emptive right in purchasing the 20.09% equity interest held by Yueqing, by a letter of guarantee executed on 8 February 2006.

Although the subject matter of the above guarantee is not in the control of GDRB Company, being the majority shareholder of Yueqing, it will procure the relevant parties to perform under the Transfer Agreement as mentioned above. In the event that the guarantee set out in the letter of guarantee is not complied with, GDRB shall repay to the Company all the indebtedness and costs and indemnify the Company from all economic loss arising therefrom.

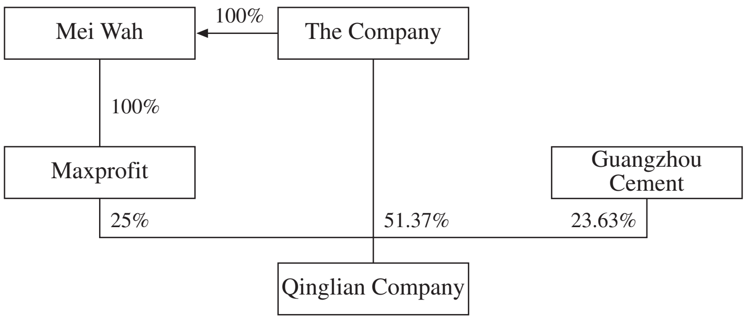
**SHAREHOLDING STRUCTURE OF QINGLIAN COMPANY**

Set out below are the shareholding structures of Qinglian Company prior to and immediately following the SE Acquisition:

**Before Completion of the SE Acquisition**



**After Completion of the SE Acquisition**




## INFORMATION ON THE COMPANY

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

## INFORMATION OF YUEQING AND YUEQING LIQUIDATION COMMITTEE

Yueqing is an investment holding company whose major asset is the SE Interests in Qinglian Company. It invested in Qinglian Company since February 1995 and is an initial investor on the establishment of Qinglian Company.

Yueqing Liquidation Committee is set up in January 2006 according to the Company Law of the PRC and is responsible for the arrangement of the liquidation process of Yueqing.

## INFORMATION ON QINGLIAN COMPANY

Qinglian Company is a Sino-foreign co-operative joint venture which was established on 23 February 1995 in Guangdong, the PRC for a term of 33 years starting from 23 February 1995. Its business scope is the construction and operation of the Qinglian Highways and the related facilities. Its principal and only significant assets consist of the Qinglian Highways and the related facilities.

Pursuant to the First Acquisition, the Company together with its wholly owned subsidiary, Mei Wah acquired a total of 56.28% equity interest (together with all the shareholder's loans and interests) in Qinglian Company at an aggregate consideration of RMB1,839,200,000 (approximately HK$1,768,461,538). The aggregate consideration of the First Acquisition represented a premium of 579.4% to approximately RMB270,719,182 (approximately HK$260,306,906), the audited net asset value of Qinglian Company as at 31 December 2004 attributable to the 56.28% equity interest in Qinglian Company (prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKIPCPA) and the consideration of the SE Acquisition represents a premium of 397.5% to approximately RMB97,293,660 (approximately HK$93,551,596), the audited net asset value of Qinglian Company as at 31 December 2005 attributable to the 20.09% equity interest of Qinglian Company (prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKIPCPA).

**i. Share of net distributable profits**

According to the joint venture contract of Qinglian Company dated 11 November 1994 and its 11 supplemental agreements, the annual net distributable profit of Qinglian Company shall be paid according to the following schedule:

(1) repay the principal and accrued interest of bank loans extended by domestic financial institutions to Qinglian Company that should be repaid for the year. As at 31 December 2005, the principal and accrued interests of Qinglian Company were RMB586,000,000 (approximately HK$563,461,538) and RMB1,096,000 (approximately HK$1,053,846), respectively;

(2) repay shareholders' loans and accrued interest for the year in the same proportion to the equity interest of each of the current shareholders of Qinglian Company; and

(3) the remaining profit for the year after full deduction of item (1) above and full repayment of all outstanding shareholders' loan and interest shall be paid to the current shareholders in the same proportion to the equity interest of each of the current shareholders of Qinglian Company.

**ii. Board of Qinglian Company**

According to the articles of association of Qinglian Company, the board of directors of Qinglian Company shall comprise of 15 directors and all resolutions shall be passed by majority vote of the board of directors, namely two-third of the directors' vote. The Group is entitled to appoint 9 directors (including the chairman) and each of Yueqing and Guangzhou Cement is entitled to appoint 3 directors to the board of directors of Qinglian Company as at the Latest Practicable Date. The existing directors appointed by the Group in the board of Qinglian Company are mainly senior management and core business management of the Group. Since the Group has the right to appoint 9 directors to the board of Qinglian Company, which comprise 15 members, the Group does not have a majority vote in the board of directors of Qinglian Company nor exercise control over the board of directors of Qinglian Company. Therefore, Qinglian Company is accounted for as an associated company of the Company and the corresponding 56.28% equity interest of the Group is accounted for under the equity accounting method.

### iii. Financial information of Qinglian Company

The following financial figures relating to Qinglian Company are extracted from the audited financial statements of Qinglian Company as set out in appendix III to the circular (prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA) for the three years ended 31 December 2005.

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Turnover | 176,264 (approximately HK$169,484,615) | 129,946 (approximately HK$124,948,077) | 124,308 (approximately HK$119,526,923) |
| Net (loss)/profit before taxation | 20,958 (approximately HK$20,151,923) | (59,803) (approximately HK$(57,502,885)) | 3,267 (approximately HK$3,141,346) |
| Net (loss)/profit after taxation | 20,958 (approximately HK$20,151,923) | (59,803) (approximately HK$(57,502,885)) | 3,267 (approximately HK$3,141,346) |
| Net asset value | 540,825 (approximately HK$520,024,038) | 481,022 (approximately HK$462,521,154) | 484,289 (approximately HK$465,662,500) |
| Turnover of Qinglian Company based on the Group's 56.28% equity interest | 99,201 (approximately HK$95,385,577) | 73,134 (approximately HK$70,321,154) | 69,961 (approximately HK$67,270,192) |

The turnover of Qinglian Company has been decreasing from 2003 onwards due to the poor existing road conditions of Qinglian Highways and the opening of Jingzhu Expressway (Guangdong section) in 2003 which suppressed the traffic demand. According to the audited financial information of Qinglian Company as set out in Appendix III of this circular, for the year ended 31 December 2004, the net loss after taxation was approximately RMB59,803,000 (approximately HK$57,502,885) which was mainly attributable to the road maintenance expenses of RMB62,765,000 (approximately HK$60,350,962) and depreciation of RMB60,286,000 (approximately HK$57,967,308).

For the year ended 31 December 2005, Qinglian Company recorded a profit after taxation of approximately RMB3,267,000 (approximately HK$3,141,346), which was mainly due to the significant decrease in road maintenance expenses of approximately RMB45,978,000 (approximately HK$44,209,615) during the year. For the year ended 31 December 2005, the road maintenance expenses was approximately RMB16,787,000 (approximately HK$16,141,346) as compared to approximately RMB62,765,000 (approximately HK$60,350,962) for the year ended 31 December 2004. During 2005, the depreciation expense was approximately RMB86,491,000 (approximately HK$83,164,423), representing an increase of approximately RMB26,205,000 (approximately HK$25,197,115) over the previous year. Moreover there is a significant increase in other income, which amounted to approximately RMB28,201,000 (approximately HK$27,116,346), increased by approximately 2,024% as compared to approximately RMB1,328,000 (approximately HK$1,276,923) in 2004. The significant increase was mainly due to the reversal of withholding tax and business tax on interest payable, amounting to RMB27,000,000 (approximately HK$25,961,538).

**iv. Valuation of Qinglian Company**

Sallmanns has been appointed to prepare an independent valuation report (please refer to Appendix I to this circular for summary of the report) to assess the market value of 100% equity interest in Qinglian Company and the valuation of which was prepared on the basis of discounted cash flow method. The discount cash flow method is the application of the income approach technique to devolve the future value of the business into a present market value. This method eliminates the discrepancy in time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to the business. The valuation relied on to a considerable extent the projection for the traffic flow and revenue stream with respect to Qinglian Highways (the projection of which was prepared by PBA) and with the principal assumption that Qinglian Class One Highway will be upgraded into expressway standard and commence operation in June 2008. The summary of the projection for the traffic flow and revenue stream was contained in Appendix II of this circular. The valuation has also assumed that the concession period of Qinglian Company for running Qinglian Class One Highway will be extended from 2028 to 2033 which was approved by Guangdong Provincial Government on 29 March 2006. For summary of the principal assumptions of the valuation, please refer to Appendix I of this circular. According to Rule 14.62 of the Listing Rule, such valuation was deemed as profit forecast and the corresponding accounting policies and calculations were reviewed by Deloitte Touche Tohmatsu, an independent reporting accountant. In addition, Guangdong Securities has confirmed that they have satisfied themselves that the valuation performed by Sallmanns has been made after due and careful enquiry. Pursuant to the valuation, the estimated market value of Qinglian Company as at 31 January 2006 was approximately RMB3.3 billion (approximately HK$3.17 billion). Accordingly, the aggregate consideration of the First Acquisition, which was RMB1,839,200,000 (approximately HK$1,768,461,538) represents a discount of approximately 1% to the stated market value of 56.28% equity interests in Qinglian Company and the consideration of SE Acquisition represents a discount of approximately 27% to the stated market value of 20.09% equity interests in Qinglian Company. The Directors, including the independent non-executive Directors consider that the consideration of the SE Acquisition is fair and reasonable and in the interests of the Shareholders.

## FINANCIAL EFFECTS OF THE SE ACQUISITION

### Net tangible assets value

As at 31 December 2005, the audited consolidated net asset value of the Group amounted to approximately RMB6,372,759,000 (approximately HK$6,127,652,885). Based on Appendix V to this circular, the unaudited proforma adjusted consolidated net asset value of the Enlarged Group immediately after Completion would increase to approximately RMB6,691,872,000 (approximately HK$6,434,492,308).

### Earnings

For the year ended 31 December 2005, the Group recorded an audited net profit of approximately RMB552,622,000 (approximately HK$531,367,308). As disclosed in Appendix III of this circular, the net profit of Qinglian Company for the year ended 31 December 2005 was approximately RMB3,267,000 (approximately HK$3,141,346) and the Group will account for approximately RMB2,495,008 (approximately HK$2,399,046), being 76.37% of Qinglian Company's net loss after tax upon Completion.

Upon Completion, Qinglian Company will be beneficially owned as to 76.37% equity interest by the Company and the Group will have the right to appoint 12 directors (instead of 9 directors as at the Latest Practicable Date) to the board of Qinglian Company which comprises a total of 15 members. Accordingly, Qinglian Company will be accounted for as a subsidiary of the Company and the financial results of which will be consolidated into those of the Group.

## REASONS AND BENEFITS FOR THE SE ACQUISITION

The Directors consider that the SE Acquisition is consistent with the Company's overall business strategy to invest in toll highway projects. As stated in the interim report 2005 of the Company dated 26 August 2005, the Pearl River Delta Region has been one of the fastest growing regions in China and commands a leading position in terms of urbanization, individuals' income level and per capita automobile ownership. Qinglian Class One Highway is located in the northern part of the Guangdong Province. Together with the Qinglian Class 2 Road which acts as an auxiliary line, the Qinglian Highways collectively constitute a major highway transport corridor connecting the less developed areas in the northern part of the Guangdong Province with the developed areas of the Pearl River Delta region. Located in the northern part of the Guangdong Province, the Directors believe that Qinglian Highways will prosper as a result of continued economic growth of the Pearl River Delta region and the corresponding increase in demand for road transport in the northern part of the Guangdong Province. Since the Company's business strategy is to strengthen the operational management of toll highway projects to cover a steady growth of income, the Directors believe that the SE Acquisition will consolidate the Company's core strengths in highway investment, management and operation.

**Qinglian Highways once were part of the National Highway 107, one of the major highways connecting Shenzhen in Guangdong Province and Beijing. Qinglian Highways include Qinglian Class One Highway and Qinglian Class 2 Road. Qinglian Class One Highway, a first grade highway having four lanes, connects Qing Yuan City (清遠市) in Guangdong Province and Lian**

**Zhou City (連州市) in Guangdong Province, the boundary of Hunan Province. Qinglian Class 2 Road, a road with two lanes, acts as an auxiliary line to Qinglian Class One Highway. They are one of the major facilities from Guangdong Province to Hunnan Province. Currently, the Qinglian Class One Highway and Qinglian Class 2 road are parallel to each other. The total length of Qinglian Class One Highway is 215 km, with a design speed of 80-100 km per hour. The total length of Qinglian Class 2 Road is 253 km, with a design speed of 60 km per hour. Qinglian Class One Highway commenced operation in 1997 and Qinglian Class 2 Road commenced operation in 1991.**

The existing road conditions of the Qinglian Highways are damaged and are not satisfactory to serve the developments in relevant area. To improve the traffic conditions in the area and to provide alternative routes to the long distance travel, there are plans for the reconstruction for the Qinglian Class One Highway and its northern and southern connecting roads. The proposed plans include to (i) upgrade the Qinglian Class One Highway to expressway standard. (ii) The Yilian Highway located in the north of the Qinglian Class One Highway connecting Yizhang (in Hunan Province) to the boundary of Guangdong Province is being upgraded and re-aligned. This new section of highway is expected to be completed in the year of 2008. By then, the Yilian Highway of Hunan Province will be connected to proposed Qinglian Expressway and the travel distance will be shortened by 20 km. (iii) The southern connecting link is 8 km in length which is proposed to be upgraded to expressway and to connect with the Guangqing Expressway leading to Guangzhou.

According to PBA, an independent traffic consultant to the Company, the traffic growth patterns on Qinglian Class One Highway were stable during 1999 and 2002 but the traffic flow thereon dropped significantly since 2003, which is attributable to two major reasons — (1) the road conditions of Qinglian Class One Highway have been seriously damaged and (2) another road named Jingzhu Expressway (Guangdong section) commenced operation in 2003 which has diverted traffic flows originally on Qinglian Class One Highway. **In view of the less than optimal road condition and traffic flows on Qinglian Class One Highway, Qinglian Class One Highway was applied to reconstruct into Qinglian Expressway. The reconstruction work has been commenced in second half of 2005 and is expected to complete in 2008. The necessary capital expenditure for the reconstruction work will be financed by bank brrowings of Qinglian Company. As at the Latest Practicable Date, the capital expenditure incurred by Qinglian Company for the reconstruction work amounted to approximately RMB27,610,000 (approximately HK$26,548,077)**.

Qinglian Class One Highway, after being reconstructed into an expressway, will be an important road infrastructure for the development of "Pan-Pearl River Delta Economic Circle". It will connect Guangqing Expressway towards the south, thereby linking up the transportation network of the Pearl River Delta region. It will also connect with the proposed Er-Guang Expressway (Erlianhaote — Guangzhou). In addition, Qinglian Expressway will intersect with Shantou-Kunming Expressway, which is one of the important projects connecting the western part of the PRC with the eastern part of Guangdong Province according to PRC National Expressway Network Plan (國家高速公路網規劃) issued by the Ministry of Transportation of the PRC. In view of the traffic network as above and the strategic importance of Qinglian Expressway, the Directors consider that Qinglian Expressway will bring decent investment return for the Group and the SE Acquisition is fair and reasonable and in the interests of the Shareholders.

The Group, after holding approximately 76.37% equity interest in Qinglian Company (assuming Completion), will have the right to appoint 12 directors (instead of 9 directors as at the Latest Practicable Date) to the board of Qinglian Company which comprises a total of 15 members. Accordingly, upon Completion, the Group will be able to exercise control over Qinglian Company and Qinglian Company will become a subsidiary of the Company and its operating results will be consolidated with that of the Group. The Directors consider that the SE Acquisition is desirable and represents a valuable opportunity for the Company to strengthen its control over the operation and management of Qinglian Company. In addition, upon Completion, all the major decisions will therefore be swiftly executed. This will ensure the smooth and efficient commencement of reconstruction work of Qinglian Class One Highway into expressway. The Directors including the independent non-executive Directors consider that the SE Acquisition is in the interest of the Company and the Shareholders as a whole.

## FUTURE PROSPECTS

As mentioned in the paragraph headed "Reasons and benefits for the SE Acquisition" above, Qinglian Class One Highway together with Qinglian Class 2 Road collectively constitute a major highway transport corridor connecting the less developed areas in the northern part of Guangdong Province with the developed areas of the Pearl River Delta region. The Directors expect that the overall economy of the Pearl River Delta region will continue to prosper and the Directors believe that Qinglian Class One Highway, if reconstructed into expressway, would achieve significant growth in traffic volume and therefore increase in toll revenue in the future, thereby contributing significant returns to the Shareholders. The Company will continue to focus on the investment, construction, operation and management of toll highways and roads as its principal business and strengthen its core competitiveness, with the objective to reward all Shareholders with promising returns.

## LISTING RULES

The SE Acquisition constitutes a major transaction for the Company under the Listing Rules. Since Yueqing is an associate of GDRB Company, which is a promoter of the Company, Yueqing is considered as a connected person of the Company and the SE Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The SE Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. Since GDRB Company, who holds approximately 2.84% equity interest in the Company, has interests in the SE Acquisition, GDRB Company and its associates will abstain from voting at the EGM on the relevant resolution approving the Transfer Agreement and the SE Acquisition contemplated thereunder. Apart from GDRB Company and its associates, no other Shareholder is required to abstain from voting on the relevant resolution at the EGM, which will be carried out by way of poll.

As the valuation of Qinglian Company is prepared on the basis of discounted cash flow method, the valuation has been deemed profit forecasts. Pursuant to Rules 14.62 and 14.71 of the Listing Rules, the Company has commissioned Deloitte Touche Tohmatsu, an independent reporting accountant, to review the accounting policies and calculations for the business valuation. Deloitte Touche Tohmatsu has checked the mathematical accuracy of the business valuation and has made enquiry with Sallmanns whether the accounting policies of Qinglian Company have been adopted in the preparation of the business valuation. Accordingly, Deloitte Touche Tohmatsu has satisfied themselves with respect to the accounting policies and calculations of business valuation. In addition, the Company has received a letter from Guangdong Securities, being the financial adviser to the Company, stating that they have satisfied themselves that the business valuation performed by Sallmanns has been stated after due and careful enquiry. To issue such letter, Guangdong Securities has reviewed the business valuation and discussed with the Directors on the information including the bases and assumptions of the business valuation. Guangdong Securities has also considered the letter from Deloitte Touche Tohmatsu regarding the compilation of the business valuation.

An Independent Board Committee has been formed to advise the Independent Shareholders with respect to the SE Acquisition. South China has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders whether the SE Acquisition is fair and reasonable so far as the Independent Shareholders and the Company are concerned.

**EGM**

The EGM will be held at the meeting room of the Company at 19/F, Tower A, United Plaza, No.5022 Binhe Road North, Shenzhen, the PRC at 9:30 a.m. on 12 June 2006 (Monday), a notice of which is set out on pages 170 to 172 of this circular. An ordinary resolution will be proposed at the EGM for the Independent Shareholders to approve the Transfer Agreement and the SE Acquisition contemplated thereunder by poll. GDRB Company and its associates are required to refrain from voting on relevant resolution approving the Transfer Agreement and the SE Acquisition contemplated thereunder at the EGM.

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

**RECOMMENDATION**

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

## ADDITIONAL INFORMATION

Your attention is drawn to the letter of advice from the Independent Board Committee and the letter from South China containing its recommendations to the Independent Board Committee and the Independent Shareholders in relation to the SE Acquisition set out on page 18 and pages 19 to 38 of this circular respectively.

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

By order of the Board
**Shenzhen Expressway Company Limited**
**Yang Hai**
*Chairman*

深圳高速公路股份有限公司
# SHENZHEN EXPRESSWAY COMPANY LIMITED
*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*
**(Stock Code: 548)**

To the Independent Shareholders

25 April 2006

Dear Sirs or Madams,

**MAJOR AND CONNECTED TRANSACTION**
**PROPOSED FURTHER ACQUISITION OF QINGLIAN COMPANY**

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the SE Acquisition, details of which are set out in the letter from the Board in the circular dated 25 April 2006 (the "Circular") to the Shareholders. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of South China in respect of the SE Acquisition as set out in the letter from South China in the Circular.

**Recommendation**

We have considered the principal factors taken into account by South China in arriving at its opinion in respect of the Transfer Agreement. We concur with the views of South China that the terms of the Transfer Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the SE Acquisition is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution at the EGM.

Yours faithfully,
**Li Zhi Zheng**
**Zhang Zhi Xue**
**Poon Kai Leung, James**
**Wong Kam Ling**
*Independent Board Committee*

*The following is the letter of advice from South China to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*

South China Capital Limited
28th Floor, Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

25 April 2006

To: the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

## MAJOR AND CONNECTED TRANSACTION
## PROPOSED FURTHER ACQUISITION OF QINGLIAN COMPANY

### INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and Independent Shareholders in relation to the SE Acquisition, details of which are set out in the circular dated 25 April 2006 (the "Circular") issued by the Company of which this letter forms part. Unless otherwise defined herein, capitalized terms used in this letter shall have the same meanings as defined in the Circular.

In February 2005, the Company together with its wholly owned subsidiary Mei Wah contemplated an acquisition of a total of 56.28% interest in Qinglian Company in the First Acquisition, details of which are respectively set out in the announcement and circular of the Company dated 15 February 2005 and 6 April 2005. By aggregating the aforesaid 56.28% interest and the proposed further acquisition of 20.09% interest in Qinglian Company contemplated under the Transfer Agreement, the SE Acquisition constitutes a major transaction under the Listing Rules. In addition, Yueqing is an associate of GDRB Company, which is a promoter of the Company holding approximately 2.84% equity interest in the Company, therefore Yueqing is a connected person of the Company pursuant to the Listing Rules. In this regard, the entering into of the Transfer Agreement constitutes a connected transaction of the Company and is subject to, among other things, the approval of the Independent Shareholders by poll at the EGM. GDRB Company and its associates will abstain from voting on the relevant resolution at the EGM.

Pursuant to the requirement of Rule 13.39(6) of the Listing Rules, the Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Li Zhi Zheng, Mr.

Zhang Zhi Xue, Mr. Poon Kai Leung, James and Mr. Wong Kam Ling, has been formed to advise the Independent Shareholders in respect of the SE Acquisition. We have been appointed as the independent financial adviser to provide independent opinion and recommendations to the Independent Board Committee and the Independent Shareholders as to whether the SE Acquisition is fair and reasonable so far as the Company and the Independent Shareholders are concerned and whether the SE Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

In formulating our opinion and recommendation, we have relied on the information, representations and opinion 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 up to the date of EGM, 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 any form of in-depth investigation into the business affairs, financial position or future prospects of the Group, Qinglian Company, Yueqing, Guangzhou Cement and their respective associates nor have we carried out any independent verification of the information supplied.

**PRINCIPAL FACTORS TAKEN INTO ACCOUNT**

In formulating our opinion in respect of the SE Acquisition, we have taken the following principal factors and reasons into consideration:

1. **Background of the Company**

The Company is principally engaged in the investment, construction, operation and management of toll highways and roads in the PRC. As advised by the Directors, the Group has established foothold in Shenzhen and the toll highways invested and operated by the Group in Shenzhen as well as other regions of Guangdong Province are major components of the national or provincial trunk highway networks. The aforementioned toll highways connect the main ports, airports, customs checkpoints and industrial zones that form a complete road network in Shenzhen. Such highways also constitute part of the major road passages leading towards the Pearl River Delta Region from Shenzhen. The Directors are of the view that the abovementioned toll highways have become important infrastructures in Guangdong Province especially after the implementation of Closer Economic Partnership Arrangement ("CEPA") and the establishment of the Pan Pearl River Delta Economic Circle. Based on our independent research on the websites of government bureaus such as 廣東省交通廳 (Guangdong Province Communications Department) and other information sources such as 中國公路網 (ChinaHighway.com) and Hong Kong Trade and Development Council regarding the highway network as well as the policy objectives and implementation of CEPA and Pan-Pearl River Delta Economic Circle, we concur with the Directors' view that the highways establishment is fundamental to the development in Guangdong Province and Qinglian Highways, being situated in the north of Guangdong Province, forms part of the highway network in Guangdong Province.

According to the Company's 2004 annual report and 2005 interim report, the Company's development strategy has been to focus on toll road operations as its core business while its investment strategy has been to expand towards the Pearl River Delta Region as well as other economically developed regions in the PRC. Apart from the subject further acquisition of Qinglian Highways, we noted from the announcements issued by the Company in 2004 and 2005 as well as the Company's 2004 annual report and 2005 interim report that the Company has participated in a series of toll highway acquisitions and constructions respectively in the provinces of Guangdong, Hubei and Jiangsu (i.e. in 2004, it acquired (i) 25% interests respectively in 陽茂高速 (Yangmao Expressway), 江中高速 (Jiangzhong Expressway), 南京三橋 (Nanjing Third Bridge) and 廣州西二環 (Guangzhou Western Second Ring Expressway); (ii) 30% interest in 廣梧高速馬安河口段 (Maan to Hekou section of Guangwu Expressway); in 2005, it acquired (iii) 56.28% interest in Qinglian Highways; (iv) 55% interest in 武黃高速 (Wuhuang Expressway); and (v) constructing two wholly-owned toll highways in Shenzhen (namely 南光高速 (Nanguang Expressway) and 鹽排高速 (Yanpai Expressway)) which are in conformity with the prevailing development strategy of the Company.

Given the existence of the aforesaid acquisitions and constructions and that Qinglian Highways, being situated in the north of Guangdong Province, forms part of the entire highway network in the area, we are of the view that the SE Acquisition is consistent with the Company's development strategy and within the ordinary course of business of the Company as mentioned above.

As set out in the paragraph headed "Transfer Agreement" in the letter from the Board contained in the Circular, Yueqing authorized 廣州產權交易所 (Guangzhou Assets Transfer Centre ("Assets Transfer Centre")) to sell its 20.09% shareholder's interest in Qinglian Company, together with RMB198,809,120 shareholder's loan previously extended by Yueqing to Qinglian Company and all other distributable (but not yet distributed) interests (including but not limited to the accrued interest of shareholder's loan as at 31 December 2005 of approximately RMB121,668,000 as per the audited accounts of Qinglian Company) in Qinglian Company on 27 June 2005. Based on the Transfer Agreement, accountants' report on Qinglian Company (as set out in Appendix III to this Circular) as well as the Directors' representation, we are aware of such details and there is no other matter material that needs to be brought to the attention of the Shareholders in this respect.

As detailed in the letter from the Board, Yueqing authorized Assets Transfer Centre to sell its 20.09% shareholder's interest (including all the capital investment, shareholder's loan and interest, and all other rights) in Qinglian Company on 27 June 2005. The minimum price was set at RMB484 million, and this price is the same as the consideration for the SE Acquisition. Pursuant to the 企業國有產權轉讓管理暫行辦法 (Provisional Rules for the transfer and management of state assets of enterprises ("Provisional Rules"), the transfer of state assets by enterprises shall be openly conducted through assets transfer centres with certain exceptions, which include transferring by means of transfer agreement between the parties and other legitimate methods. These exceptions are also allowed under the Provisional Rules for the transfer and management of state assets of enterprises. As far as we understand, there is no other matter material that needs to be brought to the attention of the Shareholders in this respect.

As Yueqing is a state-owned company and its interest in Qinglian Company is considered as "state asset", Yueqing has to engage an assets transfer centre to conduct the transfer of its interest in

Qinglian Company. During the offer period, save and except the bidding offer from the Company, there was no other bidding offer. Since Yueqing is in the process of liquidation, the Yueqing Liquidation Committee has been set up and it has the authority to deal with the assets of Yueqing. Against this background, the Company entered into the Transfer Agreement with the Yueqing Liquidation Committee. The details of the bidding process will be further set out in the paragraph headed "Bidding process" below.

2. **Business and financial information on Qinglian Company**

*Background*

Prior to the entering into of the Transfer Agreement, Qinglian Company was already owned by the Group as to 56.28%, Yueqing as to 20.09% and Guangzhou Cement, an Independent Third Party, as to 23.63%. Upon the Completion, the Group will hold an aggregate of 76.37% interest as well as majority control over the board of directors in Qinglian Company and accordingly, the Company will consolidate the financial results of Qinglian Company as its subsidiary.

Qinglian Company is a sino-foreign co-operative joint venture established in the PRC for a term of 33 years starting from 23 February 1995. According to the articles of association of Qinglian Company, Qinglian Company is principally engaged in the construction and operation of Qinglian Highways and the associated facilities. The principal assets of Qinglian Company are Qinglian Class One Highway, Qinglian Class 2 Road (which is the 原國道107線清連路段 (original Qinglian section of National Highway 107), one of the major highways connecting Shenzhen and Beijing) and the associated facilities. According to the letter from the Board contained in the Circular, Qinglian Class One Highway is a 215.846 kilometers long first class highway located in the north of Guangdong Province, running from 清遠市清新縣逕口鎮 (Jing Kou Town, Qingxin County, Qingyuan City) to 連州市鳳頭嶺 (Feng Tou Ling, Lianzhou City) which is located at the border of Hunan Province. Qinglian Class 2 Road is a 253 kilometers long second class highway running parallel to Qinglian Class One Highway and both highways collectively constitute a major highway corridor connecting the well developed Pearl River Delta Region to the less developed region in the north of Guangdong Province and the region of Hunan Province. The Qinglian Highways serves as one of the linkages between the northern part and the most prosperous part of Guangdong Province, such as Pearl River Delta Region. According to 2005 Guangdong Statistical Yearbook, the GDP of the Pearl River Delta Region in 2004 accounts for approximately 84.6% of that of Guangdong Province. Qingyuan City, where Qinglian Highways is situated, is in the north of Guangdong Province and its GDP in 2004, as indicated in 2005 Qingyuan Statistics Yearbook, accounts for only approximately 1.55% of that of Guangdong Province.

*Industry Overview*

Making reference to the Traffic Forecast Report, highway development is to a large extent driven by the economic performance of the regions where the highways are situated. Since (i) the growth of GDP of Pearl River Delta Region has consistently outperformed that of the entire Guangdong Province and (ii) the establishment of CEPA and Pan Pearl River Delta Economic Circle aim at encouraging business exchanges between the more developed regions (such as the Pearl River Delta Region) with massive business activities and the less developed regions (such as the north part of Guangdong Province) with abundant resources, we are of the view that Qinglian Highways or Qinglian Highways, after being reconstructed into an expressway ("Qinglian Expressway"), will benefit from this strong economic growth and the implementation of government policies.

*Competition*

Regarding competition, according to a Traffic and Revenue Study for Qinglian Expressway of March 2006 conducted by PBA in April 2006 ("Traffic Forecast Report"), summary of which are set out in Appendix II to the Circular, the major competitor of Qinglian Highways is 京珠高速廣東段 (Guangdong section of Jingzhu Expressway), which commenced operation in 2003. However, the Guangdong section of Jingzhu Expressway serves traffic heading to the eastern part of the Pearl River Delta Region whereas Qinglian Highways serves the western part. Because of the hilly location of Jingzhu Expressway and the higher toll rate charged on passenger vehicles, it is expected that Qinglian Expressway will be able to divert additional traffic flows from Guangdong section of Jinzhu Expressway should the road condition be improved upon completion of the reconstruction.

*Financial information*

The summary of the business valuation of 100% interest in Qinglian Company conducted by Sallmanns and the summary of Traffic Forecast Report for Qinglian Highways and Qinglian Expressway conducted by PBA are respectively set out in Appendixes I and II to the Circular. Below is a summary of the financial information of Qinglian Company as set out in Appendix III to the Circular.

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB million* | *RMB million* | *RMB million* |
| Turnover | 176 | 130 | 124 |
| Other income | 34 | 1 | 28 |
| Depreciation | (73) | (60) | (86) |
| Staff costs | (14) | (12) | (13) |
| Road maintenance expenses | (48) | (63) | (17) |
| (Reversal of allowance) allowance for amount due from a joint venturer | — | (11) | 11 |
| Other expenses | (10) | (11) | (8) |
| Finance costs | (45) | (34) | (36) |
| Profit (loss) before taxation | 21 | (60) | 3 |
| Taxation | — | — | — |
| Profit (loss) for the year | 21 | (60) | 3 |

From the financial results of Qinglian Company for the three years ended 31 December 2005, it is noted that the revenue of Qinglian Company has been declining between 2003 and 2005. According to PBA, the reasons for the decline in turnover are the severely deteriorated road condition of Qinglian Highways over the years and the competition raised by 京珠高速廣東段 (Guangdong section of Jingzhu Expressway), which commenced operation in 2003. Notwithstanding that the toll revenue has been declining for 2004 and 2005, we are advised that (i) Qinglian Company has initiated a reconstruction plan so as to improve the highway capacity and road condition of Qinglian Class One Highway, and hence its competitiveness. According to the letter from the Board, the reconstruction work has been commenced in second half of 2005 and is expected to complete in 2008. Upon completion of the reconstruction, Qinglian Expressway will become a 4-lane expressway-grade highway with controlled highway access and a designated speed of 90-110 km/hr (compared with the current class-one Qinglian Class One Highway with open highway access and a designated speed of 80-100 km/hr), and rate at the expressway standard will be charged to passenger vehicles; and (ii) according to Traffic Forecast Report, Qinglian Expressway will be connected with 二廣高速 (Erguang Expressway) at 連州 (Lianzhou) leading to western part of Hunan Province and with 宜連高速 (Yilian Expressway) in the north eventually linking up to 京珠高速 (Jinzhu Expressway) which is leading to Beijing and with the Guangqing Expressway leading to Guangzhou. We have reasons to believe that the revenue of Qinglian Company will improve after the completion of the reconstruction.

In addition, we notice that Qinglian Company incurred a net loss after taxation for 2004. As explained in the letter from the Board, the net loss after taxation in 2004 was mainly attributed to (i) the road maintenance expenses of approximately RMB63 million, which arose as a result of the increased repairs done on Qinglian Highways, because of the deteriorating road condition and (ii) depreciation cost of approximately RMB60 million on toll roads because of the decline in total projected traffic volume of Qinglian Highways and a corresponding increase in depreciation cost. Qinglian Company recorded a profit after taxation of approximately RMB3.3 million which was mainly due to decrease in road maintenance expenses and the significant increase in other income, during the year in 2005. The road maintenance expenses decreased from approximately RMB63 million in 2004 to approximately RMB17 million in 2005. During 2005, the depreciation expense was approximately RMB86 million, representing an increase of approximately RMB26 million over the previous year. The substantial increase in the other income was resulted from the reversal of withholding tax and business tax on interest payable of approximately RMB27 million during the year. Considering that both the maintenance expenses and depreciation will be likely to decrease when the road condition is improved upon completion of the reconstruction of Qinglian Highways and there will not be a material increase in the operating expense, we shall believe that the financial performance of Qinglian Company will improve.

*Traffic report*

Due to a change in the proposed expressway alignment and locations of interchanges, PBA was commissioned to conduct the Traffic Forecast Report in April 2006 summary of which is set out in Appendix II to the Circular. We have reviewed the Traffic Forecast Report and discussed with PBA with respect to the traffic forecasting methodology, bases and assumptions underlying the traffic flow and revenue forecasts; we have also discussed with management of the Company in this respect. We have reviewed the terms of the engagement between the Company and PBA, including the scope of work and we consider that the scope of work is appropriate to the opinion required to be given and there is no limitations to the scope of work which might adversely impact the degree of assurance given by the Traffic Forecast Report.

*Forecasting Methodology*

In order to obtain an understanding of the traffic pattern exhibited by Qinglian Highways, the Traffic Forecast Report employs a combination of a "24-hour traffic count survey" and an "origin-destination (O-D) survey" at the first and last stations, namely 禾雲 (Heyun) and 星子 (Xingzhi), on Qinglian Class One Highway, meaning that drivers were randomly stopped over a 24-hour time horizon and inquired about their travel origins and destinations. We concur with PBA that it is reasonable to conduct the traffic flow study at these two major stations at which the O-D data collected would cover traffic flows along the entire Qinglian Class One Highway.

The analysis of existing traffic pattern displays a traffic combination of local area (short distance) travel and through traffic (long distance) travel on Qinglian Highways whereas that of future travel demand is based on traffic variables including (i) economic indicators and growth in travel demand; (ii) physical conditions of the road and its carrying capacity; (iii) vehicle classifications and percentage distribution; and (iv) O-D patterns by class of vehicle. Moreover, the Traffic Forecast Report has covered the optimistic and conservative scenarios in the forecasts of traffic flows and corresponding toll revenue for both Qinglian Highways and Qinglian Expressway because of the uncertainties pertaining to the external environment. We have reviewed the supporting documents regarding the factors of uncertainties, including the GDP of Guangdong Province and the overall road transportation network in the subject region. In the Traffic Forecast Report, GDP is used to project the traffic growth rates for the subject highways under study while information on the overall road transportation network in the subject region is used to determine the possible impact of the surrounding highways on Qinglian Highways or Qinglian Expressway. We consider that the forecasting methodology adopted in the Traffic Forecast Report for projection of the traffic volume is established on a fair and reasonable basis.

The forecast of traffic flow and corresponding toll revenue depends on the projection of different development paces and GDP growths in Guangdong Province throughout the projection period (i.e. it is a prudent approach to take into account both an optimistic approach and a conservative approach), so that a range of possible traffic flow and toll revenue figures are available for consideration. We have reviewed the supporting documents provided to us by PBA (including the statistics published in the China Statistical Yearbook) and consider that the scenario analysis is a fair and reasonable approach for the projection of traffic volume.

*Bases and assumptions*

In the Traffic Forecast Report, the projection of potential revenue is generated by making reference to the traffic volume and toll rate structure. The traffic volume forecast is divided into two separate examinations due to the upgraded road condition resulting from the completion of the reconstruction of Qinglian Class One Highway into Qinglian Expressway in 2008. For the period from 2005 to 2007, a separate forecast of Qinglian Class One Highway is set out in addition to the traffic forecast of Qinglian Expressway spanning from 2008 to 2035. The traffic volume depends on the establishment of the proposed highway interchanges that are expected to attract additional traffic flow to Qinglian Expressway from the proposed connected highways. Likewise, the assumed toll rates selected for the Traffic Forecast Report are extracted from that of expressway-grade highway with dual-2 carriage in a closed system setting prevailing in Guangdong Province whereas the growth in toll rate is based on the historical growth in toll rate as well as GDP of Guangdong Province. The use of GDP statistics as the prime indicator is one of the most fundamental assumptions underlying the Traffic Forecast Report to determine future traffic growth of Qinglian Highways and Qinglian Expressway. PBA concludes that GDP is the most compatible and correlated indicator of passenger and goods traffic within the study region and other areas in the PRC. We are of the view that the assumptions are appropriate for the purpose of projection of traffic volume and toll rate. We have reviewed the fairness, reasonableness and completeness of the basis and assumptions made in the Traffic Forecast Report and the traffic and revenue projection of Qingian Highways and Qinglian Expressway and there is nothing material that needs to be brought to the attention of the Shareholders.

There is a critical assumption in the Traffic Forecast Report as to the toll revenue estimation on Qinglian Highways. We noted that the estimation conducted by PBA assumes that Qinglian Class One Highway will be successfully reconstructed into Qinglian Expressway in 2008 and such reconstruction work involves a total investment of RMB3,819 million exclusive of interest as estimated by the Directors. The reconstruction cost has been taken into account in the valuation of 100% interest in Qinglian Company, together with our views in this regard, as set out in the subsection headed "Valuation Report" below. Nevertheless, we notice the inevitable risks associated with the reconstruction work. We have addressed such risk under the paragraph headed "Risk Factor" as set out below in this letter.

PBA confirmed that the Traffic Forecast Report is prepared in manners consistent with common professional practice and the methodologies and assumptions adopted are fair and reasonable. After reviewing the Traffic Forecast Report and discussing with PBA, we consider that the aforementioned surveys, methodologies, scenario analysis, basis and assumptions provide a reasonable basis for the traffic and revenue projection of Qinglian Highways and Qinglian Expressway.

3. **Bidding process**

According to the Provisional Rules, the transfer of state asset by enterprises should be carried out in an open manner through legally set-up assets transfer centers by means of auction, tender, transfer agreement or other legitimate methods. As the SE Interests in Qinglian Company is considered as a state asset on the ground that Yueqing is a state-owned company and Yueqing had entered into the liquidation process, Yueqing Liquidation Committee was set up and granted the authority to continue with the sale of Yueqing's SE Interests in Qinglian Company and transfer of the SE Interests is subject to the Provisional Rules. Assets Transfer Centre is a regional institution approved by the Guangdong provincial and Guangzhou city people's governments to engage in assets dealings, public auctions and ancillary services. We have reviewed the authorization endorsed by Yueqing to Assets Transfer Center, transaction announcement and confirmation issued by the Assets Transfer Centre in relation to the bidding as well as the legal status of Assets Transfer Centre, we are of the view that the procedure regarding the transfer of the SE Interests in Qinglian Company was properly followed by Yueqing, Yueqing Liquidation Committee and the Company. In addition, according to the legal opinion issued by the PRC lawyer Junyan Law Firm (廣東君言律師事務所) dated 19 January 2006 regarding the SE Acquisition, there are no legal obstacles in relation to the Transfer Agreement. We have reviewed the PRC legal opinion and its findings. Based on the PRC legal opinion, we believe that the Transfer Agreement should have no legal obstacles.

4. **Reasons for the SE Acquisition**

*Business objectives and strategies*

As set out in the 2005 interim report of the Company and the letter from the Board contained in the Circular, the Directors consider that the Company's development and investment strategies are to focus on the investment, construction, operation and management of toll highways and roads so as to maintain a stable income source from its toll highway business in the Pearl River Delta Region as well as other economically developed regions in the PRC, the SE Acquisition will therefore consolidate the Company's core strengths in highway investment, management and operation. In addition, the Directors, having taken into account, among other things, the ongoing economic growth and the leading position in terms of urbanization, individuals' income level and per capita automobile ownership of the Pearl River Delta Region, are of the view that Qinglian Highways would continue to prosper owing to the rapid growth in economic and trading activities in the Pearl River Delta Region, subsequently fuelling public demand for a more accessible highway infrastructure bridging the nine cities within the Pearl River Delta Region with the rest of the Guangdong Province and the PRC through the interchanges among highways across the country. According to Zhuhai Statistical Information Net, the Pearl River Delta Region recorded growths in the aggregate GDP of 11.83%, 20.10% and 19.50% in 2002, 2003 and 2004 respectively. Comparing with the respective GDP growths of 10.22%, 16.11% and 17.71% in Guangdong Province in the same period, the Pearl River Delta Region has outperformed the whole province in terms of GDP growth and the region's GDP accounted for approximately 84.6% of that of the Guangdong Province in 2004.

*Shareholding structure and Board composition of Qinglian Company*

Furthermore, all resolutions in relation to Qinglian Company shall be passed by majority vote mounted by the board of directors (i.e. two-third of the vote on the board) which comprises 15 directors pursuant to the articles of association of Qinglian Company. Prior to Completion, the Group was entitled to appoint only nine directors on the board of Qinglian Company out of a total of fifteen members. As such, the Group was unable to obtain majority control over the board and Qinglian Company was thus accounted for as an associated company of the Company. Upon Completion, the Group will hold an aggregate of 76.37% interest in Qinglian Company and is entitled to appoint 12 directors on the board of Qinglian Company, thus exercise majority control over the board of Qinglian Company. Qinglian Company will be accounted for as a subsidiary and its operating results will be consolidated into the Company's accounts. The Directors consider the SE Acquisition a desirable step to further implement the Company's development strategy by strengthening its control over the operation and management of Qinglian Company, which ultimately enables the Company to swiftly execute major decisions and control the progress of the reconstruction work being carried out on Qinglian Class One Highway, so that the revamped Qinglian Expressway will be able to resume toll collection in 2008 as scheduled.

*Increase in toll rate and revenue*

In addition, the Directors are of the view that the SE Acquisition will bring possible benefits to the toll revenue and results of the Group. According to "Accountants' report on Qinglian Company and other financial information of Qinglian Company" as set out in Appendix III to the Circular, the maintenance costs are approximately RMB48 million, RMB63 million and RMB17 million as well as toll revenues of approximately RMB176 million, RMB130 million and RMB124 million respectively in 2003, 2004 and 2005.

Upon Completion, Qinglian Company will be accounted for as a subsidiary of the Company and the results of Qinglian Company will be consolidated into that of the Group. As a result, the asset base and the turnover of the Group will be enlarged. Detailed examination of the financial impact brought about by the SE Acquisition on the Group is set out in the section headed "Financial effects of the Transfer Agreement" below. Although the Directors note that Qinglian Company recorded a loss for the year ended 31 December 2004, they are of the view that Qinglian Class One Highway, after being reconstructed into an expressway-grade Qinglian Expressway can bring additional returns to the Group and will increase the Shareholders' return in the long run and as a matter of fact Qinglian made a profit in 2005. Road users taking the route of Qinglian Expressway will be charged higher toll rates because of the higher expressway standard that Qinglian Expressway is entitled to. Therefore, the higher toll rate would contribute to additional toll revenue as well as additional returns to the Group and will increase the Shareholders' return in the long run.

In spite of the decreasing turnover recorded by Qinglian Company over the past few years, we believe that, upon completion of the reconstruction, Qinglian Expressway is likely to save on maintenance expense and depreciation because of the improved road condition, and bring additional toll revenue to the Group. It is believed that improved cashflow will also lessen Qinglian Company's reliance on the outstanding loans or borrowings.

*Location of Qinglian Highways*

Based on the Traffic Forecast Report, because of its location, Qinglian Highways forms a section of one of the major passages directing traffic from the manufacturing hub of Guangdong Province and the special administrative regions such as Hong Kong and Macau to the north Guangdong Province and Hunan Province. This role of gateway has become even more significant after the implementations of CEPA and establishment of Pan Pearl River Delta Economic Circle, which were materialized from the policy rationale of fostering economic co-operation at a regional level.

Given the Company's adherence to its investment and development strategies, the favorable economic outlook of the Pearl River Delta Region as envisaged by the Directors, government policy of fostering regional economic integration as established under CEPA and Pearl River Delta Economic Zone, the majority control over the board of Qinglian Company, the enlarged asset base and toll revenue added to results of the Group, we concur with the Directors that the SE Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

*Reconstruction Plan*

Currently, the poor road condition of Qinglian Highways has discouraged road users to choose Qinglian Highways and the corresponding toll revenue has been declining between 2003 and 2005. However, upon completion of the reconstruction, we have reasons to believe that the cashflows to be generated from Qinglian Expressway will be improved. As long as (1) the toll revenue is improved with additional traffic flow and increased toll rate based on the expressway standard and (2) that no dramatic increase in operating expenses (i.e. Qinglian Company will implement a prudent borrowing policy to control the finance cost and decrease in depreciation resulting from improved road condition after completion of the reconstruction), we are of the view that the SE Acquisition is fair and reasonable and to the interests of the Shareholders as a whole.

In view of improving the current severely deteriorated road condition and thereby attracting more road users to take on the route of Qinglian Highways, Qinglian Class One Highway has planned to be reconstructed into an expressway grade Qinglian Expressway at an estimated total cost of RMB3,819 million exclusive of interest. The Directors advise that the reconstruction has been commenced in second half of 2005 and is expected to be completed in 2008. According to the Traffic Forecast Report conducted by PBA, the summary of which is set out in Appendix II to the Circular, Qinglian Expressway will be connected with 二廣高速 (Erguang Expressway) at 連州 (Lianzhou) leading to western part of Hunan Province and with 宜連高速 (Yilian Expressway) in the north eventually linking up to 京珠高速 (Jinzhu Expressway) leading to Beijing and with Guangqing Expressway leading to Guangzhou upon completion of the reconstruction. Consequently, the Directors believe that these planned and under-construction highway links are going to bring significant traffic flows and toll revenues to the Group upon completion of reconstruction work of Qinglian Class One Highway. The highway links connect Qinglian Highways to other economically significant cities like Guangzhou and Beijing. Since traffic flow is mainly driven by the economic activities of the subject region and nearby regions, the abundant business activities prevailing in these cities are going to bring large amount of traffic flow to Qinglian Highways which is part of the highway trunk between these cities. Therefore, we concur with the Directors' view that the highway links may bring significant traffic flows and toll revenues to the Group upon completion of reconstruction of Qinglian Class One Highway.

5. **Basis of the consideration**

According to the letter from the Board, the aggregate consideration for the SE Acquisition, amounting to RMB484 million, is the minimum bidding price set by Qinglian Company. When considering whether to accept this minimum bidding price, the Directors take into account the factors, namely (1) the control over the operation and management of Qinglian Company and (2) the decrease of average investment cost for increasing the equity interest to 76.37% in Qinglian Company.

We have conducted a research on the price level changes in investment in fixed assets in PRC. According to 2005 China Statistical Yearbook, the price index of investment in fixed assets has surged by 15.36% between 1995 and 2004. Based on the certificate of approval for the joint venture in Qinglian Company, the joint venture was formed in 1995 and Yueqing was one of the promoters. In a commercial transaction, it is common for a vendor to sell its investment in a company at a consideration adjusted for the inflation over the investment horizon. In view of this, we consider that the 10% premium to the aggregate of Yueqing's investment contribution is within an acceptable range.

*Valuation report*

In assessing the valuation of the SE Interests in Qinglian Company, we have reviewed and discussed with Sallmanns the methodology, discount rate, and basis and assumption adopted for arriving at the market value of the 100% interest in Qinglian Company as at 31 January 2006 in the valuation report, summary of which were set out in Appendix I to the Circular. We have reviewed the terms of engagement between the Company and Sallmanns and we found that the scope of work is appropriate to the opinion required to be given and there is no limitation on the scope of work, which might adversely impact the degree of assurance given by Sallmanns' valuation report. Comparing with the previous valuation conducted for the First Acquisition by Sallmanns, both market values of 100% interest in Qinglian Company differ only by less than 1% and we are of the view that this difference in valuation does not constitute material concern for the SE Acquisition.

*Methodology*

For the purpose of the valuation, Sallmanns has considered three assessment methodologies, namely the market approach, cost approach and income approach. Market approach estimates the value by analyzing the sales and other financial data of comparable companies, while the cost approach estimates the value by arriving at the replacement cost of the subject matter. Income approach, which is also known as the discounted cashflow method ("DCF"), estimates the value by the cashflow-generating ability of the subject matter. We concur with Sallmanns that the income approach is the most appropriate method in determining the value of Qinglian Company because (i) we have not discovered sufficient similar acquisitions and sales of similar business by listed companies on the Stock Exchange and therefore, we consider that the market approach is inappropriate in this case; (ii) the replacement cost concept captured in the cost approach does not take into account the future economic beneficial ownership of Qinglian Company; and (iii) the development of Qinglian Company will be based on the cashflow-generating ability of Qinglian Highways or exactly, the Qinglian Expressway. Considering the recurring toll revenue nature of Qinglian Company and that the economic benefits of the ownership of Qinglian Company are derived from the revenue it will earn in the future, we concur with Sallmanns that a cashflow based model is an appropriate method for the valuation.

*Rate*

According to the valuation report, taking into account the current market condition and the underlying risks inherent in the business, a discount rate of approximately 17% was adopted in the valuation of 100% interest in Qinglian Company, to discount cashflows generated throughout the remaining term of the concession right held by Qinglian Company to the present. The factors involved in determining the discount rate are set out in Appendix I to the Circular and among which we note that an average beta of approximately 1.04 based on the change in the debt to equity ratio of the Group during the forecast period and an additional risk premium of 6% owing to the lower degree of liquidity inherent in the private business nature of Qinglian Company were adopted in the calculation of discount rate. As advised by the valuer, Sallmanns, the beta of 1.04 is determined mainly based on the parameters of (i) an average beta of 0.72 of eight listed companies engaging in toll road construction and operation in Hong Kong, to name a few, Sichuan Expressway Company Limited (0107.HK), Jiangsu Expressway Company Limited (0177.HK) and Zhejiang Expressway Company Limited (0576.HK), and (ii) the change in debt to equity ratio of Qinglian Company as Qinglian Company pays off its debt over time. The beta would decrease as the debt to equity ratio decreases over time. Given the prevailing interest rate environment in the PRC of, for example, 5.58% per annum for one-year loan and 5.85% per annum for three- to five-year loan (as quoted from the People's Bank of China as at the Latest Practicable Date) and Hong Kong of, for example, prime rate 8.00% per annum (as quoted from Bloomberg as at the Latest Practicable Date), and the average borrowing cost of the Company of approximately 5%-6% per annum for the year ended 31 December 2005, we are of the view that the discount rate chosen by Sallmanns for the valuation of 100% interest in Qinglian Company is fair and reasonable.

*Bases and assumptions*

To ascertain the fairness and reasonableness of the bases and assumptions underlying the valuation, we are advised by Sallmanns that in the valuation of Qinglian Company, it has considered the factors, such as the present conditions of Qinglian Highways, the effect of reconstruction of Qinglian Class One Highway and the general and industrial economic outlooks, pertaining to the abilities of Qinglian Company in generating the future investment returns. Sallmanns has also relied on the projection of traffic flow and toll revenue in the Traffic Forecast Report prepared by PBA. We note that Sallmanns has derived the base approach, being the average of the optimistic and conservative scenarios covered in the Traffic Forecast Report, to conclude the market value of the 100% interest in Qinglian Company. Sallmanns formulates the assessment based only on the revenue stream and expenses core to the toll road business of Qinglian Company without making provisions to other non-operating cashflow items in the valuation model.

We are also informed by Sallmanns that the reconstruction cost for transforming Qinglian Class One Highway into Qinglian Expressway has been factored into the valuation. The Directors estimate that the reconstruction cost amounting to approximately RMB3,819 million exclusive of interest is planned to be allocated over the reconstruction period based on the current government regulations, the previous experience in expressway construction in the PRC and the anticipated progress of the reconstruction. After reviewing the investment proposal, an internal document prepared by the Company for the purpose of examining the different aspects of the proposed investment in SE Acquisition, and the feasibility report, prepared by an independent PRC traffic consultant named 中交第一公路勘察設計研究院 (The First Highway Survey & Design Institute of China) aiming to submit the reconstruction application to the local government authorities by Qinglian Company, which sets out detailed schedule of the reconstruction, including the construction of road base, road surface, bridge and tunnel, and overall engineering systems for the entire expressway, we consider that Sallmanns has adopted reasonable basis when allocating the reconstruction cost.

Sallmanns confirmed that the valuation is based on accepted valuation procedures and practices, and the underlying assumptions adopted in the valuation report are fair and reasonable. Having regard to the above analysis, we are of the view that the methodology applied is consistent with the market practice and generally, the discount rate, bases and assumptions, as well as the valuation, applied are fair and reasonable.

According to the summary of valuation report of Sallmanns as set out in Appendix I to the Circular, the market value of 100% interest in Qinglian Company as at 31 January 2006 is RMB3,296 million. Comparing with the valuation previously conducted by Sallmanns in April 2005 for the First Acquisition, the market value of a 100% interest in Qinglian Company as at 31 December 2004 was RMB3,306 million. The valuation of 100% interest in Qinglian Company for the SE Acquisition has declined by less than 1% in comparison with that for the First Acquisition. We consider that this slight decrease in assessed market value is fair and reasonable and does not constitute material concern for the Company and the Shareholders as a whole. With regard to the proportionate valuation of the SE Interests, the SE Interests in Qinglian Company represents an assessed market value of RMB662 million as at 31 January 2006, which is calculated based on the 20.09% interest in Qinglian Company as represented by the SE Interests and the market value (i.e. 100% interest in Qinglian Company as at 31 January 2006 for the SE Acquisition) of RMB3,296 million. The consideration of RMB484 million for the SE Acquisition represents a discount of approximately 26.89% to such valuation. Based on the above analysis and examination of the major methodologies and bases and assumptions applied in the valuation report, we consider they are fair and reasonable as far as the Shareholders are concerned.

*Funding for the SE Acquisition*

The aggregate consideration for the SE Acquisition will be funded by internal resources and borrowings of the Company. As at 31 December 2005, the audited cash position of the Group amounted to approximately RMB892 million and the aggregate consideration for the SE Acquisition represents approximately 54.26% of such bank balances and cash of the Group. According to 2005 audited results, the unutilized credit facilities of the Group is approximately RMB6,820 million as at 31 December 2005. Based on a cashflow projection of the Group for the year ended 31 December 2006 prepared by the Company, the Group has sufficient financial resources to satisfy the aggregate consideration for the SE Acquisition. In this regard, we have reviewed the completeness of the assumptions made in the cashflow projections and we have discussed with the Directors in relation to such underlying bases and assumptions of the cashflow projection. During our review and discussions with the Directors, we have not been aware of any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions used in arriving at the cashflow projection, nor have we discovered any undisclosed material contingent liabilities and capital commitment. As far as the SE Acquisition and the cashflow projection are concerned, there is nothing material that needs to be brought to the attention of the Shareholders.

According to the letter from the Board, 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. We have evaluated below in the section headed "Financial effects of the Transfer Agreement" the financial impact on the Group should the consideration is entirely funded by borrowings. We are also advised that the estimated total reconstruction cost of RMB3,819 million, exclusive of interest, to be spent on reconstructing Qinglian Class One Highway into Qinglian Expressway will be borne by Qinglian Company and financed by borrowings. In this regard, we have further evaluated the relevant financial impact on the Group in the same section.

Based on the abovementioned funding arrangements as to the SE Acquisition and the reconstruction of Qinglian Class One Highway, we are of the view that the Group will have sufficient working capital to sustain its existing operations immediately upon the Completion.

*Payment arrangement for the Consideration*

The consideration for the SE Acquisition is RMB484 million payable upon fulfillment of the conditions precedent stated in the Transfer Agreement and the completion of the registration of the transfer contemplated under the Transfer Agreement being completed with the original registration authority (i.e. 清遠市工商行政管理局 (the Administrative Bureau of Industry and Commerce of Qingyuan City)).

We consider the payment arrangement is on normal commercial term and reasonable so far as the Company and Shareholders are considered in the SE Acquisition, since the payment arrangement reflects the transfer of the legal entitlement of the SE Interests in Qinglian Company being properly completed under the normal procedure.

6. **Financial effects of the Transfer Agreement**

Set out below is a summary of the "Unaudited pro forma financial information of the Enlarged Group" as disclosed in Appendix V to the Circular:

| | **The Group** | **Qinglian Company** | **Total** | **Adjustments** | **Enlarged Group** |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Non-current assets | | | | | |
| Property, plant and equipment | 4,055,081 | 2,725,845 | 6,780,926 | 1,018,997 | 7,799,923 |
| Construction in progress | 693,443 | — | 693,443 | | 693,443 |
| Land use rights | 368,830 | — | 368,830 | | 368,830 |
| Intangible assets | 824,585 | — | 824,585 | | 824,585 |
| Loans to jointly controlled entities | 78,240 | — | 78,240 | | 78,240 |
| Interests in associate companies | 2,966,903 | — | 2,966,903 | (1,839,200) | 1,127,703 |
| Deferred taxation | 6,764 | — | 6,764 | | 6,764 |
| | 8,993,846 | 2,725,845 | 11,719,691 | | 10,899,488 |
| Current assets | | | | | |
| Inventories | 3,540 | — | 3,540 | | 3,540 |
| Trade and other receivables | 157,829 | 7,969 | 165,798 | | 165,798 |
| Amount due from a minority shareholder of a subsidiary | — | 29,718 | 29,718 | (29,718) | — |
| Restricted cash | 31,615 | 44,407 | 76,022 | | 76,022 |
| Bank balance and cash | 892,485 | 11,070 | 903,555 | (484,000) | 419,555 |
| | 1,085,469 | 93,164 | 1,178,633 | | 664,915 |

| | The Group | Qinglian Company | Total | Adjustments | Enlarged Group |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Current liabilities | | | | | |
| Other payables and accrued expenses | 670,692 | 57,373 | 728,065 | (29,718) | 698,547 |
| Amount due to a minority shareholder of a subsidiary | — | 21,446 | 21,446 | | 21,446 |
| Loan from a minority shareholder of a subsidiary | — | 988,631 | 988,631 | (754,294) | 234,337 |
| Interest payable to a minority shareholder of a subsidiary | — | 681,270 | 681,270 | (537,578) | 143,692 |
| Taxation payable | 15,736 | — | 15,736 | | 15,736 |
| Borrowings | 270,108 | — | 270,108 | | 270,108 |
| | 956,536 | 1,748,720 | 2,705,256 | | 1,383,666 |
| Net current assets (liabilities) | 128,933 | (1,655,556) | (1,526,623) | | (718,751) |
| Non-current liabilities | | | | | |
| Borrowings | 2,230,602 | 586,000 | 2,816,602 | | 2,816,602 |
| Deferred tax liabilities | 155,030 | — | 155,030 | 152,845 | 307,875 |
| Government grants | 364,388 | — | 364,388 | | 364,388 |
| | 2,750,020 | 586,000 | 3,336,000 | | 3,488,865 |
| Total net assets | 6,372,759 | 484,289 | 6,857,048 | | 6,691,872 |

The above unaudited pro forma financial information of the Enlarged Group reflects (i) additional 20.09% equity interests in Qinglian Company acquired; (ii) consideration payable of the SE Acquisition; (iii) recognition of Qinglian Company by the Company as a subsidiary instead of an associate. According to the Directors, the consideration of RMB484 million has been fully reflected in the current liabilities section of the unaudited pro forma financial statements. We have discussed with Deloitte Touche Tohmatsu regarding the assumptions made on arriving at the unaudited pro forma financial figures and we find that the assumptions are fair and reasonable so far as the SE Acquisition is concerned. Further analysis of the unaudited pro forma financial information of the Enlarged Group is discussed below.

(a) *Net asset value*

As set out in the letter from the Board contained in the Circular and the section headed "Reasons and Benefits for the SE Acquisition" contained in the letter, the Group was entitled to appoint only nine directors on the board of Qinglian Company out of a total of fifteen members. As such, the Company was unable to obtain majority control over the board and Qinglian Company was thus accounted for as an associated company of the Company. Upon Completion, the Group will hold an aggregate of 76.37% interest in Qinglian Company and will be entitled to appoint 12 directors on the board of Qinglian Company and thus exercise majority control over the board. Qinglian Company will be accounted for as a subsidiary 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 above, the unaudited pro forma adjusted consolidated net asset value of the Enlarged Group will increase to approximately RMB6,692 million as at 31 December 2005 from the consolidated net asset value of RMB6,373 million of the Group as at 31 December 2005, representing an increase of approximately 5.01%.

(b) *Cashflow position*

As stated in the letter from the Board, the consideration of RMB484 million under the Transfer Agreement 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 2005, as at 31 December 2005, the Group had consolidated bank and cash balances of approximately RMB892 million and a working capital surplus of approximately RMB129 million.

According to 2005 audited results, the Group has unutilized credit facilities of approximately RMB6,820 million as at 31 December 2005. The Directors, having taken into account the aforesaid working capital surplus of approximately RMB129 million and the unutilized credit facilities of approximately RMB6,820 million and in the absence of unforeseen circumstances, are of the view that the Company will be able to satisfy the consideration of RMB484 million as contemplated under the Transfer Agreement, and we concur with the Directors' view in this regard in the assumption that no there is no material change in the cash position of the Group since 31 December 2005.

In respect of the reconstruction cost, the Directors advise that the entire amount of approximately RMB3,819 million (exclusive of interest) will be borne by Qinglian Company. Based on the cashflow forecast of Qinglian Company for 2006 and 2007, it shows that credit facilities will be obtained to satisfy the total reconstruction cost. In addition, we are advised by the Company that Qinglian Company is negotiating with several financial institutions regarding the funding of reconstruction cost and we have reviewed a letter of intent issued by one of the lead banks. According to the letter, the bank principally agrees to the funding but subject to further negotiation of the detailed terms and conditions. In this regard, we are of the view that the negotiation between the bank and Qinglian Company is positive. On such ground, we consider that Qinglian Company will be able to finance the reconstruction cost given credit facilities or borrowings can be secured. However, whether Qinglian Company is able to secure such credit facilities or borrowings is a matter of uncertainty. As such, we have addressed this risk under the paragraph headed "Risk factor" below.

(c) *Gearing (total debts/total assets)*

According to 2005 annual results announcement of the Company, the Group had audited (i) consolidated cash and cash equivalents of approximately RMB892 million; (ii) consolidated bank and other borrowings of approximately RMB2,501 million; and (iii) gearing ratio (calculated on the basis of total debt/total asset) of approximately 36.77% as at 31 December 2005. It is the present intention of the Board that the Company will finance the SE Acquisition 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. In this regard, the pro forma adjusted gearing ratio of the Enlarged Group will increase to approximately 42.13% assuming that the consideration is entirely funded by borrowings.

In addition, Qinglian Company will bear the entire reconstruction cost for Qinglian Expressway, which is expected to be around RMB3,819 million, resulting the gearing ratio of the Group to be further increased to approximately 56.50% assuming that the entire reconstruction cost is funded by borrowings. Having considered the long-term investment nature of infrastructure business and the broadening of the Group's future income base, we are of the view that the increase in gearing ratio is acceptable.

(d) *Earnings*

On the basis of the 2005 accountants' report for Qinglian Company set out in Appendix III to the Circular, Qinglian Company recorded a net profit of approximately RMB3 million for the year ended 31 December 2005 and hence an immediate benefit could be contributed to the Group for consolidation of the results of Qinglian Company. In addition, based on the consideration of RMB484 million and cash flow projection conducted by Sallmanns set out in Appendix I to the Circular, the implied rate of return of approximately 17% is arrived at for the SE Acquisition. The corporate deposits at banks for a fixed term of five years in the PRC currently can yield a return of approximately 3.60% per annum (as quoted from the People's Bank of China as at Latest Practicable Date) and the Company's average borrowing rate of approximately 5%-6% per annum, we believe that the SE Acquisition will bring additional income to the Company in the long run.

7. **Risk Factor**

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

(a) *Toll road operations of Qinglian Expressway*

The operation of Qinglian Expressway 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 Qinglian Expressway 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 Qinglian Expressway, for any extended period as a result of any such events, the revenue of Qinglian 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 Qinglian Company may be adversely affected by the existence of other means of transportation including railways and alternative highway routes such as Jingzhu Expressway, which is currently threatening the toll road business of Qinglian Class One Highway. 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 Qinglian Class One Highway or Qinglian Expressway in the foreseeable future.

(d) *Reconstruction*

The reconstruction period and the capital required to reconstruct the Qinglian Class One Highway may be affected by various factors and unforeseen circumstances that would ultimately undermine the scheduled completion of the reconstruction. Moreover, the reconstruction of Qinglian Class One Highway into Qinglian Expressway has commenced in 2005 and is expected to be completed in 2008. Per letter dated 29 March 2006 from the 廣東省人民政府 (Guangdong Provincial Government), Qianlian Company's application for the concession right of 25 years from the commencement of Qinglian Expressway has been approved. The valuation of Qinglian Company is based upon the critical assumption of the successful connections of the proposed interchanges with the neighboring highways. As such, given the current status of the reconstruction, Independent Shareholders should be aware of the potential risk associated with the possible decline in the market value of Qinglian Company if the future traffic flow to be diverted from the neighboring highways is less than expected by PBA, with other factors remaining constant.

(e) *Funding for the reconstruction*

Independent Shareholders should also note that the reconstruction cost of RMB3,819 million, exclusive of interest, will be borne by Qinglian Company and financed by borrowings. There is risk that Qinglian Company may not be able to obtain the required borrowings. The Group, as the major shareholder, may have to bear the cost or provide guarantee to borrowings etc. Also, as discussed above in the section headed "Financial effects of the Transfer Agreement", the gearing ratio (calculated as total debt/total asset) of the Enlarged Group, after taking into account the reconstruction cost of RMB3,819 million, will be further increased to approximately 56.50% as at 31 December 2005 based on the financials in the "Unaudited pro forma financial information of the Enlarged Group" as set out in Appendix V to the Circular (the gearing ratio of the Group is approximately 36.77% as at 31 December 2005).

## RECOMMENDATION

Having considered the above factors, and in particular that:

— the SE Acquisition adheres to the Company's overall development as well as investment strategies (to focus on the investment , construction, operation and management of toll highways and roads as its core business and expand towards the Pearl River Delta Region as well as other economically developed regions in the PRC);

— the consistent growth in the economy of Guangdong Province and the government policies of CEPA and Pan Pearl River Delta Economic Circle aiming at promoting regional co-operation and integration;

— the consideration of RMB484 million for the SE Acquisition represents a discount of approximately 26.89% to the assessed market value of approximately RMB662 million of the 20.09% interest in Qinglian Company as at 31 January 2006; and

— highway investment is long term in nature. Notwithstanding there is a net loss recorded by Qianlian Company during 2004, from 2005, Qinglian Company recorded a net profit, Qinglian Company may generate positive operating results in long run as estimated by Sallmanns.

We are of the opinion that the SE Acquisition is in the ordinary and usual course of business, on normal commercial terms and in the interest of the Company and its Shareholders as a whole. We, therefore, advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transfer Agreement.

Yours faithfully,
For and on behalf of
**South China Capital Limited**
**Christina Cheung**
*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 Qinglian Company.*

**Sallmanns** 西門

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

22/F Siu On Centre
188 Lockhart Road
Wan Chai
Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

25 April 2006

The Board of Directors
Shenzhen Expressway Co. Ltd.
19/F Tower A, United Plaza
5022 Binhe Road North
Shenzhen 518033
The People's Republic of China

Dear Sirs,

In accordance with the instructions from Shenzhen Expressway Company Limited ("Shenzhen Expressway"), we have undertaken a valuation to determine the market value of a 100% interest in Guangdong Qinglian Highway Development Company Limited ("Qinglian Company") as at 31 January 2006 (the "Valuation Date"). The interest in Qinglian Company includes the equity interest as well as the shareholder's loans in Qinglian Company. This letter summarises the principal conclusions stated in our valuation report dated 25 April 2006.

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

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

## BASIS OF OPINION

We have conducted our valuation in accordance with international valuation standards issued by the International Valuation Standards Committee. The valuation procedures employed include the review of physical and economic conditions of the subject asset and 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 our valuation report.

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

- assumptions on the market and the asset that are considered to be fair and reasonable;
- financial performance that shows a consistent trend of the operation;
- consideration and analysis on the micro and macro economy affecting the subject asset;
- analysis on tactical planning, management standard and synergy of the subject asset;
- analytical review of the subject asset; and
- assessment of the leverage and liquidity of the subject asset.

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

**Background**

Qinglian Company is a Sino-foreign cooperative joint venture established on 23 February 1995 in Guangdong, the People's Republic of China ("PRC") with a term of 33 years starting from 23 February 1995. The principal operation of Qinglian Company is to manage Qinglian Highway Class I and Qinglian Highway Class II (together the "Qinglian Highways") located in Guangdong Province, PRC. Qinglian Company was granted operating rights with respect to the Qinglian Highways for 33 years starting from 1995 and ending in 2028.

The Qinglian Highways are part of the National Highway 107, one of the major highways connecting Shenzhen in Guangdong Province and Beijing. Qinglian Highway Class I and Qinglian Highway Class II are parallel to each other. The highways begin from Qingyuan in Guangdong Province and end at Fengtouling, the boundary of Hunan Province. The particulars of the Qinglian Highways and the related operating rights are shown in the following table.

| Toll Roads | Location | Year of expiry | Length (km) | Lanes |
|---|---|---|---|---|
| Qinglian Highway Class I | Guangdong | 2028 | 215 | 4 |
| Qinglian Highway Class II | Guangdong | 2028 | 253 | 2 |

At present, both the Qinglian Highways are in operation. However, owing to the existing poor road conditions of the Qinglian Highways, the traffic on the highways is slow, resulting in low utilization of these highways. Qinglian Company has applied to the local government for a reconstruction right to transform Qinglian Highway Class I to an expressway standard ("Qinglian Expressway") and an extension of the concession period. The total capital expenditure for the reconstruction of the Qinglian Highways is estimated to be around RMB3.8 billion and the reconstruction work is expected to be completed in 2008 according to the feasibility study (the

"Feasibility Study") submitted by Qinglian Company to the local government authorities for the reconstruction application. In January 2006, Qinglian Company obtained a letter issued by Guangdong Provincial Development and Reform Commission which stated that the relevant authorities have reviewed and basically consented to the proposed reconstruction work and the extension of the concession period to 25 years starting from the completion date of the reconstruction work. On 29 March 2006, the Guangdong Provincial Government has approved the concession period of Qinglian Expressway to 25 years. After the completion of the reconstruction work, the toll rate of the transformed expressway will be based on expressway standard.

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

The valuation of Qinglian 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 conditions of the highways and the effect of reconstruction of Qinglian Highway Class I;
- the economic outlook in general and the specific economic environment related to the business;
- current and projected operating results of the Qinglian Highways;
- 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 forecasts for the subject toll roads, we have considered and relied on to a considerable extent the Traffic and Revenue Study for Qinglian

Expressway (the "Traffic Study") prepared by Parsons Brinckerhoff (Asia) Ltd. ("PBA") dated 25 April 2006. PBA prepared a projection for the traffic flow and revenue stream with respect to the Qinglian Highways taking into account the effect of upgrading Qinglian Highway Class I into expressway standard from 2006 to 2035. The Traffic Study has included the effect of the upgraded expressway in the traffic flow forecast only after the expected completion of the reconstruction work in 2008. Their projection is mainly based on the expected annual GDP growth rate, vehicle types, existing road network and future transportation plans.

The findings of PBA cover two future forecast scenarios: the "Optimistic" and "Conservative" scenarios. The "Optimistic" scenario assumes a high expectation of economic growth over the entire evaluation period. This scenario considers an optimistic outlook towards the future and assumes a quicker development pace. The "Conservative" scenario assumes a lower development growth potential and a much slower pace of growth than the Optimistic scenario. The forecast traffic volume and toll charges prepared by PBA are used to estimate the revenue stream of the Qinglian Highways. The base approach, which is derived by taking the averages of the "Optimistic" and "Conservative" scenarios prepared by PBA, has been incorporated to arrive at the toll revenues stream for the subject toll roads.

As part of our analysis, we have been furnished with the financial information, project documents and other pertinent data provided by Shenzhen Expressway and Qinglian Company. We have reviewed and analysed the financial information and documents and conducted research using various sources to verify the reasonableness and fairness of information provided. We believe such information to be reliable and legitimate. We have also interviewed senior staff of Qinglian 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 Qinglian 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 Qinglian Highway Class I will be upgraded to expressway standard and will commence operation in June 2008;

We have assumed that the concession period granted to Qinglian Company relating to Qinglian Highway Class I will be extended to 2033 from 2028 to compensate for the investment and the effect of disruption during the reconstruction period;

We have assumed that the reconstruction costs for upgrading Qinglian Highway Class I to expressway standard will be in accordance with the estimates provided in the Feasibility Study;

We have assumed that Qinglian Company can secure the necessary funding to finance the necessary capital expenditure relating to the reconstruction;

We have assumed that the projected business can be achieved with the effort of the management of Qinglian 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;

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 Qinglian 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 of the Qinglian Highways will occur;

We have assumed the accuracy of the financial and operational information provided to us by Shenzhen Expressway and Qinglian 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.

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

When evaluating the appropriate discount rate for Qinglian 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 Qinglian 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.

For the parameters used in CAPM in this valuation, we have made reference to the PRC toll road operating companies listed on Hong Kong and applied a risk free rate of 4.18%, being the yield of exchange fund bonds in Hong Kong; a risk premium of 6.94%, being the difference between Hang Seng index return and the indicated risk free rate; and a nominal beta of 0.72, being the average beta of PRC toll road operating companies listed in Hong Kong.

The financial leverage of Qinglian Company will affect its risk exposure and the expected required return on equity. The more debt a firm takes on, the higher the beta will be of the equity in that business. Debt creates a fixed, interest expense, that increases exposure to market risk. In determining the beta used to arrive at the discount rate of Qinglian Company, we have considered the change in the debt to equity ratio of the company during the forecast period. The average leveraged beta used to determine the discount rate during the period is approximately 1.04.

In addition to the above-mentioned CAPM parameters and leverage adjustments, we have considered as significant the lower degree of liquidity attached to the investment in Qinglian Company as compared to publicly listed investments. Our research on empirical studies with respect to the value differential of private and listed investments with similar economic attributes supports an additional risk premium of 6%. The resulting discount rate is approximately 17% for Qinglian Company and we have concluded that this discount rate is appropriate for the valuation of Qinglian Company. A sensitivity analysis was prepared based on a 1% variation in the derived discount rate of 17%, ranging from 16% to 18% and the sensitivity result of Qinglian Company falls in the range of RMB2,908 million and RMB3,748 million.

**Discount Rate Sensitivity**

| **Discount Rate** | **Results (RMB million)** |
|---|---|
| 16% | 3,748 |
| 17% | 3,296 |
| 18% | 2,908 |

In arriving at our assessed value, we have only considered the revenue stream and expenses relevant to the core business of Qinglian 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 roads are free from structural defects.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Shenzhen Expressway, Qinglian Company and Sallmanns (Far East) 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 Qinglian Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

Based on the results of our investigations and analyses, it is our opinion that the market value of a 100% interest in Qinglian Company as at 31 January 2006 is reasonably stated at the amount of **RMB3,296 million (RENMINBI THREE BILLIONS TWO HUNDRED AND NINETY SIX MILLIONS)**.

For and on behalf of
**Sallmanns (Far East) Limited**
**Heidi M.W. Cheng**
*CPA, FCCA*
*Director*

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

PB 栢誠

**Parsons Brinckerhoff (Asia) Ltd.**

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

25 April 2006

The Directors
Shenzhen Expressway Company Limited

Dear Sirs,

**SHENZHEN EXPRESSWAY COMPANY LIMITED**
**QINGLIAN HIGHWAYS TRAFFIC AND REVENUE STUDY**
**EXECUTIVE SUMMARY**

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

- Proposed Qinglian Expressway

- Qinglian Highway Class II

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 & Revenue Study for Qinglian Expressway of March 2006".

A brief summary of our study approaches and findings are presented below:

## E1. INTRODUCTION

The National Highway 107 (NH107) is one of the major highways connecting Shenzhen in Guangdong Province to Beijing. Qinglian Highways (also referred to as the "Project") once was part of NH107 that begins from Qingyuan in Guangdong Province and ends at Fengtouling - the boundary of Hunan Province. The road is also one of the major facilities from Guangzhou to Hunan Province. Currently, the Qinglian Highway Class I and Qinglian Highway Class II are parallel to each other.

The existing road conditions of the Qinglian Highways are damaged and are not satisfactory to serve the developments in the area of Qingyuan. To improve the traffic conditions in the area and to provide alternative routes to the long distance travel, there are plans for the reconstruction for the Qinglian Highway Class I and its northern and southern connecting roads. The proposed plans include to upgrade the Qinglian Highway Class I to expressway standard. The Yilian Highway located in the north the Qinglian Highway Class I connecting Yizhang (in Hunan Province) to the boundary of Guangdong Province is being upgraded and re-aligned. This new section of highway is expected to be completed in the year of 2008. By then, the Yilian Highway of Hunan Province will be connected to Proposed Qinglian Expressway and the travel distance will be shortened by 20 km. The southern connecting link is 8 Km in length is proposed to be upgraded to Expressway and to connect with the Guangqing Expressway leading to Guangzhou.

This letter summarizes the results and findings based on the technical analyses conducted. We confirm that future traffic and revenue for the remainder of the concession periods (2005 to 2035 for the proposed Qinglian Expressway and Qinglian Highway Class II) are 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 operator, and reviews of available traffic data, feasibility reports, Origin-Destination ("O-D") surveys 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.

This is a summary of the "Traffic & Revenue Study For Qinglian Expressway of March 2006" prepared by PBA. The Consultant was appointed by the Company to carry out an independent traffic and revenue forecast of the toll road summarized in the table below (the "Study Highway"):

**Summary of General Project Description**

| Highway Length (approximately) | Highway Classification | Highway Configuration | Highway Access Control | Highway Design Speed |
|---|---|---|---|---|
| Qinglian Highway Class I (215 km) | Class 1 | 4-lane | Open Access | 80~100 km/hr |
| Proposed Qinglian Expressway (214.07 km) | Expressway | 4-lane | Controlled Access | 90~110 km/hr |
| Qinglian Highway Class II (253.0 km) | Class 2 | 2-lane | Open Access | 60 km/hr |

## E2. OBJECTIVES AND SCOPE OF SERVICES

The technical objective of the Study is to provide the Company with an independent study on future traffic and revenue projections. The scope of work includes data inventory and collection, traffic analysis and future traffic and revenue projections. Major activities include:

- Review available planning and feasibility reports related to the traffic corridors of the study highways;
- Collect and review socio-economic data of the study region;
- Collect and analyse traffic and revenue data;
- Conduct additional traffic surveys and counts where applicable;
- Interview toll road operators, local highway bureau officials and local planning department officials;
- Formulate travel demand forecast methodology;
- Analyse possible impact of competing roads in the travel corridors under study; and
- Prepare traffic and revenue forecasts.

## E3. TRAFFIC FORECASTING METHODOLOGY

The traffic forecasts are based on traditional travel demand forecast methodologies widely adopted for toll road studies and have been applied to similar toll roads in the PRC. Relevant information collected and accumulated by PBA in other projects in the Pearl River Delta areas as well as other Guangdong areas in PRC have also been incorporated in this study. The traffic forecasting methodology for the Study consists of the following stages:

a) Data Inventory and Review - The key objective for this technical stage is to obtain existing available information and organize them for the next stage of work. Typical information to be inventoried includes historic highway network data, O-D data, toll road traffic and revenue data, existing and future socio-economic forecasts of the relevant region, and previous analyses and reports.

b) Define Technical Approach - The goal is to develop the most appropriate technical methodology to be used for study purposes. The determination of the types of method depends on the availability and quality of the data as well as the overall project programme.

c) Travel Demand Forecasting - Based on the information and findings from previous stages, this stage defines and analyses the existing traffic patterns and forecasts the future travel demand based on the appropriate key traffic variables that include:

- Economic indicators and growth in travel demand
- Physical conditions of the road and its carrying capacity
- Vehicle classifications and percentage distribution
- O-D patterns by class of vehicle

To consider the uncertainty of various external factors in the future, the traffic forecasts are presented under two scenarios: the optimistic scenario and the conservative scenario.

## E4. PRINCIPAL MODEL/ANALYTICAL ASSUMPTIONS

The general assumptions defined in the Study are as follows:

a) The use of "Gross Domestic Product" ("GDP") statistics as the prime indicator to determine future traffic growth of the highway under study. Past studies conducted in the study region and in other areas of PRC have indicated that growth in GDP is more compatible and correlated with the passenger and goods vehicles travels than any other factors or available parameters. Because the majority of the anticipated future travel will be associated with the movement of passenger and goods in the Pearl River Delta region, GDP growth will be used as the key parameter for future forecasts.

b) O-D patterns identified from the available database are applicable to the subject analysis;

c) The most current traffic composition of existing traffic flow is assumed to be applicable to the forecasts;

d) Variations between existing and future travel behaviors, system patterns and trip making decisions are insignificant;

e) Future economic growth trends in the study region are consistent with existing regional economic policies in the PRC as well as in Guangdong Province, specifically the Eleventh Five-Year Plan, the provincial development master plan and local governmental policies. The adopted conservative and optimistic economic growths are given in the table below:

**Projected GDP Growth (%) for the Study Region**

*The assumed growth rates for future years are based on the past trend given in Guangdong Province Yearbook (1999-2004)*

| Analysis Period | Conservative Case | Optimistic Case |
|---|---|---|
| 2006 - 2010 | 9.0% | 10.0% |
| 2011 - 2020 | 7.5% | 8.5% |
| 2021 - 2030 | 5.0% | 6.5% |
| 2031 - 2035 | 4.0% | 5.0% |

In Guangdong Province, GDP has been growing at an average rate of 11.18% per year over the period of 1998-2003. In Pearl River Delta area, GDP has been growing at an average rate of 14.15% per year. These growths are based on "current" price and inflation has not been included. After the 10th Five Year Plan, Guangdong area targets an average annual GDP growth of 9% per year. This expected growth rate is realistic and achievable.

f) As part of the analysis, the highway section carrying capacity of each facility was considered in order to assess future supply and demand relationship. Road section capacity is defined as the maximum number of vehicles that can be accommodated by the highway section of a facility within a specified unit of time. There are four categories of factors that could influence the ultimate capacity of a facility. They include physical configuration, engineering criteria, operation condition, location and setting. The methodologies used in the capacity determination for this study is based on the latest Highway Capacity Manual published by the Transportation Research Board of the US Department of Transportation. The capacity for Qinglian Expressway would be 70,000 vehicles per day, and the existing road sections (Qinglian Highway Class I and Class II ) capacity is estimated as below:

**Capacity along Qinglian Highway Toll Stations**

| | Class I | | | | | Class II | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Toll Station** | **Heyun** | **Jiaochung** | **Shicangling** | **Longkou** | **Xingzhi** | **Heyun** | **Qigong** | **Shiluo** | **Dalubian** |
| No. of Lanes | 4 | 4 | 4 | 4 | 4 | 2 | 2 | 2 | 2 |
| Design Speed (km/h) | 80-100 | 80-100 | 80-100 | 80-100 | 80-100 | 60 | 60 | 60 | 60 |
| Daily Capacity (vpd) | 50,000 | 49,600 | 51,400 | 55,000 | 55,000 | 17,600 | 11,000 | 12,000 | 17,900 |

g) Major new highway links are planned or under construction in the vicinity of the study corridors, including the following:

- The Yilian Highway upgraded to Expressway with a total length of 48.5km and is scheduled to complete by year 2008. This section of expressway connects the Qinglian expressway with Jingzhu Expressway at Yizhang of Hunan Province. Its completion will enhance the regional accessibility of the travel corridor and therefore is expected to have a significant contribution to traffic flows on the Qinglian Expressway.

- In the southern end of Qinglian Expressway, there is a section of expressway proposed to connect the Qinglian expressway with the Guangqing Expressway. This section of expressway with a total length is 10km is expected to be completed by year 2013. This section provides direct linkage of expressway leading to Guangzhou.

- The section of Erguang Expressway is scheduled to be completed by year 2010 connecting Lianzhou of Qinglian Expressway with the western areas of Hunan Province. The section of Erguang Spur Line connecting Liangzhou with Fengbu will be completed in 2008.

- Guangzhu Expressway and Hong Kong — Zhuhai — Macau Bridge to be completed by year 2011.

- Qinglian Highway Class II is assumed to be unchanged for local traffic.

h) Non-toll vehicles are also considered in this study. Non-toll vehicles include officially toll exempted vehicles such as the government vehicles and toll road company cars. The proportion of non-toll vehicles is derived from the actual traffic flows.

## E5. SUMMARY OF TRAFFIC PROJECTIONS

Future traffic forecast is based upon the daily average. The Qinglian Expressway will be completed in year 2008, the traffic forecasts for Qinglian Expressway is therefore from year 2008 to year 2035. For years 2005 to 2007, please refer to Qinglian Highway Class I traffic flow forecasts. The projected traffic for the Study Expressway and Highways under the two study scenarios is summarized below:

**Qinglian Expressway Daily Section Total Vehicles — Conservative (1)**

| Year | Jingkou Int. | Zhuhang | Heyun | Jintan | Jintan Int. | Shitan | Dubu Int. | Yangshan |
|---|---|---|---|---|---|---|---|---|
| **KM** | **14.9** | **9.2** | **20.9** | **6.1** | **4.5** | **30.3** | **15.5** | **26.7** |
| 2008 | 14,893 | 14,518 | 14,611 | 14,476 | 14,363 | 14,270 | 13,792 | 13,400 |
| 2009 | 16,029 | 15,624 | 15,722 | 15,575 | 15,453 | 15,353 | 14,838 | 14,416 |
| 2010 | 17,251 | 16,815 | 16,917 | 16,758 | 16,626 | 16,519 | 15,963 | 15,508 |
| 2011 | 18,332 | 17,865 | 17,969 | 17,794 | 17,655 | 17,541 | 16,949 | 16,464 |
| 2012 | 21,159 | 20,659 | 20,764 | 20,550 | 20,402 | 20,281 | 19,650 | 19,134 |
| 2013 | 22,488 | 21,953 | 22,059 | 21,828 | 21,670 | 21,542 | 20,869 | 20,319 |
| 2014 | 23,903 | 23,331 | 23,437 | 23,186 | 23,019 | 22,882 | 22,166 | 21,579 |
| 2015 | 25,409 | 24,797 | 24,903 | 24,631 | 24,454 | 24,309 | 23,545 | 22,920 |
| 2020 | 31,905 | 31,125 | 31,237 | 30,879 | 30,657 | 30,475 | 29,510 | 28,720 |
| 2025 | 38,817 | 37,868 | 38,005 | 37,569 | 37,299 | 37,078 | 35,903 | 34,942 |
| 2030 | 45,000 | 43,899 | 44,058 | 43,553 | 43,240 | 42,983 | 41,621 | 40,507 |
| 2035 | 52,167 | 50,891 | 51,075 | 50,490 | 50,127 | 49,829 | 48,250 | 46,959 |

**Qinglian Expressway Daily Section Total Vehicles — Conservative (2)**

| Year | Libu | Fengbu | Lianzhou Int | Lianzhou | Wancun | Sanlicun | Dalubian |
|---|---|---|---|---|---|---|---|
| **KM** | **4.5** | **25.5** | **3.5** | **15.2** | **23.3** | **4.8** | **9.4** |
| 2008 | 12,224 | 1,360 | 11,019 | 10,952 | 10,887 | 9,349 | 9,263 |
| 2009 | 13,151 | 1,463 | 11,855 | 11,783 | 11,713 | 10,058 | 9,965 |
| 2010 | 14,149 | 1,571 | 14,799 | 14,722 | 14,646 | 12,866 | 12,765 |
| 2011 | 15,023 | 1,672 | 15,709 | 15,627 | 15,547 | 13,656 | 13,548 |
| 2012 | 17,606 | 1,775 | 18,329 | 18,242 | 18,157 | 16,150 | 16,033 |
| 2013 | 18,699 | 1,886 | 19,462 | 19,369 | 19,279 | 17,148 | 17,021 |
| 2014 | 19,862 | 2,003 | 20,666 | 20,568 | 20,471 | 18,208 | 18,072 |
| 2015 | 21,099 | 2,128 | 21,947 | 21,842 | 21,740 | 19,337 | 19,190 |
| 2020 | 26,447 | 2,667 | 27,491 | 27,360 | 27,232 | 24,221 | 24,030 |
| 2025 | 32,176 | 3,245 | 33,447 | 33,287 | 33,131 | 29,468 | 29,236 |
| 2030 | 37,301 | 3,762 | 38,774 | 38,589 | 38,408 | 34,162 | 33,892 |
| 2035 | 43,242 | 4,361 | 44,950 | 44,736 | 44,526 | 39,603 | 39,290 |

**Qinglian Expressway Daily Section Total Vehicles — Optimistic (1)**

| Year | Jingkou Int. | Zhuhang | Heyun | Jintan | Jintan Int. | Shitan | Dubu Int. | Yangshan |
|---|---|---|---|---|---|---|---|---|
| **KM** | **14.9** | **9.2** | **20.9** | **6.1** | **4.5** | **30.3** | **15.5** | **26.7** |
| 2008 | 15,884 | 15,473 | 15,578 | 15,438 | 15,314 | 15,211 | 14,686 | 14,257 |
| 2009 | 17,534 | 17,080 | 17,196 | 17,041 | 16,904 | 16,791 | 16,211 | 15,737 |
| 2010 | 19,356 | 18,855 | 18,982 | 18,811 | 18,659 | 18,535 | 17,895 | 17,371 |
| 2011 | 20,761 | 20,220 | 20,349 | 20,162 | 19,999 | 19,866 | 19,177 | 18,614 |
| 2012 | 24,403 | 23,819 | 23,952 | 23,715 | 23,540 | 23,397 | 22,657 | 22,051 |
| 2013 | 26,180 | 25,549 | 25,684 | 25,424 | 25,237 | 25,084 | 24,287 | 23,636 |
| 2014 | 28,087 | 27,406 | 27,544 | 27,259 | 27,059 | 26,895 | 26,038 | 25,337 |
| 2015 | 30,137 | 29,401 | 29,541 | 29,229 | 29,014 | 28,838 | 27,917 | 27,162 |
| 2020 | 39,056 | 38,073 | 38,202 | 37,758 | 37,480 | 37,253 | 36,043 | 35,053 |
| 2025 | 47,518 | 46,322 | 46,479 | 45,938 | 45,601 | 45,324 | 43,852 | 42,647 |
| 2030 | 55,086 | 53,700 | 53,882 | 53,255 | 52,864 | 52,543 | 50,836 | 49,440 |
| 2035 | 63,860 | 62,253 | 62,464 | 61,737 | 61,283 | 60,912 | 58,933 | 57,314 |

**Qinglian Expressway Daily Section Total Vehicles — Optimistic (2)**

| Year | Libu | Fengbu | Lianzhou Int. | Lianzhou | Wancun | Sanlicun | Dalubian |
|---|---|---|---|---|---|---|---|
| **KM** | **4.5** | **25.5** | **3.5** | **15.2** | **23.3** | **4.8** | **9.4** |
| 2008 | 12,962 | 1,543 | 11,637 | 11,563 | 11,492 | 9,800 | 9,706 |
| 2009 | 14,307 | 1,703 | 12,843 | 12,762 | 12,683 | 10,814 | 10,711 |
| 2010 | 15,792 | 1,879 | 16,827 | 16,738 | 16,650 | 14,586 | 14,473 |
| 2011 | 16,924 | 2,014 | 18,027 | 17,931 | 17,837 | 15,626 | 15,502 |
| 2012 | 20,243 | 2,159 | 21,417 | 21,315 | 21,214 | 18,844 | 18,709 |
| 2013 | 21,701 | 2,315 | 22,952 | 22,842 | 22,734 | 20,194 | 20,047 |
| 2014 | 23,266 | 2,482 | 24,599 | 24,481 | 24,365 | 21,643 | 21,483 |
| 2015 | 24,946 | 2,661 | 26,366 | 26,239 | 26,115 | 23,198 | 23,023 |
| 2020 | 32,217 | 3,437 | 33,990 | 33,827 | 33,666 | 29,904 | 29,662 |
| 2025 | 39,196 | 4,181 | 41,354 | 41,155 | 40,960 | 36,383 | 36,088 |
| 2030 | 45,439 | 4,847 | 47,941 | 47,710 | 47,484 | 42,178 | 41,836 |
| 2035 | 52,677 | 5,619 | 55,577 | 55,309 | 55,047 | 48,895 | 48,499 |

**Qinglian Highway Class I Daily Total Vehicles — Conservative**

| Year | Heyun | Jiaochong | Shicangling | Longkou | Xingzhi | Total |
|---|---|---|---|---|---|---|
| 2005 | 4725 | 4235 | 3630 | 1125 | 1125 | 14840 |
| 2006 | 5086 | 4551 | 3907 | 1209 | 1208 | 15960 |
| 2007 | 7045 | 6440 | 5751 | 2848 | 2846 | 24929 |

**Qinglian Highway Class I Daily Total Vehicles — Optimistic**

| Year | Heyun | Jiaochong | Shicangling | Longkou | Xingzhi | Total |
|---|---|---|---|---|---|---|
| 2005 | 4725 | 4235 | 3630 | 1125 | 1125 | 14840 |
| 2006 | 5109 | 4573 | 3925 | 1214 | 1213 | 16035 |
| 2007 | 7339 | 6717 | 6008 | 3024 | 3021 | 26109 |

**Qinglian Highway Class II Daily Total Vehicles — Conservative**

| Year | Heyun | Qigong | Shiluo | Xiaochong'ao | Total |
|---|---|---|---|---|---|
| 2005 | 1421 | 981 | 659 | 1362 | 4424 |
| 2006 | 1527 | 1057 | 710 | 1462 | 4756 |
| 2007 | 1641 | 1138 | 765 | 1568 | 5112 |
| 2008 | 1830 | 1226 | 824 | 1682 | 5562 |
| 2009 | 1967 | 1320 | 887 | 1805 | 5979 |
| 2010 | 2114 | 1422 | 956 | 1936 | 6428 |
| 2011 | 2250 | 1517 | 1020 | 2058 | 6846 |
| 2012 | 2396 | 1619 | 1089 | 2188 | 7291 |
| 2013 | 2551 | 1727 | 1162 | 2325 | 7766 |
| 2014 | 2716 | 1843 | 1240 | 2472 | 8271 |
| 2015 | 2892 | 1967 | 1324 | 2627 | 8810 |
| 2020 | 3776 | 2598 | 1750 | 3402 | 11526 |
| 2025 | 4705 | 3273 | 2207 | 4202 | 14386 |
| 2030 | 5724 | 3982 | 2685 | 5112 | 17503 |
| 2035 | 6636 | 4616 | 3113 | 5926 | 20291 |

**Qinglian Highway Class II Daily Total Vehicles — Optimistic**

| Year | Heyun | Qigong | Shiluo | Xiaochong'ao | Total |
|---|---|---|---|---|---|
| 2005 | 1421 | 981 | 659 | 1362 | 4424 |
| 2006 | 1542 | 1066 | 717 | 1475 | 4800 |
| 2007 | 1672 | 1159 | 779 | 1597 | 5208 |
| 2008 | 1882 | 1260 | 847 | 1730 | 5719 |
| 2009 | 2041 | 1370 | 921 | 1873 | 6205 |
| 2010 | 2214 | 1489 | 1001 | 2028 | 6732 |
| 2011 | 2379 | 1604 | 1078 | 2176 | 7237 |
| 2012 | 2557 | 1727 | 1162 | 2335 | 7781 |
| 2013 | 2748 | 1860 | 1252 | 2505 | 8365 |
| 2014 | 2953 | 2004 | 1348 | 2688 | 8993 |
| 2015 | 3174 | 2158 | 1453 | 2884 | 9669 |
| 2020 | 4417 | 3017 | 2031 | 4010 | 13475 |
| 2025 | 5769 | 3985 | 2686 | 5192 | 17632 |
| 2030 | 7363 | 5086 | 3428 | 6627 | 22504 |
| 2035 | 8959 | 6188 | 4170 | 8062 | 27379 |

## E6. TOLL RATE STRUCTURE

The potential revenues that can be generated by any toll facilities depend on four basic elements. They are: (1) traffic volumes, (2) toll rates, (3) travel distances and (4) the rate of future toll increase. The traffic element has already been described earlier in the document, and this section will focus on the other three remaining elements.

The assumed toll rates for Qinglian Expressway are the same as applied to Expressway with Dual-2 carriage in Guangdong province. The existing Dual-2 Expressway toll rates are given in the table below:

**Existing Expressway Vehicle Classification (Dual-2) & Toll Rates**

| Vehicle Classification | | Toll Rates (RMB/km) |
|---|---|---|
| Class 1 | Passenger Cars/Vans and Motorcycles (2-axle with 4 wheels) | 0.45 |
| Class 2 | Light Vans/Light and Small Goods vehicles (2-axle with 4 wheels) | 0.675 |
| Class 3 | Small, Medium and Large Passengers vehicles/ Medium goods vehicles (2-axle with 6 wheels) | 0.90 |
| Class 4 | Extra Large Passengers vehicles/Large Goods vehicles/20 ft container truck (3-axle with 6-10 wheels) | 1.35 |
| Class 5 | Double Deck Passengers vehicles/Heavy Goods vehicles/Heavy Track & Trailer/40 ft Container truck (>3-axle with >10 wheels) | 1.575 |
| Non Toll | Official toll exemption | |

Vehicle toll class for Qinglian Expressway (Close System) are different from that of the Qinglian Highways (Open System). Vehicle definitions given in the above table are applied to Qinglian Expressway. Vehicle toll class definitions and toll rates for Qinglian Highways are given in Table below:

**Existing Qinglian Highways Vehicle Classifications**

| Vehicle Class | Description |
|---|---|
| Class 1 | Motorcycles; Tricycle/Tractor. |
| Class 2 | Passenger vehicle < 20 seats; goods vehicle < 2 tons; and trailer. |
| Class 3 | Passenger vehicle 21-50 seats; goods vehicle 2 tons to 5 tons. |
| Class 4 | Passenger vehicle > 51 seats; goods vehicle > 5 tons to 15 tons. |
| Class 5 | Goods vehicle >15 tons. |
| Non Toll | Official toll exemption |

**Current toll rates of Qinglian Highway Class I and Class II (in RMB)**

| Toll Class | Qinglian Highway Class I | | Qinglian Highway Class II | |
|---|---|---|---|---|
| | Heyun I, Jiaochong and Shicangling Stations | Longkou and Xingzhi Stations | Heyun II Stations | Qigong, Shiluo and Xiaochongao Stations |
| Class 1 | 5.0 | 5.0 | 3.0 | 2.0 |
| Class 2 | 10.0 | 10.0 | 7.0 | 7.0 |
| Class 3 | 35.0 | 30.0 | 15.0 | 15.0 |
| Class 4 | 55.0 | 50.0 | 25.0 | 25.0 |
| Class 5 | 70.0 | 70.0 | 30.0 | 35.0 |

Future toll rate increases are assumed to be at five-year intervals with a 15% increase every 5 years starting from year 2008. It is a reasonable assumption because the last toll increase occurred in the year 1997, and this increment represents an increase of about 2.8% per annum and is reasonable when compared to the average economic growth of Guangdong of about 10% per annum.

**Future Toll Rates**
**Assumed Toll Rates for Qinglian Expressway (in RMB/km)**

| Year | Vehicle Toll Class | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| 2007 | 0.450 | 0.675 | 0.900 | 1.350 | 1.575 |
| 2008-2012 | 0.518 | 0.776 | 1.035 | 1.553 | 1.811 |
| 2013-2017 | 0.595 | 0.893 | 1.190 | 1.785 | 2.083 |
| 2018-2022 | 0.684 | 1.027 | 1.369 | 2.053 | 2.395 |
| 2023-2027 | 0.787 | 1.181 | 1.574 | 2.361 | 2.755 |
| 2028-2032 | 0.905 | 1.358 | 1.810 | 2.715 | 3.168 |
| 2033-2035 | 1.041 | 1.561 | 2.082 | 3.123 | 3.643 |

*Note:* Toll rates are assumed to increase by 15% every 5 years.

**Assumed Toll Rates for Qinglian Highway Class II (in RMB)**

| | Heyun II Station | | | | | Qigong, Shiluo & Xiaochong'ao Stations | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Toll Class | | | | | Toll Class | | | | |
| Year | 1 | 2 | 3 | 4 | 5 | 1 | 2 | 3 | 4 | 5 |
| 2005-2007 | 3 | 7 | 15 | 25 | 30 | 2 | 7 | 15 | 25 | 35 |
| 2008-2012 | 4 | 9 | 18 | 29 | 35 | 3 | 9 | 18 | 29 | 41 |
| 2013-2017 | 4 | 10 | 20 | 34 | 40 | 3 | 10 | 20 | 34 | 47 |
| 2018-2022 | 5 | 11 | 23 | 39 | 46 | 4 | 11 | 23 | 39 | 54 |
| 2023-2027 | 6 | 13 | 27 | 44 | 53 | 4 | 13 | 27 | 44 | 62 |
| 2028-2032 | 7 | 15 | 31 | 51 | 61 | 5 | 15 | 31 | 51 | 71 |
| 2033-2035 | 7 | 17 | 35 | 58 | 70 | 5 | 17 | 35 | 58 | 81 |

*Note:* Toll rates are assumed to increase by 15% every 5 years.

### E7. ESTIMATION OF REVENUE

A summary of the revenue estimations for highways under study is presented under two scenarios in the following tables.

**Qinglian Expressway Revenue (Million RMB) Forecasts — Conservative (1)**

| Year | Jingkou Int. | Zhuhang | Heyun | Jintan | Jintan Int. | Shitan | Dubu Int. | Yangshan |
|---|---|---|---|---|---|---|---|---|
| **KM** | **14.9** | **9.2** | **20.9** | **6.1** | **4.5** | **30.3** | **15.5** | **26.7** |
| 2008 | 70.77 | 42.82 | 98.65 | 28.83 | 21.27 | 142.27 | 70.28 | 117.88 |
| 2009 | 76.08 | 46.03 | 106.03 | 30.98 | 22.86 | 152.89 | 75.52 | 126.67 |
| 2010 | 81.79 | 49.48 | 113.96 | 33.30 | 24.57 | 164.31 | 81.16 | 136.11 |
| 2011 | 86.71 | 52.45 | 120.77 | 35.28 | 26.03 | 174.08 | 85.97 | 144.17 |
| 2012 | 99.53 | 60.30 | 138.66 | 40.47 | 29.87 | 199.92 | 98.97 | 166.32 |
| 2013 | 121.37 | 73.52 | 169.02 | 49.32 | 36.41 | 243.64 | 120.60 | 202.65 |
| 2014 | 128.72 | 77.95 | 179.17 | 52.27 | 38.59 | 258.21 | 127.80 | 214.72 |
| 2015 | 136.52 | 82.66 | 189.94 | 55.40 | 40.90 | 273.68 | 135.44 | 227.53 |
| 2020 | 196.02 | 118.64 | 272.42 | 79.41 | 58.62 | 392.30 | 194.08 | 325.98 |
| 2025 | 274.26 | 165.99 | 381.16 | 111.11 | 82.02 | 548.89 | 271.55 | 456.09 |
| 2030 | 365.64 | 221.29 | 508.15 | 148.13 | 109.35 | 731.76 | 362.02 | 608.04 |
| 2035 | 487.46 | 295.02 | 677.45 | 197.48 | 145.78 | 975.56 | 482.63 | 810.62 |

**Qinglian Expressway Revenue (Million RMB) Forecasts — Conservative (2)**

| Year | Libu | Fengbu | Lianzhou Int. | Lianzhou | Wancun | Sanlicun | Dalubian | Annual Revenue |
|---|---|---|---|---|---|---|---|---|
| **KM** | **4.5** | **25.5** | **3.5** | **15.2** | **23.3** | **4.8** | **9.4** | **214.07** |
| 2008 | 18.16 | 11.45 | 12.66 | 54.98 | 83.89 | 15.04 | 29.05 | 817.99 |
| 2009 | 19.52 | 12.31 | 13.60 | 59.08 | 90.15 | 16.16 | 31.21 | 879.08 |
| 2010 | 20.97 | 13.23 | 17.25 | 74.97 | 114.50 | 21.03 | 40.66 | 987.28 |
| 2011 | 22.22 | 14.01 | 18.26 | 79.38 | 121.24 | 22.26 | 43.05 | 1,045.88 |
| 2012 | 25.83 | 14.84 | 21.11 | 91.80 | 140.27 | 26.04 | 50.38 | 1,204.31 |
| 2013 | 31.48 | 18.09 | 25.71 | 111.82 | 170.85 | 31.72 | 61.35 | 1,467.54 |
| 2014 | 33.36 | 19.17 | 27.24 | 118.45 | 180.98 | 33.60 | 64.97 | 1,555.18 |
| 2015 | 35.35 | 20.31 | 28.85 | 125.48 | 191.72 | 35.59 | 68.82 | 1,648.20 |
| 2020 | 50.66 | 29.11 | 41.31 | 179.64 | 274.47 | 50.94 | 98.47 | 2,362.06 |
| 2025 | 70.88 | 40.73 | 57.80 | 251.34 | 384.02 | 71.27 | 137.77 | 3,304.88 |
| 2030 | 94.49 | 54.29 | 77.05 | 335.07 | 511.97 | 95.02 | 183.67 | 4,405.96 |
| 2035 | 125.97 | 72.38 | 102.73 | 446.71 | 682.54 | 126.67 | 244.87 | 5,873.87 |

**Qinglian Expressway Revenue (Million RMB) Forecasts — Optimistic (1)**

| Year | Jingkou Int. | Zhuhang | Heyun | Jintan | Jintan Int. | Shitan | Dubu Int. | Yangshan |
|---|---|---|---|---|---|---|---|---|
| **KM** | **14.9** | **9.2** | **20.9** | **6.1** | **4.5** | **30.3** | **15.5** | **26.7** |
| 2008 | 75.43 | 45.61 | 105.14 | 30.74 | 22.67 | 151.62 | 74.82 | 125.39 |
| 2009 | 83.20 | 50.31 | 115.97 | 33.91 | 25.01 | 167.23 | 82.52 | 138.30 |
| 2010 | 91.77 | 55.50 | 127.91 | 37.40 | 27.58 | 184.46 | 91.02 | 152.54 |
| 2011 | 98.21 | 59.38 | 136.82 | 39.99 | 29.50 | 197.26 | 97.33 | 163.09 |
| 2012 | 114.75 | 69.50 | 159.91 | 46.69 | 34.47 | 230.60 | 114.09 | 191.65 |
| 2013 | 141.25 | 85.53 | 196.76 | 57.44 | 42.40 | 283.67 | 140.33 | 235.70 |
| 2014 | 151.20 | 91.54 | 210.53 | 61.45 | 45.35 | 303.46 | 150.11 | 252.09 |
| 2015 | 161.88 | 97.99 | 225.29 | 65.74 | 48.52 | 324.66 | 160.57 | 269.64 |
| 2020 | 238.56 | 144.27 | 331.26 | 96.55 | 71.27 | 476.84 | 235.70 | 395.58 |
| 2025 | 333.79 | 201.86 | 463.48 | 135.09 | 99.71 | 667.17 | 329.78 | 553.48 |
| 2030 | 444.99 | 269.12 | 617.90 | 180.10 | 132.94 | 889.45 | 439.65 | 737.87 |
| 2035 | 593.25 | 358.78 | 823.76 | 240.11 | 177.22 | 1,185.79 | 586.13 | 983.71 |

**Qinglian Expressway Revenue (Million RMB) Forecasts — Optimistic (2)**

| Year | Libu | Fengbu | Lianzhou Int. | Lianzhou | Wancun | Sanlicun | Dalubian | Annual Revenue |
|---|---|---|---|---|---|---|---|---|
| **KM** | **4.5** | **25.5** | **3.5** | **15.2** | **23.3** | **4.8** | **9.4** | **214.07** |
| 2008 | 19.25 | 12.99 | 13.37 | 58.03 | 88.54 | 15.76 | 30.44 | 869.81 |
| 2009 | 21.23 | 14.32 | 14.74 | 63.99 | 97.63 | 17.38 | 33.56 | 959.31 |
| 2010 | 23.42 | 15.79 | 19.69 | 85.57 | 130.68 | 23.94 | 46.31 | 1,113.58 |
| 2011 | 25.04 | 16.89 | 21.04 | 91.44 | 139.66 | 25.59 | 49.48 | 1,190.70 |
| 2012 | 29.69 | 18.06 | 24.74 | 107.56 | 164.34 | 30.48 | 58.97 | 1,395.50 |
| 2013 | 36.52 | 22.21 | 30.41 | 132.24 | 202.04 | 37.47 | 72.48 | 1,716.45 |
| 2014 | 39.06 | 23.76 | 32.51 | 141.38 | 216.01 | 40.06 | 77.47 | 1,835.99 |
| 2015 | 41.79 | 25.42 | 34.76 | 151.17 | 230.97 | 42.83 | 82.82 | 1,964.04 |
| 2020 | 61.34 | 37.31 | 50.91 | 221.37 | 338.22 | 62.69 | 121.15 | 2,883.02 |
| 2025 | 85.82 | 52.20 | 71.23 | 309.73 | 473.22 | 87.71 | 169.51 | 4,033.78 |
| 2030 | 114.41 | 69.59 | 94.96 | 412.92 | 630.88 | 116.93 | 225.99 | 5,377.70 |
| 2035 | 152.53 | 92.77 | 126.60 | 550.49 | 841.07 | 155.88 | 301.28 | 7,169.36 |

**Qinglian Highway Class I Revenue Forecasts (Million RMB) — Conservative**

| Year | Heyun | Jiaochong | Shicangling | Longkou | Xingzhi | Total |
|---|---|---|---|---|---|---|
| 2005 | 32.6 | 35.9 | 27.3 | 7.5 | 8.4 | 111.6 |
| 2006 | 35.0 | 38.4 | 29.3 | 8.0 | 9.0 | 119.7 |
| 2007 | 50.9 | 54.5 | 44.7 | 20.8 | 21.8 | 192.8 |

**Qinglian Highway Class I Revenue Forecasts (Million RMB) — Optimistic**

| Year | Heyun | Jiaochong | Shicangling | Longkou | Xingzhi | Total |
|---|---|---|---|---|---|---|
| 2005 | 32.6 | 35.9 | 27.3 | 7.5 | 8.4 | 111.6 |
| 2006 | 35.2 | 38.6 | 29.4 | 8.0 | 9.0 | 120.3 |
| 2007 | 53.1 | 56.8 | 46.8 | 22.1 | 23.2 | 201.9 |

**Qinglian Highway Class II Revenue Forecasts (Million RMB) — Conservative**

| Year | Heyun II | Qigong | Shiluo | Xiaochong'ao | Total |
|---|---|---|---|---|---|
| 2005 | 6.9 | 3.6 | 2.2 | 6.6 | 19.2 |
| 2006 | 7.4 | 3.9 | 2.4 | 7.0 | 20.6 |
| 2007 | 7.9 | 4.2 | 2.5 | 7.5 | 22.1 |
| 2008 | 10.2 | 5.6 | 3.4 | 9.7 | 28.8 |
| 2009 | 11.0 | 6.0 | 3.6 | 10.4 | 30.9 |
| 2010 | 11.7 | 6.4 | 3.9 | 11.1 | 33.2 |
| 2011 | 12.5 | 6.8 | 4.2 | 11.8 | 35.3 |
| 2012 | 13.3 | 7.3 | 4.4 | 12.5 | 37.5 |
| 2013 | 15.9 | 8.7 | 5.3 | 15.0 | 44.8 |
| 2014 | 16.9 | 9.3 | 5.6 | 15.9 | 47.6 |
| 2015 | 17.9 | 9.9 | 6.0 | 16.9 | 50.6 |
| 2020 | 26.3 | 14.5 | 8.8 | 24.8 | 74.5 |
| 2025 | 37.8 | 21.1 | 12.8 | 35.2 | 106.9 |
| 2030 | 53.0 | 29.6 | 18.0 | 49.3 | 149.9 |
| 2035 | 69.6 | 38.9 | 23.6 | 64.6 | 196.7 |

**Qinglian Highway Class II Revenue Forecasts — Optimistic**

| Year | Heyun II | Qigong | Shiluo | Xiaochong'ao | Total |
|---|---|---|---|---|---|
| 2005 | 6.9 | 3.6 | 2.2 | 6.6 | 19.2 |
| 2006 | 7.4 | 3.9 | 2.4 | 7.1 | 20.8 |
| 2007 | 8.0 | 4.3 | 2.6 | 7.7 | 22.6 |
| 2008 | 10.5 | 5.7 | 3.5 | 9.9 | 29.6 |
| 2009 | 11.4 | 6.2 | 3.8 | 10.7 | 32.1 |
| 2010 | 12.3 | 6.7 | 4.1 | 11.6 | 34.7 |
| 2011 | 13.2 | 7.2 | 4.4 | 12.4 | 37.3 |
| 2012 | 14.2 | 7.8 | 4.7 | 13.3 | 40.0 |
| 2013 | 17.1 | 9.4 | 5.7 | 16.1 | 48.3 |
| 2014 | 18.4 | 10.1 | 6.1 | 17.3 | 51.8 |
| 2015 | 19.7 | 10.8 | 6.6 | 18.5 | 55.6 |
| 2020 | 30.9 | 16.9 | 10.3 | 29.2 | 87.4 |
| 2025 | 46.5 | 25.9 | 15.7 | 43.5 | 131.5 |
| 2030 | 68.4 | 38.0 | 23.2 | 64.0 | 193.5 |
| 2035 | 94.3 | 52.4 | 31.8 | 88.1 | 266.5 |

The above revenues are generated by four basic elements including traffic volumes, toll rates, travel distances and the rate of future toll increase. The adopted toll rates are the same as other Dual-2 (4 lanes) Expressways in Guangdong Province. We concluded that the revenue forecasts developed by the adopted methodology and assumptions are consistent with common professional practice.

**E8. CONCLUSION**

The Consultant concluded that the traffic forecasts developed by the above methodology and on the above assumptions are consistent with common professional practice and meet the objectives of the agreed scope of work with the Company. Full details of the Study and data are presented in the Report of "**Traffic and Revenue Study for Qinglian Expressway of March 2006**".

Yours sincerely,
For and on behalf of
**PARSONS BRINCKERHOFF (ASIA) LTD**
**Annie Lai**
*Project Manager*

*The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.*

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

25 April 2006

The Directors
Shenzhen Expressway Company Limited

Dear Sirs,

We set out below our report on the financial information regarding 廣東清連公路發展有限公司 Guangdong Qinglian Highway Development Company Limited (hereinafter referred to as "Qinglian Company") for each of the three years ended 31 December 2005 (the "Relevant Periods") for inclusion in the circular of Shenzhen Expressway Company Limited (the "Company") dated 25 April 2006 (the "Circular").

Qinglian Company is a sino-foreign cooperative joint venture established in the People's Republic of China (the "PRC") on 23 February 1995 with limited liability.

On 8 February 2006, the Company entered into a transfer agreement with 清遠市粵清公路建設發展有限公司清算組 the Yueqing Liquidation Committee for the acquisition of 20.09% equity interest in Qinglian Company. Details of the acquisition are described in the section headed "Letter from the Board" of the Circular.

The financial information of Qinglian Company for the Relevant Periods (the "Financial Information") set out in this report has been prepared based on the audited financial statements prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKIPCPA") of Qinglian Company for the Relevant Periods which were audited by Deloitte Touche Tohmatsu CPA Ltd. in accordance with the Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The statutory financial statements of Qinglian Company prepared in accordance with the relevant accounting rules and financial regulations applicable to sino-foreign cooperative joint ventures established in the PRC for the year ended 31 December 2003 were audited by Qing Yuan Jing Cheng Certified Public Accountant Co. Limited, certified public accountants registered in the PRC, and the statutory financial statements of Qinglian Company prepared in accordance with the relevant accounting rules and financial regulations applicable to sino-foreign cooperative joint ventures established in the PRC for two years ended 31 December 2005 were audited by Pan-China Schinda Certified Public Accountants, certified public accountants registered in the PRC.

For the purpose of this report, we have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The preparation of the Underlying Financial Statements are the responsibility of the directors of Qinglian Company who approved for their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Qinglian Company as at 31 December 2003, 2004 and 2005 and of the results and cash flows of Qinglian Company for the Relevant Periods.

## (A) FINANCIAL INFORMATION

**Income statements**

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | *NOTES* | **2003** | **2004** | **2005** |
| | | *RMB'000* | *RMB'000* | *RMB'000* |
| Turnover | 4 | 176,264 | 129,946 | 124,308 |
| Other income | 5 | 34,262 | 1,328 | 28,201 |
| Depreciation | | (72,719) | (60,286) | (86,491) |
| Staff costs | 6 | (13,876) | (11,963) | (13,216) |
| Road maintenance expenses | | (48,360) | (62,765) | (16,787) |
| (Allowance) reversal of allowance for amount due from a joint venturer | | — | (11,000) | 11,000 |
| Other expenses | | (9,800) | (10,769) | (7,858) |
| Finance costs | 8 | (44,813) | (34,294) | (35,890) |
| Profit (loss) before taxation | | 20,958 | (59,803) | 3,267 |
| Taxation | 9 | — | — | — |
| Profit (loss) for the year | | 20,958 | (59,803) | 3,267 |

**Balance sheets**

| | *NOTES* | At 31 December **2003** *RMB'000* | **2004** *RMB'000* | **2005** *RMB'000* |
|---|---|---|---|---|
| Non-current assets | | | | |
| Property, plant and equipment | 12 | 2,850,708 | 2,791,721 | 2,725,845 |
| Current assets | | | | |
| Other receivables, prepayments and deposits | 13 | 6,611 | 42,294 | 7,969 |
| Amount due from a joint venturer | 14 | 13,126 | 16,459 | 29,718 |
| Restricted cash | 20 | 89,317 | 67,844 | 44,407 |
| Bank balances and cash | | 11,966 | 2,278 | 11,070 |
| | | 121,020 | 128,875 | 93,164 |
| Current liabilities | | | | |
| Other payables and accrued expenses | 15 | 68,533 | 88,227 | 57,373 |
| Amount due to a joint venturer | 16 | 32,446 | 21,446 | 21,446 |
| Loans from joint ventures | 17 | 988,644 | 988,631 | 988,631 |
| Interest payable to joint ventures | 18 | 681,280 | 681,270 | 681,270 |
| | | 1,770,903 | 1,779,574 | 1,748,720 |
| Net current liabilities | | (1,649,883) | (1,650,699) | (1,655,556) |
| | | 1,200,825 | 1,141,022 | 1,070,289 |
| Capital and reserve: | | | | |
| Paid-in capital | 19 | 1,200,000 | 1,200,000 | 1,200,000 |
| Accumulated losses | | (659,175) | (718,978) | (715,711) |
| Total equity | | 540,825 | 481,022 | 484,289 |
| Non-current liabilities | | | | |
| Secured bank loans — amount due after one year | 20 | 660,000 | 660,000 | 586,000 |
| | | 1,200,825 | 1,141,022 | 1,070,289 |

**Statements of changes in equity**

| | Paid-in capital | Accumulated losses | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at 1 January 2003 | 1,200,000 | (680,133) | 519,867 |
| Profit for the year | — | 20,958 | 20,958 |
| Balance at 31 December 2003 | 1,200,000 | (659,175) | 540,825 |
| Loss for the year | — | (59,803) | (59,803) |
| Balance at 31 December 2004 | 1,200,000 | (718,978) | 481,022 |
| Profit for the year | — | 3,267 | 3,267 |
| Balance at 31 December 2005 | 1,200,000 | (715,711) | 484,289 |

**Cash flow statements**

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| OPERATING ACTIVITIES | | | |
| Profit (loss) before taxation | 20,958 | (59,803) | 3,267 |
| Adjustments for: | | | |
| Interest expenses | 44,813 | 34,294 | 35,890 |
| Interest income | (1,743) | (730) | (589) |
| Depreciation | 72,719 | 60,286 | 86,491 |
| Allowance (reversal of allowance) for amount due from a joint venturer | — | 11,000 | (11,000) |
| Reversal of withholding tax and business tax on interest payable | — | — | (27,000) |
| Operating cash flows before movements in working capital | 136,747 | 45,047 | 87,059 |
| Decrease (increase) in other receivables, prepayments and deposits | 3,340 | 1,317 | (2,675) |
| (Decrease) increase in other payables and accrued expenses | (50,106) | 8,694 | (3,845) |
| Cash generated from operations | 89,981 | 55,058 | 80,539 |
| Interest paid | (57,415) | (34,317) | (35,890) |
| NET CASH FROM OPERATING ACTIVITIES | 32,566 | 20,741 | 44,649 |
| INVESTING ACTIVITIES | | | |
| Interest received | 1,743 | 730 | 589 |
| Advance to a joint venturer | (13,126) | (14,333) | (2,259) |
| Purchase of property, plant and equipment | (9,500) | (1,299) | (20,615) |
| (Advance to) repayment from an independent third party | — | (37,000) | 37,000 |
| Decrease in restricted cash | 94,217 | 21,473 | 23,437 |
| NET CASH FROM (USED IN) INVESTING ACTIVETIES | 73,334 | (30,429) | 38,152 |
| FINANCING ACTIVITIES | | | |
| New bank loans raised | 1,235,651 | — | — |
| Repayment of bank loans | (1,275,673) | — | (74,000) |
| Repayment to joint venturers | (74,495) | — | (9) |
| NET CASH USED IN FINANCING ACTIVITIES | (114,517) | — | (74,009) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (8,617) | (9,688) | 8,792 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 20,583 | 11,966 | 2,278 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash | 11,966 | 2,278 | 11,070 |

## (B) NOTES TO THE FINANCIAL INFORMATION

### 1. PRESENTATION OF FINANCIAL INFORMATION

#### (a) Presentation of financial information

The Financial Information is presented in Renminbi ("RMB") since that is the currency in which majority of the Qinglian Company's transactions are denominated.

Qinglian Company is principally engaged in the operation of a toll highway and road known as "Qinglian Highway" in the PRC.

#### (b) Basis of preparation of financial information

The Financial Information have been prepared on a going concern basis because a joint venturer of Qinglian Company has agreed to provide adequate funds to enable the Qinglian Company to meet in full its financial obligation as they fall due for the foreseeable future.

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGE IN ACCOUNTING POLICIES

In 2005, Qinglian Company has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in change to Qinglian Company's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

**Classification and measurement of financial assets and financial liabilities**

Prior to 1 January 2005, Qinglian Company stated its financial assets at the nominal amounts less allowance, if any, and financial liabilities at the nominal amounts.

With effective from 1 January 2005, Qinglian Company has adopted HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39, "Financial Instruments: Recognition and Measurement". Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Other financial liabilities" are carried at amortised cost using the effective interest method. This change in the accounting policy has had no impact on amounts reported for 2005 or prior years.

Qinglian Company has not early applied the following new standards and interpretations that have been issued but are not yet effective as at the date of this report. The directors of Qinglian Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of Qinglian Company.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures[1] |
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures[2] |
| HKAS 21 (Amendment) | Net Investment in a Foreign Operation[2] |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2] |
| HKAS 39 (Amendment) | The Fair Value Option[2] |

| | |
|---|---|
| HKAS 39 & HKFRS 4 (Amendments) | Financial Guarantee Contracts[2] |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources[2] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement Contains a Lease[2] |
| HK(IFRIC)-Int 5 | Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds[2] |
| HK(IFRIC)-Int 6 | Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment[3] |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4] |

1 Effective for annual periods beginning on or after January 1, 2007.

2 Effective for annual periods beginning on or after January 1, 2006.

3 Effective for annual periods beginning on or after December 1, 2005.

4 Effective for annual periods beginning on or after March 1, 2006.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with accounting principles generally accepted in Hong Kong and complies with Hong Kong Financial Reporting Standards issued by the HKICPA. The Financial Information has been prepared under the historical cost convention.

The principal accounting policies adopted are consistent with the accounting policies using by the Company as follows:

### Revenue recognition

(i) *Toll revenue*

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

(ii) *Interest income*

Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the effective interest rate applicable.

(iii) *Refund of business tax*

Refund of business tax is recognised to income statement when it becomes receivable.

### Property, plant and equipment

Construction in progress which includes development expenditure and other direct costs attributable to the development of toll roads, buildings and structures for Qinglian Company's own use is stated at cost less impairment losses (if any). Construction in progress is not depreciated until completion and the relevant assets are available for use. Costs are transferred to other categories of property, plant and equipment upon completion.

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of toll roads is provided to write off the cost based on the proportion of actual traffic volume for a particular period over the total projected traffic volume throughout the periods within which Qinglian Company is granted the rights to operate those roads. It is Qinglian Company's policy to review regularly the total projected traffic volume throughout the operating periods of the respective toll roads.

Depreciation is provided to write off the cost of other property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, as below:

| | |
|---|---|
| Buildings and structures | 30 years |
| Equipment | |
| — traffic related | 20 years |
| — electronic and others | 3 to 5 years |
| Motor vehicles | 5 years |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Repairs and maintenance are charged to the income statement during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to Qinglian Company. Major renovations are depreciated over the remaining useful life of the relevant asset.

A condition of continuing to operate an item of property, plant and equipment is to perform regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. The remaining carrying amount, if any, of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item is acquired or constructed. If necessary, the estimated cost of a previous similar inspection is used as an indication of what the cost of the existing inspection component was when the item is acquired or constructed.

**Impairment**

At each balance sheet date, Qinglian Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other year, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of assets and liabilities in a transaction which affect neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled. Deferred tax is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which cash the deferred tax is also dealt with in equity.

**Retirement benefit costs**

Payments to the retirement schemes managed by local social security bureau in accordance with the government regulation in the PRC are charged as an expense as they fall due.

**Foreign currencies**

Transactions in currencies other than RMB are initially recorded in RMB at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in currencies other than RMB are re-translated at the rates prevailing on the balance sheet date. Exchange differences arising on such translation exchange are included in profit or loss for the period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the dates when the fair value that was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

**4. TURNOVER**

Turnover represents income from toll roads less business tax and is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Income from toll roads | 185,677 | 136,912 | 130,849 |
| Less: Business tax | (9,413) | (6,966) | (6,541) |
| | 176,264 | 129,946 | 124,308 |

All turnover of Qinglian Company is toll income earned in the PRC. In addition, all assets of Qinglian Company are located in the PRC.

## 5. OTHER INCOME

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Reversal of withholding tax and business tax on interest payable | — | — | 27,000 |
| Refund of business tax | 29,365 | — | — |
| Interest income | 1,743 | 730 | 589 |
| Others | 3,154 | 598 | 612 |
| | 34,262 | 1,328 | 28,201 |

## 6. STAFF COSTS

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Salaries and other benefits | 12,901 | 10,988 | 12,448 |
| Retirement benefit scheme contributions | 975 | 975 | 768 |
| | 13,876 | 11,963 | 13,216 |

## 7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) During the Relevant Periods, no emoluments were paid by Qinglian Company to its directors as directors' fees, salaries, other benefits, bonus, contributions to retirement benefit schemes, and an inducement to join or upon joining Qinglian Company or as compensation for loss of office and no director had waived any emoluments.

(ii) Details of remuneration paid for the five highest paid individuals of Qinglian Company for the Relevant Periods were as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Salaries and other benefits | 682 | 567 | 625 |
| Retirement benefit scheme contributions | 98 | 65 | 76 |
| | 780 | 632 | 701 |

During the Relevant Periods, no emoluments were paid by Qinglian Company to the five highest paid individuals as an inducement to join or upon joining Qinglian Company or as compensation for loss of office.

## 8. FINANCE COSTS

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Interest on: | | | |
| — bank loans not wholly repayable within five years | 42,671 | 34,315 | 35,882 |
| — loans from joint ventures | 1,932 | — | — |
| Exchange loss (gain) on translation of foreign currency loans | 203 | (23) | — |
| Others | 7 | 2 | 8 |
| | 44,813 | 34,294 | 35,890 |

## 9. TAXATION

No provision for PRC income tax has been made as Qinglian Company incurred a tax loss during 2003 and 2004. The assessable profit for 2005 was wholly set off against available tax losses brought forward.

Taxation for the Relevant Periods can be reconciled to profit (loss) before taxation as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Profit (loss) before taxation | 20,958 | (59,803) | 3,267 |
| Tax at PRC income tax rate of 15% | 3,144 | (8,970) | 490 |
| Tax effect of expenses not deductible for tax purpose | 1,977 | 4,456 | 1,658 |
| Tax effect of income not taxable for tax purpose | (4,404) | — | (1,650) |
| Effect of differential tax rates on temporary difference | (2,423) | 2,776 | (1,645) |
| Others | 1,706 | 1,738 | 1,147 |
| Taxation | — | — | — |

The followings are the major deferred tax liabilities and assets recognised and movements thereon during the Relevant Periods:

| | Accelerated tax depreciation | Tax losses | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2003 | 20,756 | (20,756) | — |
| Charge (credit) to income for the year | 15,960 | (15,960) | — |
| At 31 December 2003 | 36,716 | (36,716) | — |
| Charge (credit) to income for the year | 17,866 | (17,866) | — |
| At 31 December 2004 | 54,582 | (54,582) | — |
| (Credit) charge to income for the year | (8,278) | 8,278 | — |
| At 31 December 2005 | 46,304 | (46,304) | — |

The above deferred tax liabilities and assets have been offset in accordance with the conditions set out in HKAS 12 "Income Taxes".

At the balance sheet dates, Qinglian Company had no significant unprovided deferred tax.

**10. DIVIDEND**

No dividend has been paid or declared by Qinglian Company during the Relevant Periods.

**11. EARNINGS (LOSS) PER SHARE**

Figure of earnings (loss) per share is not presented as such information is not meaningful having regard to the purpose of this report.

**12. PROPERTY, PLANT AND EQUIPMENT**

| | Toll roads | Buildings and structures | Equipment -traffic related | Equipment -electronic and others | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| COST | | | | | | | |
| At 1 January 2003 | 3,653,879 | 394 | 16,624 | 2,559 | 2,770 | 3,342 | 3,679,568 |
| Additions | — | — | 3 | — | 172 | 9,325 | 9,500 |
| Reclassification | — | — | 11,420 | — | — | (11,420) | — |
| At 31 December 2003 | 3,653,879 | 394 | 28,047 | 2,559 | 2,942 | 1,247 | 3,689,068 |
| Additions | — | — | — | 14 | 222 | 1,063 | 1,299 |
| Reclassification | — | — | 66 | — | — | (66) | — |
| At 31 December 2004 | 3,653,879 | 394 | 28,113 | 2,573 | 3,164 | 2,244 | 3,690,367 |
| Additions | — | — | — | 1,564 | 680 | 18,371 | 20,615 |
| Reclassification | — | — | 635 | — | — | (635) | — |
| At 31 December 2005 | 3,653,879 | 394 | 28,748 | 4,137 | 3,844 | 19,980 | 3,710,982 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | |
| At 1 January 2003 | 760,580 | 61 | 2,185 | 1,285 | 1,530 | — | 765,641 |
| Provided for the year | 70,742 | 12 | 1,229 | 705 | 31 | — | 72,719 |
| At 31 December 2003 | 831,322 | 73 | 3,414 | 1,990 | 1,561 | — | 838,360 |
| Provided for the year | 58,042 | 12 | 2,017 | 183 | 32 | — | 60,286 |
| At 31 December 2004 | 889,364 | 85 | 5,431 | 2,173 | 1,593 | — | 898,646 |
| Provided for the year | 84,236 | 12 | 1,880 | 195 | 168 | — | 86,491 |
| At 31 December 2005 | 973,600 | 97 | 7,311 | 2,368 | 1,761 | — | 985,137 |
| NET BOOK VALUES | | | | | | | |
| At 31 December 2003 | 2,822,557 | 321 | 24,633 | 569 | 1,381 | 1,247 | 2,850,708 |
| At 31 December 2004 | 2,764,515 | 309 | 22,682 | 400 | 1,571 | 2,244 | 2,791,721 |
| At 31 December 2005 | 2,680,279 | 297 | 21,437 | 1,769 | 2,083 | 19,980 | 2,725,845 |

## 13. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | At 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Other receivables | 3,546 | 39,790 | 6,500 |
| Prepayments and deposits | 3,065 | 2,504 | 1,469 |
| | 6,611 | 42,294 | 7,969 |

Included in other receivables as at 31 December 2004 was an amount due from an independent third party of RMB37,000,000, which was unsecured and interest-free and was full repaid in 2005.

## 14. AMOUNT DUE FROM A JOINT VENTURER

| | **At 31 December 2003** | **Maximum amount outstanding during 2003** | **At 31 December 2004** | **Maximum amount outstanding during 2004** | **At 31 December 2005** | **Maximum amount outstanding during 2005** |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Spring Sun International Limited ("Spring Sun") | 13,126 | 13,126 | 27,459 | 27,459 | — | |
| Shenzhen Expressway Company Limited ("Shenzhen Expressway") | — | | — | | 29,718 | 29,718 |
| | 13,126 | | 27,459 | | 29,718 | |
| Less: Allowance | — | | (11,000) | | — | |
| | 13,126 | | 16,459 | | 29,718 | |

The balances as at 31 December 2003 and 2004, 2005 represented the amounts due from Spring Sun and Shenzhen Expressway, respectively. They are unsecured, interest-free and repayable on demand.

In 2004, the directors of Qinglian Company are of the opinion that amount of RMB11,000,000 due from Spring Sun was considered irrecoverable and accordingly, allowance of RMB11,000,000 was made. Following the transfer of interest in Qinglian Company from Spring Sun to Shenzhen Expressway in 2005, the receivable was transferred to the latter company. Accordingly, the allowance made in 2004 was reversed in 2005.

The carrying amounts of amount due from a joint venturer at respective balance sheet dates of the Relevant Periods approximate their fair values.

### 15. OTHER PAYABLES AND ACCRUED EXPENSES

| | At 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Business tax payable | 588 | 727 | 862 |
| Withholding tax and business tax on interest payable | 54,026 | 54,026 | 27,026 |
| Road maintenance payables | 11,962 | 25,453 | 12,742 |
| Salary and welfare payables | 123 | 35 | 2,127 |
| Others | 1,834 | 7,986 | 14,616 |
| | 68,533 | 88,227 | 57,373 |

The carrying amounts of above other payables and accrued expenses at respective balance sheet dates of the Relevant Periods approximate their fair values.

### 16. AMOUNT DUE TO A JOINT VENTURER

The carrying amounts of amount due to a joint venturer at respective balance sheet dates of the Relevant Periods approximate their fair values.

The amount is unsecured, interest-free and repayable on demand.

### 17. LOANS FROM JOINT VENTURERS

| | At 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Spring Sun | 415,326 | 415,316 | — |
| Sun Yue Traffic Development Limited ("Sun Yue Traffic") | 140,172 | 140,169 | — |
| Qingyuan City Yueqing Public Road Construction and Development Co., Ltd. ("Yueqing") | 198,809 | 198,809 | 198,809 |
| Guangzhou Cement Joint Stock Limited Company ("Guangzhou Cement") | 234,337 | 234,337 | 234,337 |
| Shenzhen Expressway | — | — | 555,485 |
| | 988,644 | 988,631 | 988,631 |

The carrying amounts of the above loans at respective balance sheet dates of the Relevant Periods approximate to their fair values.

The loans are unsecured, non-interest bearing and repayable on demand.

## 18. INTEREST PAYABLE TO JOINT VENTURERS

| | At 31 December | | |
|---|---|---|---|
| | 2003 | 2004 | 2005 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Spring Sun | 337,741 | 337,733 | — |
| Sun Yue Traffic | 78,179 | 78,177 | — |
| Yueqing | 121,668 | 121,668 | 121,668 |
| Guangzhou Cement | 143,692 | 143,692 | 143,692 |
| Shenzhen Expressway | — | — | 415,910 |
| | 681,280 | 681,270 | 681,270 |

The carrying amounts of the above payables at respective balance sheet dates of the Relevant Periods approximate to their fair value as at that date.

The loans are unsecured, non-interest bearing and repayable on demand.

## 19. PAID-IN CAPITAL

| | At 31 December 2003, 2004 and 2005 |
|---|---|
| | *RMB'000* |
| Registered and paid-in capital | 1,200,000 |

There was no movement in paid-in capital during the Relevant Periods.

## 20. SECURED BANK LOANS AND RESTRICTED CASH

All secured bank loans are in maturity over five years at respective balance sheet date of the Relevant Periods. At 31 December 2005, the loans bear interest at 6.12% (2004: 5.76%, 2003: 5.76%) per annum which approximate prevailing market rates and expose Qinglian Company fair value interest rate risk.

The carrying amounts of the secured bank loans at respective balance sheet dates of the Relevant Periods approximate their fair values.

The loans are secured on the toll road income receiving rights of Qinglian Highways, which are deposited in designated bank accounts of Qinglian Company. The relevant bank balances are presented as restricted cash in the balance sheets and can be applied for Qinglian Company's daily operation use upon proper approval from the bank.

**21. RETIREMENT BENEFITS PLANS**

All the full-time employees of Qinglian Company are covered by a defined-contribution retirement scheme organised by the relevant local government authority in the PRC. Qinglian Company is required to make monthly contributions to the retirement scheme up to the time of retirement of eligible employees, at a rate and on the average annual salary set by local government.

**22. RELATED PARTY TRANSACTIONS**

Save as the amounts due from/to related parties disclosed in notes 8, 14, 16 , 17 and 18, Qinglian Company entered into the following transactions with related parties during the Relevant Periods:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Interest expenses on loans from Sun Yue Traffic | 1,932 | — | — |

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Management expenses to venturers: | | | |
| Spring Sun | 300 | 300 | — |
| Sun Yue Traffic | 120 | 120 | — |
| Yueqing | 120 | 120 | 120 |
| Guangzhou Cement | 120 | 120 | 120 |
| Shenzhen Expressway and its subsidiary | — | — | 420 |
| | 660 | 660 | 660 |

Details of remuneration paid for the key management of Qinglian Company for the Relevant Periods were as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Short-term benefits | 596 | 485 | 625 |
| Post-employment benefits | 92 | 58 | 76 |
| | 688 | 543 | 701 |

During the Relevant Periods, no emoluments were paid by Qinglian Company to the key management as an inducement to join or upon joining Qinlian Company or as compensation for loss of office.

## 23. CAPITAL COMMITMENTS

As at the respective balance sheet dates of the Relevant Periods, Qinglian Company had the following capital commitments:

| | At 31 December | | |
|---|---|---|---|
| | **2003** | **2004** | **2005** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Capital expenditure in respect of property, plant and equipment: | | | |
| — contracted but not provided in the Financial Information | — | — | 83,202 |
| — authorised but not contracted for | — | — | 4,263,222 |

## 24. CRITICAL ACCOUNTING ESTIMATES

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

Qinglian Company 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 discussed below.

In accordance with Qinglian Company's accounting policies, depreciation of toll roads is provided to write off the costs based on the proportion of actual traffic volume for a particular period over the total projected traffic volume throughout the periods within which Qinglian Company is granted the rights to operate those roads.

Depreciation of toll roads is critical accounting estimate of Qinglian Company. Material adjustment may need to be made to the carrying amounts of toll roads should there be a material difference between the aforesaid projected traffic volume and the actual figures. It is Qinglian Company's policy to review regularly the total projected traffic volume throughout the operating periods of the respective toll roads. According to the assessment made by the directors of Qinglian Company, the current estimates on total projected traffic volume should not be materially different from the actual results.

## 25. FINANCIAL RISK MANAGEMENT

**Financial risk factors**

The activities of Qinglian Company expose it to a variety of financial risks: market risk (including currency risk and fair value interest risk), liquidity risk and fair value interest-rate risk.

(a) *Currency risk*

Qinglian Company mainly operates in the PRC with most of the transactions settled in RMB. It does not have significant exposure to foreign exchange risk in the PRC.

(b) *Liquidity risk*

The management of Qinglian Company maintains prudent liquidity risk policy to retain sufficient cash for its operation and repayment of loans.

(c) *Interest rate risk*

As the bank loans of Qinglian Company carry interest at rates varying with market interest rates, Qinglian Company is exposed to fair value interest-rate risk. Qinglian Company has not used any interest rate swaps to hedge its exposure to interest-rate risk during the Relevant Periods.

(d) *Directors' remuneration*

No remuneration has been paid or payable to Qinglian Company's directors in respect of the Relevant Periods.

(e) *Subsequent events*

There were no significant subsequent events after 31 December 2005.

(f) *Subsequent financial statements*

No audited financial statements of Qinglian Company have been prepared in respect of any period subsequent to 31 December 2005.

Yours faithfully,
**Deloitte Touche Tohmatsu**
Certificate Public Accountants
Hong Kong

**Management Discussion and analysis of Qinglian Company for the three years ended 31 December 2005**

***For the year ended 31 December 2005***

*Review of operations*

For the financial year of 2005, the turnover of Qinglian Company was approximately RMB124.31 million, decreased by approximately 4.3% when compared to year 2004. The decrease was mainly due to the continued decrease of toll revenue from Qinglian Highways as a result of the deteriorating road conditions. The depreciation during the year is RMB86.49 million, representing an increase of RMB26.21 million over the previous year. Since the total projected traffic volume was reduced based on the current traffic forecast report prepared by PBA, the depreciation of toll roads provided for 2005 therefore increased accordingly. For the year ended 31 December 2005, Qinglian Company recorded a profit after taxation of approximately RMB3.27 million, which was mainly due to the significant decrease in road maintenance expenses of RMB45.98 million during the year. For the financial year ended 31 December 2005, the road maintenance expenses was approximately RMB16.79 million as compared to approximately RMB62.77 million for the year ended 31 December 2004. Moreover, for the year ended 31 December 2005, there is a significant increase in other income, which amounted to approximately RMB28.20 million, increased by approximately 2,024% as compared to approximately RMB1.33 million in 2004. The significant increase was mainly due to the reversal of withholding tax and business tax on interest payable, amounting to RMB27.00 million.

*Liquidity and financial resources*

As at 31 December 2005, Qinglian Company's cash and cash equivalents amounted to RMB55.48 million (31 December 2004: RMB70.12 million), including cash and bank balances of RMB11.07 million (31 December 2004: RMB2.28 million) and restricted cash of RMB44.41 million (31 December 2004: RMB67.84 million). The decrease in cash and cash equivalents is mainly due to repayment of bank loan of RMB74 million during the year. Since the bank loans of Qinglian Company are secured on the toll road income receiving rights of Qinglian Highways and is deposited in designated bank accounts of Qinglian Company, the relevant bank balances are therefore presented as restricted cash in the balance sheets of Qinglian Company and can be applied for daily operation use upon proper approval from the bank.

As at 31 December 2005, the total borrowings were RMB2,255.90 million (31 December 2004: RMB2,329.90 million), including secured bank loans of RMB586 million (31 December 2004: RMB660 million), loans from joint venturers of RMB988.63 million (31 December 2004: RMB988.63 million) and accrued interests payable to joint venturers of RMB681.27 million (31 December 2004: RMB681.27 million). As at 31 December 2005, Qinglian Company's debt-to-asset ratio was 80.02% (31 December 2004: 79.77%). As at 31 December 2005, Qinglian Company did not have any banking facilities.

***For the year ended 31 December 2004***

*Review of operations*

For the financial year ended 2004, the turnover of Qinglian Company was approximately RMB129.95 million, decreased by approximately 26.3% when compared to year 2003. The decrease was mainly due to the decrease of toll revenue from Qinglian Highways which was attributable to two major reasons, the deteriorating road conditions and the diversion of traffic flows from Jinzhu Expressway. The net loss for 2004 amounted to RMB59.8 million as opposed to the net profit of approximately RMB20.96 million for the year 2003.

*Liquidity and financial resources*

As at 31 December 2004, Qinglian Company's cash and cash equivalents amounted to RMB70.12 million (31 December 2003: RMB101.28 million), including cash and bank balances of RMB2.28 million (31 December 2003: RMB11.96 million) and restricted cash of RMB67.84 million (31 December 2003: RMB89.32 million). The significant decrease in cash and bank balances was mainly due to the decrease in toll income from operation.

As at 31 December 2004, the total borrowings were RMB2,329.90 million (31 December 2003: RMB2,329.92 million), including secured bank loans of RMB660 million (31 December 2003: RMB660 million), loans from joint venturers of RMB988.63 million (31 December 2003: RMB988.64 million) and accrued interests payable to joint venturers of RMB681.27 million (31 December 2003: RMB681.28 million). As at 31 December 2004, Qinglian Company's debt-to-asset ratio was 79.77% (31 December 2003: 78.4%).

***For the year ended 31 December 2003***

*Review of operations*

For the financial year ended 2003, the turnover of Qinglian Company was approximately RMB176.26 million, decreased by approximately 35.4% when compared to year 2002. The decrease was mainly due to the decrease of toll revenue from Qinglian Highways as a result of the opening of Jinzhu Expressway which diverted the traffic flows and the poor road condition discouraged road users to choose Qinglian Highways. The net profit for 2003 amounted to RMB20.96 million as opposed to the net loss of approximately RMB56.48 million for the year 2002.

*Liquidity and financial resources*

As at 31 December 2003, Qinglian Company's cash and cash equivalents amounted to RMB101.28 million (31 December 2002: RMB204.11 million), including cash and bank balances of RMB11.96 million (31 December 2002: RMB20.58 million) and restricted cash of RMB89.32 million (31 December 2002: RMB183.53 million). The significant decrease in cash and bank balances was mainly due to the decrease in toll income from operation.

As at 31 December 2003, the total borrowings were RMB2,329.92 million (31 December 2002: RMB2,447.30 million), including secured bank loans of RMB660 million (31 December 2002: RMB700.02 million), loans from joint venturers of RMB988.64 million (31 December 2002: RMB1,063.17 million) and accrued interests payable to joint venturers of RMB681.28 million (31 December 2002: RMB684.11 million). As at 31 December 2003, Qinglian Company's debt-to-asset ratio was 78.4% (31 December 2002: 78.24%).

**Segment Information**

Qinglian Company's main source of revenue is toll revenue from operations of Qinglian Highways. Accordingly, no segment information is presented for business and geographical segments.

**Interest Rate Risks**

As at 31 December 2005, all the bank borrowings of Qinglian Company were secured RMB bank loans which bear interest at 6.12% per annum. The loans' interest approximated prevailing market rates and exposed Qinglian Company to interest rate risk.

The loans from joint venturers were unsecured loans without bearing any interest. Accordingly, there was no interest rate risk exposure for these loans.

**Foreign Exchange Risks**

Since all the major operations of Qinglian Company are located in the PRC and the majority of transactions are settled in RMB, Qinglian Company did not have significant exposure to foreign exchange risk.

**Investment and Acquisition**

There were no significant investments or acquisitions of Qinglian Company for the three years ended 31 December 2005.

**Employees and Remuneration Policy**

As at 31 December 2005, Qinglian Company has 405 employees, of which 120 of them are management and technical staff while 385 of them are toll collection staff. They were remunerated according to the nature of job and market condition. Other employee benefits for eligible employees included employee's retirement scheme, basic medical insurance, industrial injury insurance, unemployment insurance to its employees in accordance with the rules and regulations promulgated by the government.

**Charge on Qinglian Company Assets**

Qinglian Company had charge on the toll road income receiving rights of Qinglian Highways for bank loan, as at 31 December 2005, the unpaid portion of such loan is RMB586 million.

**Contingent Liabilities**

As at 31 December 2005, Qinglian Company had no significant contingent liabilities.

**Review and outlook of Qinglian Company**

Qinglian Class One Highway, owned by Qinglian Company, is a 215.85 km essential corridor to link up the Pearl River Delta region with the central and northern parts of Guangdong Province, Hunan Province and other central regions. With a view to enhancing the efficiency of the existing route and bringing the capacity of the major trunk highway into full play, plans are underway to re-construct Qinglian Class One Highway into an expressway.

The reconstruction of Qinglian Class I Highway into an expressway proceeded smoothly during 2005. Senior management members and key technical and management staff of the Company have been assigned to set up a construction management head office to actively push forward relevant work. Tenders have been invited for project designs and for the construction of the project management office. Land requisition, demolition and relocation is all underway as well. The reconstruction of an experimental section started in full wing in December 2005, marking the commencement of a special research on foundation works and laying a sound platform for achieving the objective of successfully completing Qinglian Expressway and opening it to traffic in 2008. The main purpose of the Company's investment in the Qinglian Project is to reconstruct the Qinglian Class 1 Highway into an expressway so as to enhance the effectiveness of the existing highways and to fully perform its functions as a main route. It will be the arterial highway in Guangdong Province, connecting the northern and the southern highway framework in the province and moving the trading and economic activities from Pearl River Delta region to the Mainland. It will bring decent investment return for the Group and has strategic importance to the Group's development.

## 1. FINANCIAL SUMMARY

*The following is a summary of the consolidated results and the assets and liabilities of the Group for each of the last three financial years ended 31 December 2005:*

| | Year ended 31 December | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| **RESULTS** | | *(Restated)** | *(Restated)** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Turnover | 911,482 | 705,776 | 598,137 |
| Profit before income tax | 642,280 | 498,725 | 1,058,433 |
| Income tax expenses | 80,071 | 76,019 | 147,551 |
| Profit for the year | 562,209 | 422,706 | 910,882 |
| Attributable to: | | | |
| Equity holders of the Company | 552,622 | 414,888 | 904,484 |
| Minority interest | 9,587 | 7,818 | 6,398 |

| | As at 31 December | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| | | *(Restated)** | *(Restated)** |
| **ASSETS AND LIABILITIES** | *RMB'000* | *RMB'000* | *RMB'000* |
| Total assets | 10,079,315 | 7,527,763 | 7,184,338 |
| Total liabilities | 3,706,556 | 1,458,998 | 1,116,098 |
| Minority interest | 43,138 | 41,700 | 41,730 |
| Capital and reserves attributable to the Company's equity holders | 6,329,621 | 6,027,065 | 6,026,510 |

* *In 2005, the Group adopted the new or revised Hong Kong Financial Reporting Standards which are relevant to its operations. The comparative figures in previous years have been restated in accordance with the relevant requirements.*

2. **Financial Information**

*The following is the audited financial information of the Group for the year ended 31 December 2005 together with the related notes. The full set of the audited financial statements will be published with the 2005 annual report of the Company to be released to the shareholders of the Company in due course.*

(I) **Consolidated Balance Sheet**

| | *Note* | **As at 31 December** **2005** *RMB'000* | **2004** *RMB'000* (Restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 4,055,081 | 4,130,363 |
| Construction in progress | 6 | 693,443 | 286,584 |
| Land use rights | 7 | 368,830 | 386,468 |
| Intangible assets | 8 | 824,585 | 6,815 |
| Interests in associates | 11 | 2,966,903 | 870,698 |
| Deferred income tax assets | 18 | 6,764 | 9,473 |
| Loan to a jointly controlled entity | 10(d) | 78,240 | 123,359 |
| | | 8,993,846 | 5,813,760 |
| **Current assets** | | | |
| Inventories | | 3,540 | 7,367 |
| Trade and other receivables | 12 | 157,829 | 408,810 |
| Restricted cash | 13 | 31,615 | 55,988 |
| Cash and cash equivalents | 14 | 892,485 | 1,241,838 |
| | | 1,085,469 | 1,714,003 |
| **Total assets** | | 10,079,315 | 7,527,763 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 15 | 2,180,700 | 2,180,700 |
| Other reserves | 16 | 3,376,930 | 3,247,852 |
| Retained earnings | | | |
| — Proposed final dividend | 29 | 261,684 | 239,877 |
| — Others | | 510,307 | 358,636 |
| | | 6,329,621 | 6,027,065 |
| **Minority interest** | | 43,138 | 41,700 |
| **Total equity** | | 6,372,759 | 6,068,765 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 17 | 2,230,602 | 142,911 |
| Deferred income tax liabilities | 18 | 155,030 | 59,767 |
| Government grants | 19 | 364,388 | 372,764 |
| | | 2,750,020 | 575,442 |
| **Current liabilities** | | | |
| Other payables and accrued expenses | 20 | 670,692 | 283,443 |
| Current income tax liabilities | | 15,736 | 17,031 |
| Borrowings | 17 | 270,108 | 583,082 |
| | | 956,536 | 883,556 |
| **Total liabilities** | | 3,706,556 | 1,458,998 |
| **Total equity and liabilities** | | 10,079,315 | 7,527,763 |
| **Net current assets** | | 128,933 | 830,447 |
| **Total assets less current liabilities** | | 9,122,779 | 6,644,207 |

(II) **Balance Sheet**

| | Note | As at 31 December 2005 RMB'000 | 2004 RMB'000 (Restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 2,158,511 | 2,196,726 |
| Construction in progress | 6 | 648,089 | 280,242 |
| Land use rights | 7 | 70,504 | 73,862 |
| Investments in subsidiaries | 9 | 812,690 | 808,974 |
| Investments in jointly controlled entities | 10 | 1,105,944 | 1,207,483 |
| Investments in associates | 11 | 2,601,624 | 871,404 |
| | | 7,397,362 | 5,438,691 |
| **Current assets** | | | |
| Inventories | | 2,225 | 6,292 |
| Trade and other receivables | 12 | 144,074 | 413,347 |
| Restricted cash | 13 | 31,615 | 55,988 |
| Cash and cash equivalents | 14 | 748,672 | 1,163,284 |
| | | 926,586 | 1,638,911 |
| **Total assets** | | 8,323,948 | 7,077,602 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 15 | 2,180,700 | 2,180,700 |
| Other reserves | 16 | 3,249,416 | 3,152,408 |
| Retained earnings | | | |
| — Proposed final dividend | 29 | 261,684 | 239,877 |
| — Others | | 503,248 | 359,383 |
| **Total equity** | | 6,195,048 | 5,932,368 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 17 | 1,285,243 | 130,819 |
| Deferred income tax liabilities | 18 | 32,218 | 26,671 |
| Government grants | 19 | 364,388 | 372,764 |
| | | 1,681,849 | 530,254 |
| **Current liabilities** | | | |
| Other payables and accrued expenses | 20 | 242,243 | 245,748 |
| Current income tax liabilities | | — | 6,150 |
| Borrowings | 17 | 204,808 | 363,082 |
| | | 447,051 | 614,980 |
| **Total liabilities** | | 2,128,900 | 1,145,234 |
| **Total equity and liabilities** | | 8,323,948 | 7,077,602 |
| **Net current assets** | | 479,535 | 1,023,931 |
| **Total assets less current liabilities** | | 7,876,897 | 6,462,622 |

(III) **Consolidated Income Statement**

| | Note | Year ended 31 December 2005 RMB'000 | 2004 RMB'000 (Restated) |
|---|---|---|---|
| Turnover | 21 | 911,482 | 705,776 |
| Other income | 22 | 191,930 | 114,861 |
| Business tax and surcharges | 23 | (38,361) | (37,566) |
| Depreciation and amortisation | | (167,634) | (131,686) |
| Employee benefit expenses | 24 | (67,163) | (48,748) |
| Road maintenance expenses | | (15,181) | (14,451) |
| Other operating expenses | | (48,157) | (64,703) |
| **Operating profit** | | 766,916 | 523,483 |
| Finance costs | 25 | (100,621) | (24,052) |
| Share of loss of associates | 11 | (24,015) | (706) |
| **Profit before income tax** | | 642,280 | 498,725 |
| Income tax expenses | 26 | (80,071) | (76,019) |
| **Profit for the year** | | 562,209 | 422,706 |
| **Attributable to:** | | | |
| Equity holders of the Company | 27 | 552,622 | 414,888 |
| Minority interest | | 9,587 | 7,818 |
| | | 562,209 | 422,706 |
| **Earnings per share for profit attributable to the equity holders of the Company during the year** (expressed in RMB per share) | | | |
| **— Basic** | 28 | 0.25 | 0.19 |
| **Dividends** | 29 | 261,684 | 239,877 |

(IV) **Consolidated statement of changes in equity**

| | *Note* | Attributable to equity holders of the Company<br>**Share capital**<br>*RMB'000*<br>*(Note 15)* | **Other reserves**<br>*RMB'000*<br>*(Note 16)* | **Retained earnings**<br>*RMB'000* | **Minority interest**<br>*RMB'000* | **Total**<br>*RMB'000* |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2004**, as previously reported as equity | | 2,180,700 | 3,127,484 | 773,885 | — | 6,082,069 |
| **Balance at 1 January 2004**, as previously separately reported as minority interest | | — | — | — | 49,967 | 49,967 |
| Adjustment for amortisation of land use rights for the adoption of HKAS 17 | 2.1 | — | — | (55,559) | (7,743) | (63,302) |
| **Balance at 1 January 2004**, as restated | | 2,180,700 | 3,127,484 | 718,326 | 42,224 | 6,068,734 |
| Profit for the year, as restated | | — | — | 414,888 | 7,818 | 422,706 |
| Disposal of a subsidiary | | — | — | — | (915) | (915) |
| Transfer to reserve funds | | — | 120,368 | (120,368) | — | — |
| Dividend relating to 2003 | | — | — | (414,333) | (7,427) | (421,760) |
| **Balance at 31 December 2004** | | 2,180,700 | 3,247,852 | 598,513 | 41,700 | 6,068,765 |
| **Balance at 1 January 2005**, as brought forward from above | | 2,180,700 | 3,247,852 | 598,513 | 41,700 | 6,068,765 |
| Opening adjustment for the adoption of HKAS 39 | 2.1 | — | — | (11,342) | — | (11,342) |
| **Balance at 1 January 2005**, as restated | | 2,180,700 | 3,247,852 | 587,171 | 41,700 | 6,057,423 |
| Currency translation differences | | — | 1,153 | — | — | 1,153 |
| Profit for the year | | — | — | 552,622 | 9,587 | 562,209 |
| **Total recognised income for 2005** | | — | 1,153 | 552,622 | 9,587 | 563,362 |
| Transfer to reserve funds | | — | 127,925 | (127,925) | — | — |
| Dividend relating to 2004 | | — | — | (239,877) | (8,149) | (248,026) |
| **Balance at 31 December 2005** | | 2,180,700 | 3,376,930 | 771,991 | 43,138 | 6,372,759 |

(V) **Consolidated Cash Flow Statement**

| | Note | Year ended 31 December 2005 RMB'000 | 2004 RMB'000 (Restated) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash received from toll income | | 920,170 | 708,230 |
| Cash received from the road construction management services | | 27,868 | 17,351 |
| Cash received from road construction projects | | 26,836 | 32,445 |
| Cash paid to suppliers | | (45,581) | (45,720) |
| Cash paid to employees | | (57,666) | (47,008) |
| Other cash payments | | (152,640) | (105,374) |
| Cash generated from operations | 30 | 718,987 | 559,924 |
| Interest paid | | (88,992) | (23,771) |
| Income tax paid | | (75,552) | (65,666) |
| Government subsidies received | | 10,309 | — |
| **Net cash generated from operating activities** | | 564,752 | 470,487 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment and payments for construction in progress | | (425,271) | (295,501) |
| Proceeds from sales of property, plant and equipment | 12(c) | 386,000 | 684,597 |
| Tax paid for sales of major property, plant and equipment | | — | (105,204) |
| Equity investment in a subsidiary, net of cash acquired | | — | (929) |
| Acquisition of a jointly controlled entity, net of cash acquired | 31 | (612,651) | — |
| Acquisition of associates | 11(b) | (1,653,754) | (868,270) |
| Increase in investments in associates | 11(c) | (101,840) | — |
| Disposal of a subsidiary, net of cash disposed | | — | (1,468) |
| Redemption of loan to a jointly controlled entity | | 40,092 | 35,281 |
| Interest received | | 9,798 | 12,444 |
| Decrease in fixed bank deposits | | — | 70,000 |
| **Net cash used in investing activities** | | (2,357,626) | (469,050) |

(V) **Consolidated Cash Flow Statement** *(continued)*

| | Note | Year ended 31 December 2005 RMB'000 | 2004 RMB'000 (Restated) |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 3,394,072 | 880,807 |
| Repayments of borrowings | | (1,702,959) | (463,082) |
| Payments for other borrowing costs | | (16,409) | — |
| Government grant received | | 18,980 | — |
| Repayment of advance from a minority shareholder of a subsidiary | | (2,528) | (3,145) |
| Dividends paid to the Company's shareholders | 29 | (239,877) | (414,333) |
| Dividends paid to minority equity owners of subsidiaries | | (8,149) | (6,890) |
| **Net cash generated from/(used in) financing activities** | | 1,443,130 | (6,643) |
| **Net decrease in cash and cash equivalents** | | (349,744) | (5,206) |
| Cash and cash equivalents at beginning of the year | | 1,241,838 | 1,247,406 |
| Exchange gains/(losses) on cash and cash equivalents | | 391 | (362) |
| **Cash and cash equivalents at end of the year** | 14 | 892,485 | 1,241,838 |

## (VI) Notes to the consolidated financial statements

For the year ended 31 December 2005

### 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, its subsidiaries and its jointly controlled entities (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.

The 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 31 March 2006.

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 the 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"). This basis of accounting differs in certain respects from that used in the preparation of the Group's PRC statutory financial statements. The PRC statutory financial statements of the Group have been prepared in accordance with accounting principles and financial regulations applicable to the Group in the PRC (the "PRC GAAP"). Appropriate restatements have been made to the PRC statutory financial statements to conform with HKFRS. Differences arising from the restatements are not incorporated in the Group's accounting records.

The consolidated financial statements have been prepared under the historical cost convention.

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 Company'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.

*The adoption of new/revised HKFRS*

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 31 | Interests in Joint Ventures |
| HKAS 32 | Financial Instruments: Disclosures and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 39 (Amendment) | Transition and Initial Recognition of Financial Assets and Financial Liabilities |
| HKFRS 2 | Share-based Payments |
| HKFRS 3 | Business Combinations |

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27, 28 and 33 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

— HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, land use rights were accounted for as property, plant and equipment at cost less accumulated amortisation and accumulated impairment losses and amortisation had been provided using the units-of-usage method 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 the toll roads located on the related land.

The Group adopted the proportionate consolidation method under HKAS 31 "Interests in Joint Ventures" to account for its interests in jointly controlled entities. In prior years, the Group's interests in jointly controlled entities were accounted for using the equity method of accounting. The adoption of the proportionate consolidation method under HKAS 31 represents a change in accounting policy.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the measurement of loans and long-term liabilities. As a transitional provision, the measurement of the loans and long-term liabilities according to the new standard is not required to be applied retrospectively and the amount of the resulting adjustments is recognised as an adjustment of retained earnings as at 1 January 2005.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments in relation to the Share Appreciation Right Scheme (the "Appreciation Right Scheme") operated by the Company, under which share appreciation rights ("Appreciation Rights") are granted to management employees to obtain benefits, which is determined based on the Appreciation Rights exercised and the difference between the pre-determined exercise price of the Appreciation Rights and the prevailing share price of the Company (Note 2.15(b)). Until 31 December 2004, the amounts paid and payable under the Appreciation Right Scheme are expensed in the income statement as employee benefit expenses in the year the Appreciation Rights were exercised. Effective on 1 January 2005, the Group measures the liability incurred under the Appreciation Right Scheme at the fair value of the liability and until the liability is settled, the fair value of the liability at each reporting date and at the date of settlement is remeasured, with any changes in fair value recognised in the income statement. As a transitional provision, the policy is applied retrospectively to the comparative information relating to a period or date after 7 November 2002. As the amount of resulting adjustments relating to the periods prior to 1 January 2005 was considered by the directors of the Company to be immaterial to the Group's results and financial position, the opening retained earnings as at 1 January 2005 and the comparative information were thus not restated.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

— Amortised on a straight-line basis over its estimated useful life or 20 years whichever is shorter; and

— Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (Note 2.7(a)):

— The Group ceased amortisation of goodwill from 1 January 2005;

— Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

— From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has assessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this assessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 16 - the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

— HKAS 21 - prospective accounting for goodwill and fair value adjustments as part of foreign operations;

— HKAS 39 - does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The adjustments required for the adoption of HKAS 39 are determined and recognised at 1 January 2005;

— HKFRS 2 - only retrospective application for liabilities arising from share-based payments transactions existing at 1 January 2005 and with the comparative information relates to a period or date after 7 November 2002; and

— HKFRS 3 - prospectively after 1 January 2005.

The adoption of revised HKAS 17 resulted in a decrease in opening retained earnings at 1 January 2004 by RMB55,559,000 and the impact on the balance sheets and income statements as at and for the years ended 31 December 2004 and 2005 is as follows:

| | **2005** | **2004** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Decrease in property, plant and equipment | 449,788 | 465,092 |
| Increase in land use rights | 368,830 | 386,468 |
| Decrease in deferred income tax liabilities | 11,069 | 10,717 |
| Decrease in minority interest | 8,376 | 8,366 |
| Decrease in retained earnings | 61,513 | 59,541 |
| Increase in depreciation and amortisation | 2,344 | 4,721 |
| Decrease in income tax expenses | 352 | 708 |
| Decrease in minority interest | 10 | 31 |
| Decrease in basic earnings per share (RMB per share) | 0.001 | 0.002 |

The effect of adopting HKAS 17 in relation to the classification and amortisation of the land use rights owned by jointly controlled entities of the Group, to the extent which is attributable to the Group, has been included in the above by applying proportionate consolidation method under HKAS 31 in the accounting for the Group's interests in the jointly controlled entities. This effect has also been included in the impact on the adoption of HKAS 31 as presented below.

The adoption of HKAS 31 resulted in:

| | **2005** | **2004** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Decrease in interests in jointly controlled entities | 1,814,431 | 1,224,720 |
| Increase in other non-current assets | 2,164,796 | 1,436,488 |
| Increase in current assets | 109,132 | 44,573 |
| Increase in non-current liabilities | 375,599 | 15,541 |
| Increase in current liabilities | 83,898 | 240,800 |
| Decrease in share of profit of jointly controlled entities | 152,486 | 99,893 |
| Increase in turnover | 309,119 | 198,113 |
| Increase in other income | 4,665 | 2,906 |
| Increase in expenses | 161,298 | 101,126 |

There was no impact on basic earnings per share and there was no impact on opening retained earnings at 1 January 2004 from the adoption of HKAS 31.

The adoption of HKFRS 3 and HKAS 38 resulted in:

| | **2005** |
|---|---|
| | *RMB'000* |
| Increase in intangible assets | 512 |
| Increase in interests in associates | 3,090 |
| Increase in retained earnings | 3,602 |
| | |
| Decrease in depreciation and amortisation | 512 |
| Decrease in share of loss of associates | 3,090 |
| Increase in basic earnings per share (RMB per share) | 0.002 |

There was no impact on opening retained earnings at 1 January 2004 from the adoption of HKFRS 3.

The adoption of HKAS 39 resulted in a decrease in opening retained earnings at 1 January 2005 by RMB11,342,000 and the impact on the balance sheet at 31 December 2005 and the income statement for the year then ended is as follows:

| | **2005** |
|---|---|
| | *RMB'000* |
| Decrease in loan to a jointly controlled entity | 5,027 |
| Decrease in retained earnings | 5,027 |
| | |
| Increase in other income | 6,315 |
| Increase in basic earnings per share (RMB per share) | 0.003 |

This represents the impact for the measurement of the loan made to a jointly controlled entity at amortised cost using the effective interest method in accordance with HKAS 39.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods. The Group has not early adopted the applicable new standards, amendments and interpretations as below. The Group has already commenced an assessment of the impact of these standards and interpretations but is not yet in a position to state whether these standards or interpretations would have a significant impact on its results and financial position.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures |
| HKAS 21 (Amendment) | Net Investment in A Foreign Operation |
| HKAS 39 and HKFRS 4 (Amendment) | Financial Guarantee Contracts |
| HKFRS 7 | Financial Instruments: Disclosures |
| HKFRS-Int 4 | Determining whether an Arrangement contains A Lease |

2.2 **Consolidation**

The consolidated financial statements include the financial statements of the Company and all its subsidiaries and jointly controlled entities 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 as 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 income statement (Note 2.7(a)).

Intercompany 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 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. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) *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 loss) identified on acquisition (Note 2.7(a)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the 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 recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

(c) *Joint ventures*

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the Group's purchase of assets from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

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

2.3 **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 RMB, which is the 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.

(c) *Group companies*

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of toll roads 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 depreciation 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.

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 the unexpired periods of the rights to operate the relevant roads 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 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included 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 (Note 2.17). Costs are transferred to property, plant and equipment upon completion.

2.6 **Land use rights**

The up-front prepayments made for land use rights are expensed in the income statement on a straight-line basis over the lease or where there is impairment, the impairment is expensed in the income statement.

2.7 **Intangible assets**

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate / jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in interests in associates. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) *Toll road operating right*

Toll road operating right is capitalised on the basis of the costs incurred to acquire the right and is amortised using the straight-line method over the approved operating period.

2.8 **Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation 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.

2.9 **Financial assets**

From 1 January 2005 onwards, 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 and re-evaluates this designation at every reporting date. During the year, the Group only held financial assets in the category of loans and receivables.

Regular purchases and sales of financial assets are recognised on 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.

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 reflected as loan to a jointly controlled entity and trade and other receivables in the balance sheet (Note 2.11). Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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.

2.10 **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.

2.11 **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 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 effective interest rate. The amount of the provision is recognised in the income statement.

2.12 **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.

2.13 **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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.

2.14 **Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, 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.

2.15 **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 into 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) *Share-based compensation*

The Company operates the Appreciation Right Scheme, which is a cash-settled, share-based compensation plan. Under the Appreciation Right Scheme, Appreciation Rights are granted to management employee and can be exercised from the date of grant and before the respective expiry dates. A bonus award in the form of cash payment will be made to the extent of the surplus of the prevailing share price at exercise date over the pre-determined exercise price of the Appreciation Rights at the date of grant.

The fair value of the employee services received in exchange for the Appreciation Rights is recognised as an expense. The liability incurred is measured, initially and at each reporting date until settled, at the fair value of the liability, taking into account the terms and conditions on which the Appreciation Rights were granted, and the extent to which the employees have rendered service to date. Any changes in fair value are recognised in the income statement.

(c) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(d) *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.

2.16 **Provision**

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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.

2.17 **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.

2.18 **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sales of services. Revenue of the Group is recognised as follows:

(a) *Toll revenue*

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

(b) *Construction management services income*

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

When the outcome of the construction management services can be estimated reliably, related income is recognised using the percentage of completion method and the stage of completion is measured by making reference to the project construction costs and related management expenses incurred to date as a percentage to the total 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.

(c) *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.

(d) *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 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.

(e) *Dividend income*

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

(f) *Government subsidy income*

Government grant in relation to subsidise toll revenues and construction of toll roads are recognised in accordance with the policy as stated in Note 2.19. Other subsidy income is recognised on a receipt basis or when there is a reasonable assurance that the subsidy will be received.

2.19 **Government grants**

Grants from government are recognised when there is reasonable assurance that the grant will be received.

Government grants provided to the Group to subsidise the toll revenues of a specific toll road are recognised as deferred income in the balance sheet and are amortised over the period during which the Group is granted the right to operate such toll road. The subsidies recognised in each accounting period is computed based on the actual traffic volume of a period over the total projected traffic volume throughout the whole approved operating period of the toll road.

Government grants relating to the construction and purchase of property, plant and equipment are included in non-current liabilities and are recognised in the income statement on the same basis as those which are adopted for the depreciation of the related assets over the expected useful lives of the assets upon completion of construction.

2.20 **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), liquidity risk and cash flow interest rate risk.

(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 RMB58,200,000 and bank borrowings of RMB676,195,000 which were denominated in Hong Kong dollars ("HKD") and other borrowings of RMB30,051,000 which were denominated in United States dollars ("USD"), respectively. Nevertheless, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(b) *Liquidity risk*

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

The Group had unutilised available borrowing facilities of approximately RMB6,820,000,000 at 31 December 2005 and the directors of the Company believe that such facilities would enable the Group to meet its obligations and commitments as and when they fall due.

(c) *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. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk during the year.

### 3.2 Fair value estimation

The nominal values less impairment provision, if any, for financial assets and liabilities with a maturity of less than one year, are assumed to approximate their fair values. The fair value of financial assets and 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.

### 4.1 Critical accounting estimates and assumptions

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 discussed below.

(a) *Depreciation of toll roads and recognition of deferred income*

As detailed in Note 2.4 and Note 2.19, depreciation of toll roads and recognition of deferred income of the Group are calculated and determined based on the total projected traffic volume throughout the approved operating periods of the respective toll roads ("Total Projected Traffic Volume") under certain concessionary rights granted to the Group. Material adjustments may need to be made to the carrying amounts of toll roads and deferred income should there be a material difference between the Total Projected Traffic Volume and the actual results.

As an established policy of the Group stated in Note 2.4, the Total Projected Traffic Volume is reviewed regularly by the directors of the Company. Independent professional traffic studies are performed in order to ascertain any appropriate adjustments should there be material changes. The Total Projected Traffic Volume applied by the Group for the determination of depreciation of toll roads and recognition of deferred income for the year ended 31 December 2005 was developed based on an independent professional traffic study performed in 2001 and the Group reported depreciation charges of approximately RMB130,010,000 and subsidy income of approximately RMB27,356,000 for the year accordingly. The directors of the Company consider that these are the best current estimates on the Total Projected Traffic Volume and they consider that there should not be material difference from the actual results.

(b) *Estimate of fair values of acquired assets and liabilities from acquisitions*

During the year, the Group acquired 55% share interest in Jade Emperor Limited ("JEL", a jointly controlled entity of the Group), 56.28% equity interest in Guangdong Qinglian Highway Development Company Limited ("Qinglian Company", an associate of the Group) and 30% equity interest in Yunfu Guangyun Expressway Company Limited ("Guangyun Company", an associate of the Group) at cash considerations of HKD653,632,000, RMB1,839,200,000 and RMB179,180,000, respectively. All these acquiree companies are engaged in the operations of highway business. Details of the acquisitions are set out in Notes 31, 11(b)(i) and 11(b)(ii), respectively. In accordance with HKFRS 3, the identifiable assets acquired and liabilities and contingent liabilities assumed should be measured at fair value at the date of acquisition in order to determine the difference between the cost of acquisition and the fair value of the Group's share of net assets acquired, which should then be recognised as goodwill in the balance sheet or recognised directly in the income statement.

In the absence of an active market for the above business combination/acquisition transactions undertaken by the Group, in order to determine the fair values of assets acquired and liabilities assumed, the directors of the Company had made estimates from a variety of sources, in order to determine the fair values of identifiable assets and liabilities in the three transactions, as summarised below:

— An enterprise fair value ("Enterprise Fair Value") of each the acquiree company was ascertained by either an independent professional valuer or by the directors themselves (where appropriate) close to the respective acquisition dates based on the discounted projected cash flow model ("Cash Flow Model"). The directors have also taken into account relevant adjustments which had to be made to the expected future cash flows;

— Fair values of all working capital items of the acquiree companies are stated at their then net book value as at the acquisition dates, after making applicable adjustments according to the latest audited results ("Working Capital Values");

— The intangible or tangible asset to be identified in the acquisition which is subject to significant fair value adjustment assessment is determined to be either (1) the toll road operating right granted by the relevant local government authorities to the acquiree companies; and/or (2) expenditures incurred by the acquiree companies on constructing the toll road assets under the grant of the respective operating right. The fair values of related assets are determined based on the Enterprise Fair Value minus the Working Capital Values so ascertained, as described above.

As a result of the above assessment, the directors of the Company had determined the difference between the costs of acquisitions and the fair values of the Group's share of net assets acquired in these three transactions. The Group had recognised RMB34,955,000 in the income statement as other income for the year ended 31 December 2005 in relation to the acquisition of JEL (Note 22). There was no material difference between the fair values of the Group's share of the net assets of Qinglian Company and Guangyun Company and related costs of acquisitions.

The determination of the Enterprise Fair Values of the three acquisitions rest on various assumptions employed in the compilation of the respective Cash Flow Models such as projected growth/increase of traffic flows and toll rates, taxes to be levied on toll income, as well as pre-tax discount rate applied to discount the expected future cash flows to their respective net present values. The Company uses assumptions that are mainly based on market conditions existing at the acquisitions dates.

In the case that the assessed Enterprise Fair Values of JEL, Qinglian Company and Guangyun Company were 5% lower than the current estimates made by the directors of the Company, the Group would be required to record impairment losses on the three investments amounting to approximately RMB123,000,000 for the year ending 31 December 2006. If the Enterprise Fair Values were higher than management's current estimates, the Group would not be able to report additional income for the year ending 31 December 2006.

(c) *Reversal of provision for impairment of assets*

As described in further details in Note 9(b), during the year, the Group reversed a portion of the impairment provision for construction in progress amounting to approximately RMB40,000,000 in relation to a ropeway project undertaken by Shenzhen Wongtongling Ropeway Company Limited ("Ropeway Company"), a subsidiary of the Company. The amount of such reversal was estimated by the directors based on the relevant communication made with and indication made by the local government authorities in compensating the Company for the cessation of the ropeway project and the whole process had not been completed as at 31 December 2005. Were the actual compensation amount to be received by the Company upon the completion of the process in 2006 to differ from management's current estimates by 10% favorably or unfavorably, the Group would report a further reversal of impairment loss previously recognised or an impairment loss of approximately RMB4,000,000 for the year ending 31 December 2006.

4.2 **Critical judgements in applying the Group's accounting policies**

**Revenue recognition relating to construction management contract**

For the year ended 31 December 2005, the Group recognised a project management income of RMB67,323,000 in relation to construction management services rendered for a construction project undertaken on behalf of the local government authorities (Notes 20(b) and 22(a)) based on the percentage of completion method (details laid down in the Group's accounting policies as stated in Note 2.18(b)). The recognition of income under such method rest on estimates made by the directors on the total budgeted project costs to be approved by the authorities, as well as the total estimated costs to be incurred to complete the project.

— Due to the fact that the total budgeted project costs had not been finalised with the related government authorities as at 31 December 2005, the directors made the estimate of the amounts based on the relevant communication made with the authorities as well as based on information obtained from them.

— In ascertaining the total costs to be incurred up to completion of the project, the directors have made reference to the actual costs incurred to date and relevant third party evidence such as signed contracts, their supplements and related variation orders made with the contractors, and the related construction and design plans. The directors have also applied relevant professional and industry experience where required and/or appropriate.

Were the magnitudes of the approved budgeted project costs and the total estimated costs to be incurred for the project to differ by 5% from management's estimates, the Group would have to report a higher project management income of approximately RMB86,000,000 if the change is favorable, or it is required to report a project management loss of approximately RMB77,000,000 if the change is unfavorable, for the year ending 31 December 2006.

5 **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 2004** | | | | | |
| Cost | 4,076,830 | 233,498 | 238,998 | 20,770 | 4,570,096 |
| Accumulated depreciation | (152,845) | (32,476) | (92,233) | (14,843) | (292,397) |
| Accumulated impairment loss | (77,000) | — | — | — | (77,000) |
| Net book amount | 3,846,985 | 201,022 | 146,765 | 5,927 | 4,200,699 |
| **Year ended 31 December 2004** | | | | | |
| Opening net book amount | 3,846,985 | 201,022 | 146,765 | 5,927 | 4,200,699 |
| Transfer from construction in progress *(Note 6)* | — | 7,542 | 38,481 | — | 46,023 |
| Additions | 90 | 209 | 2,650 | 2,809 | 5,758 |
| Disposals | — | (100) | (7,912) | (307) | (8,319) |
| Disposal of a subsidiary | — | — | (131) | (131) | (262) |
| Depreciation | (78,694) | (9,055) | (23,813) | (1,974) | (113,536) |
| Closing net book amount | 3,768,381 | 199,618 | 156,040 | 6,324 | 4,130,363 |
| **At 31 December 2004** | | | | | |
| Cost | 4,076,920 | 241,002 | 249,865 | 18,996 | 4,586,783 |
| Accumulated depreciation | (231,539) | (41,384) | (93,825) | (12,672) | (379,420) |
| Accumulated impairment loss | (77,000) | — | — | — | (77,000) |
| Net book amount | 3,768,381 | 199,618 | 156,040 | 6,324 | 4,130,363 |
| **Year ended 31 December 2005** | | | | | |
| Opening net book amount | 3,768,381 | 199,618 | 156,040 | 6,324 | 4,130,363 |
| Transfer from construction in progress *(Note 6)* | 17,340 | 7,123 | 15,435 | — | 39,898 |
| Additions | — | 255 | 2,759 | 1,835 | 4,849 |
| Acquisition of a jointly controlled entity *(Note 31)* | — | 1,460 | 8,667 | 352 | 10,479 |
| Disposals | — | — | (434) | (64) | (498) |
| Depreciation | (94,527) | (9,608) | (24,069) | (1,806) | (130,010) |
| Closing net book amount | 3,691,194 | 198,848 | 158,398 | 6,641 | 4,055,081 |
| **At 31 December 2005** | | | | | |
| Cost | 4,094,260 | 250,253 | 278,019 | 20,494 | 4,643,026 |
| Accumulated depreciation | (326,066) | (51,405) | (119,621) | (13,853) | (510,945) |
| Accumulated impairment loss | (77,000) | — | — | — | (77,000) |
| Net book amount | 3,691,194 | 198,848 | 158,398 | 6,641 | 4,055,081 |

**Company**

| | Toll roads | Buildings and structures | Equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 1 January 2004** | | | | | |
| Cost | 2,036,465 | 144,260 | 143,786 | 6,499 | 2,331,010 |
| Accumulated depreciation | (52,053) | (11,964) | (35,806) | (4,039) | (103,862) |
| Net book amount | 1,984,412 | 132,296 | 107,980 | 2,460 | 2,227,148 |
| **Year ended 31 December 2004** | | | | | |
| Opening net book amount | 1,984,412 | 132,296 | 107,980 | 2,460 | 2,227,148 |
| Transfer from construction in progress *(Note 6)* | — | — | 17,692 | — | 17,692 |
| Additions | — | — | — | 2,490 | 2,490 |
| Disposals | — | — | (3,349) | (310) | (3,659) |
| Depreciation | (26,868) | (4,648) | (14,139) | (1,290) | (46,945) |
| Closing net book amount | 1,957,544 | 127,648 | 108,184 | 3,350 | 2,196,726 |
| **At 31 December 2004** | | | | | |
| Cost | 2,036,465 | 144,260 | 153,986 | 5,273 | 2,339,984 |
| Accumulated depreciation | (78,921) | (16,612) | (45,802) | (1,923) | (143,258) |
| Net book amount | 1,957,544 | 127,648 | 108,184 | 3,350 | 2,196,726 |
| **Year ended 31 December 2005** | | | | | |
| Opening net book amount | 1,957,544 | 127,648 | 108,184 | 3,350 | 2,196,726 |
| Transfer from construction in progress *(Note 6)* | — | 5,441 | 10,029 | 1,227 | 16,697 |
| Additions | — | — | 1,410 | — | 1,410 |
| Disposals | — | — | (129) | (590) | (719) |
| Depreciation | (34,848) | (4,680) | (15,294) | (781) | (55,603) |
| Closing net book amount | 1,922,696 | 128,409 | 104,200 | 3,206 | 2,158,511 |
| **At 31 December 2005** | | | | | |
| Cost | 2,036,465 | 149,701 | 165,296 | 5,910 | 2,357,372 |
| Accumulated depreciation | (113,769) | (21,292) | (61,096) | (2,704) | (198,861) |
| Net book amount | 1,922,696 | 128,409 | 104,200 | 3,206 | 2,158,511 |

(a) The toll roads and buildings of the Group are all located in the PRC.

(b) The Group has been granted by the relevant local government authorities the rights to operate the respective toll roads for periods ranging from 15 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 and 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 during the operating periods is 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 payments to be made to the Group. According to the relevant regulations, these operating rights are not renewable and the Group does not have any termination options. Accordingly, except for the Airport-Heao Expressway (Western Section) operated by the Company, the Meiguan Expressway operated by Shenzhen Meiguan Expressway Company Limited ("Meiguan Company"), a subsidiary of the Company, and the Airport-Heao Expressway (Eastern Section) operated by Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Airport-Heao Eastern"), a jointly controlled entity of the Company, the Group has not obtained the relevant land use rights in relation to the other toll roads owned by the Group.

(c) The accumulated impairment loss represents an impairment loss provision for the toll road operated by Hunan Changsha Shenchang Expressway Company Limited ("Shenchang Company"), a jointly controlled entity of the Company. Based on an assessment made by the directors of the Company, the impairment should not be reversed at 31 December 2005 and no additional losses had to be provided for.

## 6 CONSTRUCTION IN PROGRESS

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *RMB'000* | *RMB'000* (Restated) | *RMB'000* | *RMB'000* |
| **At 1 January** | 286,584 | 39,849 | 280,242 | 39,540 |
| Additions | 412,729 | 290,214 | 389,861 | 258,394 |
| Acquisition of a subsidiary | — | 2,544 | — | — |
| Reversal of provision for impairment *(Note 9(b))* | 40,000 | — | — | — |
| Transfer to property, plant and equipment *(Note 5)* | (39,898) | (46,023) | (16,697) | (17,692) |
| Other transfers | (5,972) | — | (5,317) | — |
| **At 31 December** | 693,443 | 286,584 | 648,089 | 280,242 |

Construction in progress at 31 December 2005 mainly represents construction costs incurred for toll roads not yet completed.

## 7 LAND USE RIGHTS

The Group's land use rights represent prepaid operating lease payments and their net book value is analysed as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | (Restated) | | (Restated) |
| Outside Hong Kong, held on: | | | | |
| Leases of duration between 10 to 50 years | 368,830 | 386,468 | 70,504 | 73,862 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | (Restated) | | (Restated) |
| Opening balance | 386,468 | 404,106 | 73,862 | 77,218 |
| Amortisation of prepaid operating lease payments | (17,638) | (17,638) | (3,358) | (3,356) |
| Closing balance | 368,830 | 386,468 | 70,504 | 73,862 |

The land use rights of the Group are all located in the PRC in relation to the operations of its toll roads.

## 8 INTANGIBLE ASSETS

| | Goodwill | Toll road operating right | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note (a))* | *(Note (b))* | |
| **At 1 January 2004** | | | |
| Cost | 7,480 | — | 7,480 |
| Accumulated amortisation | (153) | — | (153) |
| Net book amount | 7,327 | — | 7,327 |
| **Year ended 31 December 2004** | | | |
| Opening net book amount | 7,327 | — | 7,327 |
| Acquisition of a subsidiary | 945 | — | 945 |
| Provision for impairment | (945) | — | (945) |
| Amortisation expense | (512) | — | (512) |
| Closing net book amount | 6,815 | — | 6,815 |
| **At 31 December 2004** | | | |
| Cost | 8,425 | — | 8,425 |
| Accumulated amortisation | (665) | — | (665) |
| Accumulated impairment loss | (945) | — | (945) |
| Net book amount | 6,815 | — | 6,815 |
| **Year ended 31 December 2005** | | | |
| Opening net book amount | 6,815 | — | 6,815 |
| Acquisition of a jointly controlled entity *(Note 31)* | — | 837,756 | 837,756 |
| Amortisation expense | — | (19,986) | (19,986) |
| Closing net book amount | 6,815 | 817,770 | 824,585 |
| **At 31 December 2005** | | | |
| Cost | 6,815 | 837,756 | 844,571 |
| Accumulated amortisation | — | (19,986) | (19,986) |
| Net book amount | 6,815 | 817,770 | 824,585 |

(a) **Impairment test for goodwill**

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to the respective toll roads operations as below:

| | 2005 | 2004 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Geputan Bridge and leading road | 5,179 | 5,179 |
| Shuiguan Expressway | 1,636 | 1,636 |
| | 6,815 | 6,815 |

Geputan Bridge and related leading road and Shuiguan Expressway are operated by Hubei Yungang Transportation Development Company Limited ("Yungang Company") and Shenzhen Qinglong Expressway Company Limited ("Qinglong Company"), respectively, both of which are jointly controlled entities of the Group.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the respective management covering a financial year period. Cash flows beyond the financial year period are extrapolated using the estimates made by management.

The key assumptions used for value-in-use calculations for the CGU of Geputan Bridge and leading road are as follows:

(i) The annual growth rate of toll revenue from 2007 to 2010 is approximately 1%; 5% in 2011 as compared to 2010; and toll revenue remains unchanged from 2012 thereafter to the end of the operating period;

(ii) A major overhaul of the bridge and road will be undertaken after 5 years from 2005;

(iii) The applicable PRC enterprise income tax rate from 1 January 2007 onwards will be 15%, after the expiration of the tax preferential period enjoyed by the entity in 2006;

(iv) The discount rate applied on the projected cash flows is 10%.

Management estimates the growth rate of toll revenue based on past performance and its expectation on the market developments and changes in the local operating environment. The discount rate used is pre-tax and reflect specific risks relating to the toll road business. Based on the impairment test performed on the goodwill balance as at 31 December 2005, no impairment loss had been identified.

(b) **Toll road operating right**

This represents the toll road operating right of Wuhuang Expressway of Hubei Magerk Expressway Management Company Limited ("Magerk Company"), a jointly controlled entity of the Group. Pursuant to the transfer agreement dated 23 September 1997, Magerk Company was granted the operating right of Wuhuang Expressway by the Hubei Communications Bureau at a transfer consideration of RMB580,000,000 for an operating period of 25 years. The operating right was accounted for initially at fair value in the consolidated financial statements as part of the acquired assets in the acquisition of 55% share interest in JEL made by the Group (Note 31) and it is amortised over the remaining approved operating period.

**9 INVESTMENTS IN SUBSIDIARIES**

| | *Note* | Company 2005 *RMB'000* | Company 2004 *RMB'000* |
|---|---|---|---|
| Unlisted investments, at cost | | 759,945 | 759,945 |
| Provision for impairment | (b) | (12,005) | (12,005) |
| | | 747,940 | 747,940 |
| Loans to a subsidiary | (b) | 46,084 | 46,084 |
| Provision for impairment | (b) | (6,084) | (46,084) |
| | | 40,000 | — |
| Advance to a subsidiary | (c) | 24,750 | 61,034 |
| | | 812,690 | 808,974 |

(a) The following is a list of all subsidiaries of the Company at 31 December 2005:

| Name | Place of incorporation and nature of legal entity | Principal activities and place of operation | Particulars of issued share capital/paid-in capital | Interest held Direct | Interest held Indirect |
|---|---|---|---|---|---|
| Meiguan Company | PRC, limited liability company | Construction, operation and management of an expressway in the PRC | RMB332,400,000 | 95% | — |
| Shenzhen Expressway Advertising Company Limited | PRC, limited liability company | Advertising agency in the PRC | RMB2,000,000 | 95% | 4.75% |
| Ropeway Company | PRC, limited liability company | Construction and management of a ropeway in the PRC | RMB5,000,000 | 95% | — |
| Mei Wah Industrial (Hong Kong) Limited ("Mei Wah") | Hong Kong, limited liability company | Investment holding in Hong Kong | 17,000,000 Ordinary shares of HKD1 each | 100% | — |
| Maxprofit Gain Limited ("Maxprofit") (Note 11(b)(i)) | British Virgin Islands, limited liability company | Investment holding in British Virgin Islands | 1 Ordinary share of USD1 each | — | 100% |

(b) Due to the fact that Ropeway Company failed to commence its business operations to construct and operate its ropeway project in Shenzhen as scheduled, the Company had made impairment provision in full for the investment cost of RMB12,005,000 and for loans so extended to it amounting to RMB46,084,000 (including the loans repaid on its behalf by the Company due to the guarantee provided for its bank borrowings) in previous years. According to the relevant communication made with and indication made by the local government authorities during the current year, the government authorities undertake to compensate a portion of the losses suffered by the Company as a result of the cessation of the ropeway project. Based on an assessment made by the directors of the Company, the compensation to be received, after settlement of the relevant liabilities borne by Ropeway Company, was estimated to be approximately RMB40,000,000. As a result, the directors consider that the conditions leading to the provision for impairment loss in the project had been partially removed. Accordingly, the provision for impairment loss for loans advanced to Ropeway Company was reversed to the extent of the amount of the compensation expected to be recovered. In the consolidated financial statements of the Group, such reversal was reflected as a reversal of provision for impairment of construction in progress in relation to the ropeway project (Note 6) and has been credited to other operating expenses in the income statement as the financial statements of Ropeway Company have been consolidated.

(c) The amount represents advance made to Meiguan Company as part of the investment made by the Company to this subsidiary in accordance with the provisions of the relevant investment agreement. The advance is unsecured, interest-free and is repayable out of the funds to be generated from the operations of the toll road of Meiguan Company. In the opinion of the directors, the advance is considered to be investment in nature and is therefore stated at cost. The directors also consider that there is no recoverability problem associated with the amount.

## 10 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

| | | Company | |
|---|---|---|---|
| | *Note* | **2005** | **2004** |
| | | *RMB'000* | *RMB'000* |
| Unlisted investments, at cost | | 384,000 | 384,000 |
| Provision for impairment | (b) | (51,590) | (51,590) |
| | | 332,410 | 332,410 |
| Advances to jointly controlled entities | (c) | 643,134 | 669,474 |
| Loan to a jointly controlled entity | (d) | 130,400 | 205,599 |
| | | 1,105,944 | 1,207,483 |

(a) The following is a list of all jointly controlled entities of the Company at 31 December 2005:

| Name | Place of incorporation and nature of legal entity | Principal activities and place of operation | Interest held Direct | Interest held Indirect |
|---|---|---|---|---|
| Airport-Heao Eastern | PRC, Sino-foreign cooperative enterprise | Construction, operation and management of an expressway in the PRC | 55% | — |
| Qinglong Company | PRC, Sino-foreign cooperative enterprise | Construction, operation and management of an expressway in the PRC | 40% | — |
| Shenchang Company | PRC, limited liability company | Construction, operation and management of a ring road in the PRC | 51% | — |
| Yungang Company | PRC, Sino-foreign cooperative enterprise | Construction, operation and management of a bridge in the PRC | — | *42% |
| JEL (Note 31) | Cayman Islands, limited liability company | Investment holding in Cayman Islands | — | *55% |
| Magerk Company (Note 31) | PRC, wholly foreign owned enterprise | Operation and management of an expressway in the PRC | — | **55% |

* The interests in Yungang Company and JEL are held indirectly through Mei Wah, a subsidiary of the Company. In the first four years of operations of Yungang Company, the Group is entitled to 90% share of its profit.

** 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) This represents the provision for impairment loss made in previous years for the Company's investment in Shenchang Company due to the impairment of the underlying toll road operated by Shenchang Company. The impairment provision was considered by the directors to be retained as at 31 December 2005 but no additional provision had to be made.

(c) Amounts represent advances made to Airport-Heao Eastern of RMB361,372,000 (2004: RMB380,764,000) and Shenchang Company of RMB281,762,000 (2004: RMB288,710,000) respectively. The advances to Airport-Heao Eastern and Shenchang Company were made by the Company as part of its investments in these jointly controlled entities in accordance with the provisions of respective 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 generated from the operations of the respective toll road projects of Airport-Heao Eastern and Shenchang Company. The directors consider that there is no recoverability problem associated with these amounts.

(d) The Company made a loan to Qinglong Company, a jointly controlled entity of the Company, with an original amount of RMB330,000,000 in 2003 to finance Qinglong Company's repayment of its liabilities. The loan is unsecured, non-interest bearing and is repayable based on a preferential appropriation of surplus cash flows of Qinglong Company from 2003 till the fully repayment of the loan. In the opinion of the directors, there is no recoverability problem associated with the loan.

In prior years, the loan was stated at cost and the outstanding balance at 31 December 2004 was RMB205,599,000. As a result of the adoption of HKAS 39, the amount is considered to be a financial asset of the Company and it was remeasured at amortised cost using the effective interest method. The resulting adjustment of RMB18,903,000 has been made to the retained earnings of the Company at 1 January 2005 according to the transitional provision of the standard. The interest income of the loan recognised for the year by the Company under the effective interest method amounted to RMB10,525,000.

The fair value of the loan at 31 December 2005 was RMB130,400,000 (2004: RMB186,695,000), which was determined based on expected cash flows discounted using a rate of 4.95% (2004: 4.95%) per annum, being the prevailing rate for a similar debt instrument issued by an issuer in the PRC with a similar credit rating.

In the consolidated financial statements of the Group, the carrying amount of the loan at 31 December 2005 was stated at RMB78,240,000 (2004: RMB123,359,000), representing the share of the balance receivable by the Group, after elimination made based on proportionate consolidation of the Company's interest in Qinglong Company. In addition, the effects of the adjustment on the balance due to the adoption of HKAS 39 to the retained earnings of the Group at 1 January 2005 was RMB11,342,000 (Note 2.1) and the interest income recognised under the effective interest method for the year was RMB6,315,000 (Note 22) at the Group level. The directors also made an assessment that the fair value of the loan at the Group level as at 31 December 2005 was RMB78,240,000 (2004: RMB112,017,000).

(e) The following amounts represent the assets and liabilities, and turnover and results related to the Group's interests in jointly controlled entities, which have already been included in the consolidated balance sheet and income statement:

| | Airport-Heao Eastern | | Qinglong Company | | Shenchang Company | | Yungang Company | | JEL (con-solidated Magerk Company) | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2005 | 2004 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Assets** | | | | | | | | | | | |
| Non-current assets | 604,149 | 624,948 | 448,152 | 478,647 | 310,175 | 317,968 | 13,679 | 14,925 | 788,641 | 2,164,796 | 1,436,488 |
| Current assets | 24,662 | 27,947 | 35,220 | 11,474 | 27,747 | 2,844 | 2,624 | 2,308 | 18,879 | 109,132 | 44,573 |
| | 628,811 | 652,895 | 483,372 | 490,121 | 337,922 | 320,812 | 16,303 | 17,233 | 807,520 | 2,273,928 | 1,481,061 |
| **Liabilities** | | | | | | | | | | | |
| Non-current liabilities | 12,497 | 12,390 | 263,335 | 3,151 | — | — | — | — | 99,767 | 375,599 | 15,541 |
| Current liabilities | 12,336 | 12,945 | 6,291 | 225,149 | 2,720 | 2,427 | 181 | 279 | 62,370 | 83,898 | 240,800 |
| | 24,833 | 25,335 | 269,626 | 228,300 | 2,720 | 2,427 | 181 | 279 | 162,137 | 459,497 | 256,341 |
| **Net assets** | 603,978 | 627,560 | 213,746 | 261,821 | 335,202 | 318,385 | 16,122 | 16,954 | 645,383 | 1,814,431 | 1,224,720 |
| Turnover | 157,904 | 127,042 | 73,592 | 57,889 | 10,853 | 9,721 | 3,043 | 3,461 | 63,727 | 309,119 | 198,113 |
| Other income | 2,858 | 1,289 | 1,073 | 992 | 624 | 613 | 9 | 12 | 101 | 4,665 | 2,906 |
| Costs and expenses | (59,440) | (49,920) | (44,258) | (35,986) | (11,950) | (12,761) | (2,387) | (2,459) | (43,263) | (161,298) | (101,126) |
| **Profit/(loss) after income tax** | 101,322 | 78,411 | 30,407 | 22,895 | (473) | (2,427) | 665 | 1,014 | 20,565 | 152,486 | 99,893 |

There were no material commitments and contingent liabilities arising from the Group's investments in the jointly controlled entities, and there were no material commitments and contingent liabilities in the jointly controlled entities as at 31 December 2005 and 2004.

## 11 INTERESTS IN ASSOCIATES

| | Note | Group 2005 | Group 2004 | Company 2005 | Company 2004 |
|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Beginning of the year | | 870,698 | 871,404 | 871,404 | — |
| Acquisition of associates | (b) | 2,018,380 | — | 1,628,380 | 871,404 |
| Increase in investments in associates | (c) | 101,840 | — | 101,840 | — |
| Share of associates' results | | | | | |
| - (Loss)/profit before tax | | (23,786) | 839 | — | — |
| - Income tax | | (229) | — | — | — |
| - Amortisation of goodwill | | — | (1,545) | — | — |
| | (a) | (24,015) | (706) | — | — |
| End of the year | | 2,966,903 | 870,698 | 2,601,624 | 871,404 |

The year end balance comprises the following:

| | Note | Group 2005 | Group 2004 | Company 2005 | Company 2004 |
|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Unlisted investments, at cost | | — | — | 1,642,741 | 871,404 |
| Share of net assets other than goodwill | (a) | 1,932,720 | 795,398 | — | — |
| Goodwill on acquisition of associates | (d) | 75,300 | 75,300 | — | — |
| | | 2,008,020 | 870,698 | 1,642,741 | 871,404 |
| Advance to an associate | (b)(i) | 958,883 | — | 958,883 | — |
| | | 2,966,903 | 870,698 | 2,601,624 | 871,404 |

(a) The Group's interests in its associates, all of which were established and are operating in the PRC, were as follows:

| Name | Nature of legal entity and paid-in capital | Principal activities | Assets | | Liabilities | | Revenues | | Profit/(loss) | | Capital commitment | | *Interest held | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Company") *(Note (c))* | Limited liability company, RMB945,000,000 | Development, operation and management of expressways and related facilities | 755,130 | 533,193 | 525,345 | 358,783 | 3,363 | — | (6,464) | — | — | 240,500 | 25% | 25% |
| Guangzhou Western Second Ring Expressway Company Limited ("GZ W2 Company") *(Note (c))*** | Limited liability company, RMB410,000,000 | Development, operation and management of expressway | 330,772 | 78,981 | 228,272 | 16,481 | — | — | — | — | 35,795 | 684,500 | 25% | 25% |
| Shenzhen Huayu Expressway Investment Company Limited | Limited liability company, RMB150,000,000 | Development, investment, operation and management of expressway | 240,168 | 193,770 | 182,672 | 133,770 | 6,149 | — | (2,504) | — | — | 3,200 | 40% | 40% |
| Shenzhen Expressway Engineering Consulting Company Limited | Limited liability company, RMB7,000,000 | Project management consulting, construction consulting and sales of construction materials | 6,345 | 4,526 | 2,594 | 972 | 3,603 | 3,459 | 197 | 1,420 | — | — | 30% | 30% |
| Nanjing Yangzi River Third Bridge Company Limited | Limited liability company , RMB1,080,000,000 | Development, operation and management of bridges | 849,127 | 575,000 | 587,291 | 305,000 | 6,997 | — | (8,164) | — | — | 272,969 | 25% | 25% |
| Guangdong Yangmao Expressway Company Limited ("Yangmao Company") | Limited liability company, RMB200,000,000 | Development, operation and management of expressway | 591,333 | 635,685 | 362,858 | 410,751 | 49,882 | 3,355 | 3,541 | (581) | — | — | 25% | 25% |

| Name | Nature of legal entity and paid-in capital | Principal activities | Assets | | Liabilities | | Revenues | | Profit/(loss) | | Capital commitment | | *Interest held | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Guangyun Company *(Note (b)(ii))* | Limited liability company, RMB10,000,000 | Development, operation and management of expressway | 449,513 | — | 276,211 | — | 11,285 | — | (5,878) | — | — | — | 30% | — |
| Qinglian Company *(Note (b)(i))* | Sino-foreign cooperative enterprise, RMB1,200,000,000 | Development, operation and management of highways | 2,326,633 | — | 1,451,058 | — | 38,131 | — | (4,743) | — | 2,359,270 | — | 56.28% | — |
| | | | 5,549,021 | 2,021,155 | 3,616,301 | 1,225,757 | 119,410 | 6,814 | (24,015) | 839 | 2,395,065 | 1,201,169 | | |

* Except for Qinglian Company, the Company directly holds interests in all other associates. Qinglian Company is 31.28% directly held by the Company and with another 25% of the interest held indirectly through its two wholly-owned subsidiaries, Mei Wah and Maxprofit.

** GZ W2 Company had not yet commenced its commercial operations as at 31 December 2005.

*** There were no material contingent liabilities arising from the Group's interests in associates, and there were no material contingent liabilities in the associates as at 31 December 2005 and 2004.

(b) Acquisition of associates represent the acquisition of 56.28% equity interest in Qinglian Company for cash consideration of RMB1,839,200,000 and the acquisition of 30% equity interest in Guangyun Company for cash consideration of RMB179,180,000.

(i) Pursuant to a set of framework agreements (the "Framework Agreements") dated 3 February 2005 entered into between the Company, Mei Wah, a subsidiary of the Company, and jointly with five other independent parties, the Company and Mei Wah acquired an aggregate effective equity interest of 56.28% in Qinglian Company. The Company directly acquired 31.28% equity interest in Qinglian Company while Mei Wah acquired the entire issued share capital of Maxprofit, which in turn directly holds 25% equity interest in Qinglian Company. In addition, the Company also undertook to bear the obligations of advances made to Qinglian Company by its original equity owners and the related unpaid accrued interest in proportion to the Group's acquired equity interest in Qinglian Company (collectively defined as "Shareholders Advance") amounting to approximately RMB958,883,000. The aggregate cash consideration for the whole series of transactions was RMB1,839,200,000. The transactions were completed in June 2005 and up to 31 December 2005, RMB1,475,574,000 of the total consideration had been paid while the remaining unsettled balance of RMB363,626,000 had been recorded in other payables of the Group in the balance sheet. In accordance with the provisions of the Framework Agreements and the revised articles of association of Qinglian Company, the Company could only exercise significant influence in the financial and operating policies of Qinglian Company. Accordingly, Qinglian Company is accounted for as an associate of the Group using the equity method of accounting.

The Shareholders Advance undertaken by the Company of RMB958,883,000 was reflected as an advance made to Qinglian Company by the Company and had been included as part of the Company's interests in associates. Qinglian Company is required to undertake the reconstruction of its toll road and it is the commitment of the directors of the Company to capitalise this advance as its additional equity contribution to be made in Qinglian Company. The process is subject to the final approval of the relevant PRC authorities. Therefore, the directors regard the advance as investment in nature and is stated at cost.

(ii) During the year, the Company acquired 30% equity interest in Guangyun Company from Guangdong Roads and Bridges Construction Development Company Limited, a promoter of the Company, at a cash consideration of RMB179,180,000.

(c) According to the provisions of the investment agreements of Jiangzhong Company and GZ W2 Company, the Company made additional capital contributions at RMB61,840,000 and RMB40,000,000, respectively, into the two associates during the year. The contributions were made based on the funding requirements arising from the progress of construction of the projects undertaken by these two associates. The remaining contributions need to be made to these two associates according to the provisions of the investment agreements amounting to RMB188,840,000 (Note 32).

(d) The balance as at 31 December 2004 represents the unamortised amount of the goodwill arising from the acquisition of equity interests in Jiangzhong Company and Yangmao Company of RMB30,135,000 and RMB45,165,000, respectively. In accordance with the requirements of HKFRS 3 and HKAS 38, the Group ceased amortisation of goodwill on 1 January 2005. The goodwill is included in interests in associates and is tested for impairment when there is an indication of impairment of the interests. After the assessment made by the directors, there was no impairment loss to be recognised as at 31 December 2005.

**12 TRADE AND OTHER RECEIVABLES**

| | | Group | | Company | |
|---|---|---|---|---|---|
| | *Note* | **2005** | **2004** | **2005** | **2004** |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | (Restated) | | |
| Trade receivables | (a) | 39,694 | — | 35,708 | — |
| Amount due from a jointly controlled entity | (b) | 838 | 1,904 | 1,862 | 3,123 |
| Current portion of long-term receivables | (c) | — | 372,946 | — | 372,946 |
| Other receivables | (d) | 112,304 | 31,941 | 103,176 | 35,741 |
| Prepayments | | 4,993 | 2,019 | 3,328 | 1,537 |
| | | 157,829 | 408,810 | 144,074 | 413,347 |

(a) Trade receivables mainly represent amounts due from the Shenzhen Communications Bureau of RMB33,118,000 (2004: Nil) for management services income recognised during the year (Notes 20(b) and 22(a)).

At 31 December 2005, the trade receivables were all aged within one year.

(b) The balance at 31 December 2005 represents the amount due from Airport-Heao Eastern, a jointly controlled entity of the Company, for the amounts paid by the Company on its behalf. The balance at 31 December 2004 represents the net amount due from Airport-Heao Eastern for the toll income collected by Airport-Heao Eastern on behalf of the Company and Meiguan Company, a subsidiary of the Company.

Due to the geographical layout of the toll roads of the Group, certain toll gates of the toll roads of the Company, Meiguan Company and Airport-Heao Eastern are overlapped and they collect toll income for each other. During the year, toll income collected by the Company and Meiguan Company on behalf of Airport-Heao Eastern was RMB103,428,000 (2004: RMB92,721,000), while toll income collected by Airport-Heao Eastern on behalf of the Company and Meiguan Company was RMB100,020,000 (2004: RMB98,733,000) respectively. All toll income collected is paid back to the counter party on a monthly basis without charging any handling fees.

(c) The balance at 31 December 2004 represents the outstanding unsettled balance of the consideration and compensation receivable by the Company, at their discounted net present values, in respect of the transfer of all its rights and interests in National Highway No. 107 (Shenzhen Section) and National Highway No. 205 (Shenzhen Section) to the Shenzhen Communications Bureau pursuant to a transfer agreement signed between the Company and the Shenzhen Communications Bureau on 18 March 2003. The full amount of the balance at RMB386,000,000 was received during the year and the difference with its net present value at RMB13,054,000 represents interest from discounting which had been recorded as other income for the year (Note 22).

(d) Other receivables at 31 December 2005 included an amount due from the Shenzhen Communications Bureau of RMB74,024,000 (2004: Nil) in respect of the amounts paid by the Company on behalf of the government authority for a construction project. Subsequent to the balance sheet date, the Company officially entered into a construction management service contract with the Shenzhen Communications Bureau that the Company undertakes the management of the construction of the project (see also Note 35(b)).

## 13 RESTRICTED CASH

| | Group and Company | |
|---|---|---|
| | **2005** | **2004** |
| | *RMB'000* | *RMB'000* |
| Project funds retained for construction management contracts | 31,615 | 55,988 |

This represents the unutilised balance of project funds received from government authorities for the use of two construction management contracts (details are set out in Note 20(b)).

## 14 CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | (Restated) | | |
| Cash at bank and in hand | 863,025 | 1,241,838 | 748,672 | 1,163,284 |
| Short-term bank deposits | 29,460 | — | — | — |
| | 892,485 | 1,241,838 | 748,672 | 1,163,284 |

The effective interest rate on short-term bank deposits was 4.1%. These deposits have a maturity of 33 days.

## 15 SHARE CAPITAL

| | Registered, issued and fully paid | | | | |
|---|---|---|---|---|---|
| | **Shares held by the State** | **Shares held by legal persons** | **Ordinary shares, listed in the Mainland ("A shares")** | **Foreign invested shares, listed in Hong Kong ("H shares")** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 31 December 2005 and 2004 | 654,780 | 613,420 | 165,000 | 747,500 | 2,180,700 |

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 liquidity restrictions and the currency used for distribution of dividends, all shares rank pari passu against each other.

Pursuant to a resolution passed in an A share shareholders meeting held on 23 January 2006, the shareholding structure reallocation scheme (the "Shareholding Scheme") of the Company was approved. All the shareholders of the Company whose shares did not have liquidity in the market ("Non-liquid Shares") undertook to transfer to the existing A share shareholders of the Company as appeared in the share register of the Company as at the date of implementation of the Shareholding Scheme (i.e. 24 February 2006) 3.2 shares of their Non-liquid Shares for each 10 A shares held by the A share shareholders in return for gaining liquidity of the Non-liquid Shares in the A share market of the PRC. The Shareholding Scheme was completed on 27 February 2006 with the approval of the relevant authorities. Right after the implementation of the Shareholding Scheme, the shareholders of the Non-liquid Shares held in total 1,215,400,000 shares of the Company while the A share shareholders held in aggregate 217,800,000 shares of A shares of the Company. The formerly Non-liquid Shares were also converted into shares with liquidity but subject to certain restrictions in their sales.

## 16 OTHER RESERVES

| | Share premium | Statutory surplus reserve | Statutory public welfare fund | Discretionary surplus reserve | Currency translation differences | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Group** | | | | | | |
| Balance at 1 January 2004 | 2,060,009 | 319,020 | 295,064 | 453,391 | — | 3,127,484 |
| Transfer from retained earnings | — | 64,094 | 56,274 | — | — | 120,368 |
| Balance at 31 December 2004 | 2,060,009 | 383,114 | 351,338 | 453,391 | — | 3,247,852 |
| Balance at 1 January 2005 | 2,060,009 | 383,114 | 351,338 | 453,391 | — | 3,247,852 |
| Transfer from retained earnings | — | 70,178 | 57,747 | — | — | 127,925 |
| Currency translation differences | — | — | — | — | 1,153 | 1,153 |
| Balance at 31 December 2005 | 2,060,009 | 453,292 | 409,085 | 453,391 | 1,153 | 3,376,930 |
| **Company** | | | | | | |
| Balance at 1 January 2004 | 2,060,009 | 271,048 | 271,048 | 453,391 | — | 3,055,496 |
| Transfer from retained earnings | — | 48,456 | 48,456 | — | — | 96,912 |
| Balance at 31 December 2004 | 2,060,009 | 319,504 | 319,504 | 453,391 | — | 3,152,408 |
| Balance at 1 January 2005 | 2,060,009 | 319,504 | 319,504 | 453,391 | — | 3,152,408 |
| Transfer from retained earnings | — | 48,504 | 48,504 | — | — | 97,008 |
| Balance at 31 December 2005 | 2,060,009 | 368,008 | 368,008 | 453,391 | — | 3,249,416 |

(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:

(i) make up any accumulated losses;

(ii) 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;

(iii) transfer 10% of the profit after tax to the statutory public welfare fund;

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

(v) distribute as dividends to shareholders.

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

(b) Share premium

Share premium mainly represents premium on issue of shares net of 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.

(d) Statutory public welfare fund

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

(e) Profit distributable to shareholders

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

## 17 BORROWINGS

| | Note | Group 2005 RMB'000 | Group 2004 RMB'000 (Restated) | Company 2005 RMB'000 | Company 2004 RMB'000 |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| Bank borrowings | | | | | |
| - Secured | (a) | 1,897,195 | — | 950,000 | — |
| - Unsecured | (d) | 310,000 | 100,000 | 310,000 | 100,000 |
| | | 2,207,195 | 100,000 | 1,260,000 | 100,000 |
| Other borrowings - guaranteed | (b) | 30,051 | 33,901 | 30,051 | 33,901 |
| Advance from a minority shareholder | (c) | 9,564 | 12,092 | — | — |
| | | 2,246,810 | 145,993 | 1,290,051 | 133,901 |
| Less: Current portion of long-term borrowings | | (16,208) | (3,082) | (4,808) | (3,082) |
| | | 2,230,602 | 142,911 | 1,285,243 | 130,819 |
| **Current** | | | | | |
| Bank borrowings | | | | | |
| - Secured | (a) | 50,000 | 220,000 | 50,000 | — |
| - Unsecured | (d) | 203,900 | 360,000 | 150,000 | 360,000 |
| | | 253,900 | 580,000 | 200,000 | 360,000 |
| Current portion of long-term borrowings | | | | | |
| - Bank borrowings - secured | | 11,400 | — | — | — |
| - Other borrowings - guaranteed | (b) | 4,808 | 3,082 | 4,808 | 3,082 |
| | | 16,208 | 3,082 | 4,808 | 3,082 |
| | | 270,108 | 583,082 | 204,808 | 363,082 |
| Total borrowings | | 2,500,710 | 725,993 | 1,490,051 | 493,901 |

(a) Banking facilities of approximately RMB1,400 million had been obtained by the Group from a bank. The facilities so granted are secured by the pledge of the Company's 95% equity interest in Meiguan Company. As at 31 December 2005, RMB50,000,000 and RMB950,000,000 of the short-term and long-term loans had been drawn down from the facilities. The short-term borrowings of RMB50,000,000 is interest-bearing at 5.85% per annum while the terms of the long-term borrowings are as follows:

| | **Balance at 31 December 2005** *RMB'000* | **Effective interest rate (per annum)** | **Repayment period** |
|---|---|---|---|
| 1st portion | 150,000 | 5.85% | 2 annual installments payable from 30 May 2007 to 30 May 2008 |
| 2nd portion | 400,000 | 6.12% for the first five years, floating rate for the five consecutive years | 4 annual installments payable from 30 May 2011 to 30 May 2014 |
| 3rd portion | 400,000 | Floating rate (current effective interest rate: 5.508%) | 7 annual installments payable from 30 May 2009 to 30 May 2015 |
| | 950,000 | | |

For the remaining balance of non-current secured bank borrowings, RMB260,000,000 is secured by a pledge of the operating right of Shuiguan Expressway of Qinglong Company; RMB676,195,000 (HKD650,000,000) is secured by a pledge of the 55% equity interest of JEL held by Mei Wah; and RMB11,000,000 is secured by a pledge of the toll road operating right of Wuhuang Expressway of Magerk Company. The effective interest rates of these borrowings ranged from 5.022% to 5.85% per annum.

(b) Other borrowings totalling USD3,723,667 (equivalent to RMB30,051,000) were extended by the Spanish Government through the China Construction Bank. The loans comprise two portions, USD2,234,200 bearing interest at 1.8% per annum which is repayable by installment from November 2006 to May 2011; and the remaining portion of USD1,489,467 which is interest-bearing at 7.17% per annum and is repayable by installment from February 2006 to August 2009. These borrowings are guaranteed by Xin Tong Chan Development (Shenzhen) Company Limited ("Xin Tong Chan"), a substantial shareholder of the Company.

(c) The advance was granted to Meiguan Company, a subsidiary of the Company, by the minority shareholder of Meiguan Company as well as a substantial shareholder of the Company, Xin Tong Chan. The advance is unsecured, non-interest bearing and is repayable out of funds to be generated from the toll road project operated by Meiguan Company.

(d) The effective interest rates of other unsecured borrowings of the Group at 31 December 2005 ranged from 4.698% to 5.85% (2004: 4.536% to 4.941%) per annum.

(e) The maturity periods of the borrowings are as follows:

| Group | Bank borrowings 2005 RMB'000 | Bank borrowings 2004 RMB'000 (Restated) | Other borrowings and advance 2005 RMB'000 | Other borrowings and advance 2004 RMB'000 |
|---|---|---|---|---|
| Within 1 year | 265,300 | 580,000 | 4,808 | 3,082 |
| Between 1 and 2 years | 81,609 | 100,000 | 6,611 | 4,931 |
| Between 2 and 5 years | 1,287,386 | — | 16,829 | 20,340 |
| Wholly repayable within 5 years | 1,634,295 | 680,000 | 28,248 | 28,353 |
| Over 5 years | 826,800 | — | 11,367 | 17,640 |
| | 2,461,095 | 680,000 | 39,615 | 45,993 |

| Company | Bank borrowings 2005 RMB'000 | Bank borrowings 2004 RMB'000 | Other borrowings 2005 RMB'000 | Other borrowings 2004 RMB'000 |
|---|---|---|---|---|
| Within 1 year | 200,000 | 360,000 | 4,808 | 3,082 |
| Between 1 and 2 years | 50,000 | — | 6,611 | 4,931 |
| Between 2 and 5 years | 610,000 | 100,000 | 16,829 | 20,340 |
| Wholly repayable within 5 years | 860,000 | 460,000 | 28,248 | 28,353 |
| Over 5 years | 600,000 | — | 1,803 | 5,548 |
| | 1,460,000 | 460,000 | 30,051 | 33,901 |

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

| | Carrying amounts 2005 RMB'000 | Carrying amounts 2004 RMB'000 | Fair values 2005 RMB'000 | Fair values 2004 RMB'000 |
|---|---|---|---|---|
| Bank borrowings | 2,195,795 | 100,000 | 2,157,010 | 98,781 |
| Other borrowings | 25,243 | 30,819 | 23,191 | 27,983 |
| Advance from a minority shareholder | 9,564 | 12,092 | 8,112 | 11,697 |
| | 2,230,602 | 142,911 | 2,188,313 | 138,461 |

The fair values are determined based on cash flows discounted using an effective interest rate ascertained based on the rates of general bank borrowings at 5.89% - 6.12% (2004: 5.89% - 6.12%) per annum.

The directors of the Company consider that the carrying amounts of short-term borrowings approximate their fair values.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | (Restated) | | |
| RMB | 1,794,464 | 692,092 | 1,460,000 | 460,000 |
| USD | 30,051 | 33,901 | 30,051 | 33,901 |
| HKD | 676,195 | — | — | — |
| | 2,500,710 | 725,993 | 1,490,051 | 493,901 |

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

| | **2005** | **2004** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Floating rate | | |
| — Expiring within one year | 3,700,000 | 2,160,000 |
| — Expiring beyond one year | 2,720,000 | 2,240,000 |
| | 6,420,000 | 4,400,000 |
| Fixed rate | | |
| — Expiring beyond one year | 400,000 | — |
| | 6,820,000 | 4,400,000 |

## 18 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 relate to the same fiscal authority. The offset amounts are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | (Restated) | | (Restated) |
| Deferred tax assets | | | | |
| — to be recovered after more than 12 months | (6,364) | (9,089) | — | — |
| — to be recovered within 12 months | (400) | (384) | — | — |
| | (6,764) | (9,473) | — | — |
| Deferred tax liabilities | | | | |
| — to be recovered after more than 12 months | 149,732 | 59,767 | 32,218 | 26,671 |
| — to be recovered within 12 months | 5,298 | — | — | — |
| | 155,030 | 59,767 | 32,218 | 26,671 |
| | 148,266 | 50,294 | 32,218 | 26,671 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | (Restated) | | (Restated) |
| Beginning of the year | 50,294 | 38,605 | 26,671 | 19,925 |
| Acquisition of a jointly controlled entity *(Note 31)* | 90,958 | — | — | — |
| Recognised in the income statement | 7,014 | 11,689 | 5,547 | 6,746 |
| End of the year | 148,266 | 50,294 | 32,218 | 26,671 |

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

| Group | Deferred tax assets: Impairment loss of property, plant and equipment | Deferred tax assets: Provision for impairment losses of other assets | Deferred tax assets: Total | Deferred tax liabilities: Depreciation of property, plant and equipment | Deferred tax liabilities: Difference of accounting base and tax base of of an intangible asset | Deferred tax liabilities: Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 1 January 2004** | 25,410 | 1,878 | 27,288 | 65,893 | — | 65,893 |
| Recognised in the income statement | (370) | — | (370) | 11,319 | — | 11,319 |
| **At 31 December 2004** | 25,040 | 1,878 | 26,918 | 77,212 | — | 77,212 |
| Acquisition of a jointly controlled entity *(Note 31)* | — | — | — | — | 90,958 | 90,958 |
| Recognised in the income statement | (384) | — | (384) | 8,837 | (2,207) | 6,630 |
| **At 31 December 2005** | 24,656 | 1,878 | 26,534 | 86,049 | 88,751 | 174,800 |

| Company | Deferred tax assets: Provision of assets | Deferred tax liabilities: Depreciation of property, plant and equipment |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **At 1 January 2004** | 1,878 | 21,803 |
| Recognised in the income statement | — | 6,746 |
| **At 31 December 2004** | 1,878 | 28,549 |
| Recognised in the income statement | — | 5,547 |
| **At 31 December 2005** | 1,878 | 34,096 |

**19 GOVERNMENT GRANTS**

| | Note | Group and Company 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|---|
| Deferred income | (a) | 291,408 | 318,764 |
| Advances from government | (b) | 72,980 | 54,000 |
| | | 364,388 | 372,764 |

(a) Deferred income

| | Group and Company 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Beginning of the year | 318,764 | 354,472 |
| Government subsidy income recognised for the year *(Note 22)* | (27,356) | (35,708) |
| End of the year | 291,408 | 318,764 |

Deferred income represents government grants provided to the Company in order to subsidise toll revenue income derived from Sections A and B of the Yanba Expressway. The subsidies were granted due to insufficient traffic volume expected to be achieved by the Yanba Expressway as a result of its construction at the early phase of the township plan of the Shenzhen Municipal Government.

(b) The balance represents advances of RMB54,000,000 (2004: RMB54,000,000) and RMB18,980,000 (2004: Nil) obtained from the relevant government authorities as an inducement of the Company to participate in the Yanba toll road project and for the construction of Yanpai Expressway, respectively.

Due to the fact that the relevant governments authorities have not stipulated clear provisions and regulations on the usage as well as repayment obligations of such funds, and the fact that the construction period of these two toll roads will extend beyond one year, the two funds are presented as non-current liabilities on the balance sheet.

## 20 OTHER PAYABLES AND ACCRUED EXPENSES

| | Note | Group 2005 | Group 2004 | Company 2005 | Company 2004 |
|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 (Restated) | RMB'000 | RMB'000 |
| Consideration payable for acquisition of an associate and a jointly controlled entity | 11(b)(i), 31 | 384,062 | — | 1,714 | — |
| Payables for construction in progress payments | (a) | 141,760 | 156,538 | 133,018 | 145,182 |
| Guaranteed deposits for construction projects contracts | (a) | 27,901 | 516 | 27,901 | 516 |
| Project funds retained for construction management contracts | (b) | 31,615 | 55,988 | 31,615 | 55,988 |
| Others | (c) | 85,354 | 70,401 | 47,995 | 44,062 |
| | | 670,692 | 283,443 | 242,243 | 245,748 |

(a) These represent liabilities arising from the progress project payments for the construction of certain toll roads projects of the Group of RMB141,760,000 (2004: RMB156,538,000); and deposits received from the contractors as guarantees for bidding and their performance obligations for the construction of these projects amounting to RMB27,901,000 (2004: RMB516,000), respectively.

(b) On 8 February and 12 March 2004, the Company entered into two project construction management contracts with the Shenzhen Municipal Government (represented by the Shenzhen Communications Bureau) and the Shenzhen Longgang Government (represented by the Shenzhen Longgang Highway Bureau), respectively. The Company was appointed as the project manager for the phase I construction project of the Nanping Expressway ("Nanping Project") as well as for the construction of the western section of Hengping Highway ("Hengping Project"). The Company also undertook to enter into construction contracts on behalf of the governments with the contractors who are directly responsible for the construction of the two projects.

The project funds are advanced by the governments and they are deposited in bank accounts jointly supervised by the Company and the relevant government departments. The movements of the project funds balance on these projects is summarised as follows:

| | Note | Nanping Project | Hengping Project | Total |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| **Balance of project funds at 1 January 2005** | | 44,432 | 11,556 | 55,988 |
| Project funds received during the year | | — | 116,000 | 116,000 |
| Construction costs paid on their behalf | | (29,453) | (95,941) | (125,394) |
| Project funds transferred as management fee paid in advance to the Company | (ii) | (14,979) | — | (14,979) |
| **Balance of project funds at 31 December 2005** | (i) | — | 31,615 | 31,615 |

(i) The project funds balance is presented as restricted cash in the balance sheet with a corresponding liability of the same amount included in other payables.

(ii) As a result of a change in the policies of the government, effective from 2005, the government is responsible for making progress payments to the contractors of the Nanping Project directly. No further project funds are therefore required to be advanced to the Company. The project funds previously advanced to the Company amounting to RMB14,979,000 not yet utilised was hence agreed to be treated as project management fee paid to the Company in advance. Such amount, together with additional management fee payments made by the government to the Company during the year, had been recognised by the Company as construction management services income for the year ended 31 December 2005 ascertained based on the stage of completion of the project (see also Note 22(a)).

(c) The balance includes the remaining unsettled auditors' remuneration for the year. Details of the gross auditors' remuneration for the year are as follows, which has been included in other operating expenses in the income statement:

| | **2005** | **2004** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| International auditors' remuneration | | |
| Annual audit | 1,550 | 1,230 |
| Other audit/review services | 1,365 | 1,006 |
| Statutory auditors' remuneration | | |
| Annual audit | 650 | 500 |
| Other audit/review services | 150 | 150 |

**21 TURNOVER**

| | **2005** | **2004** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | | (Restated) |
| Income from toll roads | 911,482 | 705,776 |

No segment information is presented as all turnover of the Group is toll income earned in the PRC.

## 22 OTHER INCOME

| | *Note* | **2005** | **2004** |
|---|---|---|---|
| | | *RMB'000* | *RMB'000* |
| | | | (Restated) |
| Interest income from bank deposits | | 9,798 | 12,444 |
| Interest income from discounting of long-term receivables | 12(c) | 13,054 | 35,779 |
| Interest income from a loan extended to a jointly controlled entity | 10(d) | 6,315 | — |
| Income derived from construction management services | (a) | 72,830 | 17,868 |
| Government subsidy income | 19(a) | 27,356 | 35,708 |
| Subsidies from local governments | (b) | 10,309 | — |
| Advertising income | | 10,914 | 6,473 |
| Excess of fair value of share of the net assets acquired in a jointly controlled entity over the cost of acquisition | 31 | 34,955 | — |
| Others | | 6,399 | 6,589 |
| | | 191,930 | 114,861 |

(a) As mentioned in Note 20(b), the Company was engaged by the local government authorities to manage the construction of the Nanping Project and the Hengping Project. The management services income is determined based on the savings achieved in managing these construction management projects according to the provisions of the relevant contracts.

The construction management service income for the Nanping Project recognised using the percentage of completion method in accordance with the accounting policies as stated in Note 2.18(b) during the year amounted to approximately RMB67,323,000 (2004: RMB6,333,000).

As at 31 December 2005, the outcome of the Hengping Project could not be estimated reliably. As a result, the Company had recognised revenue of RMB5,507,000 (2004: Nil) to the extent of the project management expenses incurred by the Company, which are expected by the directors to be recovered with certainty from the project.

(b) 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 Group.

## 23 BUSINESS TAX AND SURCHARGES

The amount represents PRC business tax and surcharges levied on the Group's turnover at RMB34,956,000 (2004: RMB36,460,000); service income derived from the provision of construction management services at RMB2,272,000 (2004: RMB198,000); and income from provision of other services at RMB1,133,000 (2004: RMB908,000).

Turnover of the Group is subject to the following taxes and surcharges:

— PRC business tax at 3% or 5% of toll income. Before 31 May 2005, the toll income derived from expressways is subject to PRC business tax at 5%. Pursuant to the relevant tax regulations, effective from 1 June 2005, PRC business tax of the toll income from expressways is charged at 3%;

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

— Education supplementary fee at 3% or 5% of the PRC business tax.

## 24 EMPLOYEE BENEFIT EXPENSES

| | *Note* | **2005** | **2004** |
|---|---|---|---|
| | | *RMB'000* | *RMB'000* |
| | | | (Restated) |
| Wages, salaries and bonus | | 48,060 | 37,202 |
| Bonus - the Appreciation Right Scheme | (a) | 4,412 | — |
| Pension costs - defined contribution plans | (b) | 3,465 | 2,683 |
| Other staff welfare benefits | | 11,226 | 8,863 |
| | | 67,163 | 48,748 |

(a) It represents bonus in relation to the Appreciation Right Scheme. During the year, phase III and phase IV of the Appreciation Rights under the Appreciation Right Scheme of the Company totaling 5,501,400 shares had all been exercised and there are no outstanding Appreciation Rights granted but not exercised as at 31 December 2005 (2004: 5,501,400 shares).

(b) 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 8% to 9% (2004: 8% to 9%) of the monthly salary of the employees. The bureaus are responsible for making the pension payments to the retired employees of the Group and the Group has no further obligations.

(c) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2005 is set out below:

| **Name of director** | **Fees** | **Salary** | **Discretionary bonuses** | **Other benefits and allowances** | **Employer's contribution to pension scheme** | **Total** |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Mr. Yang Hai (iii) | — | 534 | 203 | 21 | 12 | 770 |
| Mr. Wu Ya De | — | 522 | 171 | 23 | 15 | 731 |
| Mr. Zhang Rong Xing | — | 380 | 47 | 58 | 8 | 493 |
| Mr. Lin Xiang Ke | — | — | — | 12 | — | 12 |
| Ms. Zhang Yang | — | — | — | 10 | — | 10 |
| Mr. Li Jing Qi (iii) | — | — | — | 8 | — | 8 |
| Mr. Wang Ji Zhong (iii) | — | — | — | 10 | — | 10 |
| Mr. Chiu Chi Cheong, Clifton | 312 | — | — | 14 | — | 326 |
| Mr. Li Zhi Zheng | 150 | — | — | 11 | — | 161 |
| Mr. Zhang Zhi Xue | 150 | — | — | 12 | — | 162 |
| Mr. Chen Chao (i) | — | — | — | — | — | — |
| Ms. Tao Hong (i) | — | — | — | 2 | — | 2 |
| Mr. Zhong Shan Qun (i) | — | — | — | 5 | — | 5 |
| Mr. Ho Pak Cho, Dennis Morgie (ii) | 66 | — | — | 2 | — | 68 |
| Mr. Poon Kai Leung, James | 156 | — | — | 16 | — | 172 |
| Mr. Wong Kam Ling (iv) | 90 | — | — | 10 | — | 100 |

The remuneration of each director for the year ended 31 December 2004 is set out below:

| Name of director | Fees | Salary | Discretionary bonuses | Other benefits and allowances | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Mr. Chen Chao | — | — | — | — | — | — |
| Mr. Wu Ye De | — | 488 | 133 | 41 | 14 | 676 |
| Mr. Zhang Rong Xing | — | 366 | 67 | 79 | 14 | 526 |
| Mr. Zhong Shan Qun | — | — | — | 10 | — | 10 |
| Ms. Tao Hong | — | — | — | 8 | — | 8 |
| Mr. Lin Xiang Ke | — | — | — | 8 | — | 8 |
| Ms. Zhang Yang | — | — | — | 9 | — | 9 |
| Mr. Chiu Chi Cheong, Clifton | 318 | — | — | 13 | — | 331 |
| Mr. Ho Pak Cho, Dennis Morgie | 159 | — | — | 11 | — | 170 |
| Mr. Li Zhi Zheng | 150 | — | — | 12 | — | 162 |
| Mr. Zhang Zhi Xue | 150 | — | — | 12 | — | 162 |
| Mr. Poon Kai Leung, James | 159 | — | — | 11 | — | 170 |

(i) Resigned on 8 April 2005.

(ii) Resigned on 3 June 2005.

(iii) Appointed on 8 April 2005.

(iv) Appointed on 3 June 2005.

(v) Other benefits and allowances include employer's contribution to medical scheme, allowance paid to the directors for their attendance in the board of directors' meetings and travelling allowances.

The emoluments for all directors of the Company (executive and non-executive) fell within the band of nil to RMB1,040,000 (HKD1,000,000) during the years ended 31 December 2005 and 2004.

During the year, Mr. Chen Chao waived the allowance provided for his attendance in the board of directors' meetings of RMB12,000 (2004: RMB15,000). No other directors waived any emoluments during the years ended 31 December 2005 and 2004.

During the years ended 31 December 2005 and 2004, no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office.

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2004: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: four) individuals during the year are as follows:

| | 2005 | 2004 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Basic salaries | 1,213 | 1,610 |
| Bonuses | 443 | 440 |
| Contributions to the retirement scheme | 44 | 56 |
| Other benefits and allowances | 213 | 249 |
| | 1,913 | 2,355 |

The emoluments for all the above senior management fell within the band of nil to RMB1,040,000 (HKD1,000,000) during the years ended 31 December 2005 and 2004.

**25 FINANCE COSTS**

| | 2005 | 2004 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | | (Restated) |
| Interest on bank borrowings | 94,845 | 22,221 |
| Interest on other borrowings | 1,186 | 1,549 |
| Less: interest expenses capitalised in construction in progress | (11,782) | (38) |
| | 84,249 | 23,732 |
| Other borrowing costs | 16,409 | — |
| Net foreign exchange transaction (gains)/losses | (37) | 320 |
| | 100,621 | 24,052 |

Borrowing costs of RMB11,782,000 (2004: RMB38,000) arising on financing specifically entered into for the construction of toll roads and related facilities were capitalised during the year and are included in additions of construction in progress. Capitalisation rates ranged from 5.05% to 5.51% (2004: 5.02%) were used, representing the borrowing costs of the loans used to finance the projects.

**26 INCOME TAX EXPENSES**

| | 2005 | 2004 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | | (Restated) |
| Current income tax | | |
| — PRC enterprise income tax | 73,057 | 64,330 |
| Deferred income tax | 7,014 | 11,689 |
| | 80,071 | 76,019 |

(a) In 2005, the Company is subject to PRC enterprise income tax at a rate of 15% (2004: 15%), the preferential tax rate for enterprises established in the Shenzhen Special Economic Zone.

(b) Pursuant to the approvals of the relevant tax authorities, two jointly controlled entities of the Company, Qinglong Company and Yungang Company, are exempt from PRC enterprise income tax for the first two profit-making years and are entitled to a 50% reduction of their PRC enterprise income tax for the three consecutive years thereafter. It is the second profit making year for Qinglong Company and the fourth profit-making year for Yungang Company, as a result, Qinglong Company is exempt from PRC enterprise income tax while Yungang Company is entitled to a 50% reduction of its PRC enterprise income tax in 2005.

The PRC enterprise income tax charged to the consolidated income statement has been calculated based on the assessable profits of the Company and its subsidiaries and jointly controlled entities located in the PRC of the year at rates of tax applicable to the respective companies of 15% or 33% (2004: 15% or 33%).

(c) The applicable tax rate to Mei Wah, a subsidiary of the Company incorporated in Hong Kong, is 17.5% (2004: 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 and JEL are incorporated in the British Virgin Islands and Cayman Islands, respectively, which are not subject to profits tax.

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

| | **2005** | **2004** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | | (Restated) |
| Profit before income tax | 642,280 | 498,725 |
| Calculated at a tax rate of 15% (2004: 15%) | 96,342 | 74,809 |
| Effect of different tax rates in other locations | 1,134 | 60 |
| Income not subject to tax | (19,798) | (10,723) |
| Expenses not deductible for tax purposes | 74 | 1,207 |
| Tax loss for which no deferred income tax asset was recognised | 9,082 | 13,855 |
| Utilise of unrecognised tax loss | (5,552) | — |
| Preferential tax benefits of jointly controlled entities | (4,813) | (2,848) |
| Share of results of associates which no deferred income tax was recognised | 3,602 | (341) |
| Income tax expenses | 80,071 | 76,019 |

## 27 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 RMB521,460,000 (2004: RMB357,858,000, as restated).

## 28 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.

| | **2005** | **2004** |
|---|---|---|
| | | (Restated) |
| Profit attributable to equity holders of the Company (RMB'000) | 552,622 | 414,888 |
| Number of ordinary shares in issue (thousands) | 2,180,700 | 2,180,700 |
| Basic earnings per share (RMB per share) | 0.25 | 0.19 |

No fully diluted earnings per share is presented as the Company had no dilutive potential shares in both 2004 and 2005.

## 29 DIVIDENDS

The dividends paid during the years ended 31 December 2005 and 2004 were RMB239,877,000 (RMB0.11 per share) and RMB414,333,000 (RMB0.19 per share), respectively. A final dividend in respect of 2005 of RMB0.12 per share, amounting to a total dividend of RMB261,684,000 is to be proposed at the Annual General Meeting. This proposed dividends was not reflected as a dividend payable in these financial statements, but will be reflected as appropriation of retained earnings for the year ending 31 December 2006.

| | **2005** | **2004** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Proposed final dividend of RMB0.12 (2004: RMB0.11) per ordinary share | 261,684 | 239,877 |

## 30 CASH GENERATED FROM OPERATIONS

| | **2005** | **2004** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | | (Restated) |
| Profit for the year | 562,209 | 422,706 |
| Adjustments for: | | |
| — Income tax | 80,071 | 76,019 |
| — Depreciation | 130,010 | 113,536 |
| — Amortisation | 37,624 | 18,150 |
| — Provision for impairment of goodwill | — | 945 |
| — Reversal of provision for impairment of assets | (40,000) | — |
| — Loss on disposal of property, plant and equipment | 291 | 7,573 |
| — Interest income from bank deposits | (9,798) | (12,444) |
| — Interest income from discounting of long-term receivables | (13,054) | (35,779) |
| — Interest income from loan to a jointly controlled entity | (6,315) | — |
| — Government subsidy income | (27,356) | (35,708) |
| — Subsidies from local government | (10,309) | — |
| — Excess of fair value of share of the net assets of a jointly controlled entity acquired over the cost of acquisition *(Note 31)* | (34,955) | — |
| — Interest expense | 84,249 | 23,732 |
| — Other borrowing costs | 16,409 | — |
| — Share of loss of associates | 24,015 | 706 |
| — Exchange (gains)/losses | (37) | 320 |
| Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation): | | |
| — Inventories | 3,827 | (987) |
| — Trade and other receivables | (121,092) | (17,835) |
| — Other payables and accrued expenses | 43,198 | (1,010) |
| Cash generated from operations | 718,987 | 559,924 |

**31 ACQUISITION OF A JOINTLY CONTROLLED ENTITY**

Pursuant to a sets of agreements dated 19 March 2005 and a supplementary agreement dated 12 July 2005 entered into between the Company and Mei Wah, a subsidiary of the Company, jointly with various parties, Mei Wah acquired 55% issued share capital of JEL at a cash consideration of HKD653,632,000 (equivalent to approximately RMB681,215,000) on 5 August 2005. JEL is engaged in investment holding and it holds 100% equity interest in Magerk Company. As a result of the acquisition, the Company started to hold an effective equity interest of 55% in JEL and Magerk Company indirectly. The principal activities of Magerk Company are the operation and management of the Wuhuang Expressway in the PRC.

Flywheel Investments Limited, a wholly owned subsidiary of Shenzhen International Holdings Limited ("Shenzhen International"), acquired another 45% issued share capital of JEL in the same transaction. Shenzhen International is the indirect substantial shareholder of the Company. JEL are subject to the joint control of the Group and Shenzhen International that no one party has unilaterally control over the financial and operational decisions of JEL, accordingly, JEL is accounted for as a jointly controlled entity of the Group.

As at 31 December 2005, approximately HKD19,644,000 (equivalent to approximately RMB20,436,000) out of the total consideration for the acquisition had not yet been settled.

The acquired business contributed revenues of RMB63,727,000 and net profit of RMB20,565,000 to the Group for the period from 5 August 2005 to 31 December 2005 based on proportionate consolidation of the financial statements of JEL. If the acquisition had occurred on 1 January 2005, the Group's revenue would have been RMB993,909,000 (unaudited), and net profit before allocations would have been RMB567,426,000 (unaudited).

Details of net assets acquired are as follows:

| | *RMB'000* |
|---|---|
| Purchase consideration: | |
| — Cash consideration (HKD653,632,000) | 681,215 |
| — Dividends up to 31 December 2004 entitled by the Group | (16,825) |
| — Adjustments made to the consideration | (4,674) |
| Total purchase consideration, net | 659,716 |
| Fair value of net assets acquired - shown as below | 694,671 |
| Excess of fair value of net assets acquired over the cost of acquisition credited to the income statement *(Note 22)* | (34,955) |

The assets and liabilities arising from the acquisition are as follows:

| | Acquiree's carrying amount | Fair value | Attributable to the Group |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Cash and cash equivalents | 48,417 | 48,417 | 26,629 |
| Property, plant and equipment *(Note 5)* | 19,053 | 19,053 | 10,479 |
| Toll road operating right (included in intangible assets) *(Note 8)* | 396,333 | 1,523,192 | 837,756 |
| Receivables | 3,028 | 3,028 | 1,665 |
| Payables | (7,212) | (7,212) | (3,967) |
| Borrowings | (158,061) | (158,061) | (86,933) |
| Deferred tax liabilities *(Note 18)* | — | (165,378) | (90,958) |
| Net assets | 301,558 | 1,263,039 | |
| Net assets acquired | | 694,671 | 694,671 |

| | |
|---|---|
| | *RMB'000* |
| Purchase consideration settled in cash | 639,280 |
| Cash and cash equivalents in jointly controlled entity acquired | (26,629) |
| Cash outflow on acquisition | 612,651 |

There were no material acquisitions in the year ended 31 December 2004.

## 32 COMMITMENTS

Capital expenditure and investment commitments at the balance sheet date not yet incurred are as follows:

| | 2005 | 2004 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Capital commitments - construction of toll roads | | |
| — contracted but not provided for | 1,054,550 | 310,500 |
| — authorised but not contracted for | 2,700,800 | 3,822,500 |
| | 3,755,350 | 4,133,000 |
| Investment commitments | | |
| — contracted but not provided for | 188,840 | 469,860 |
| — authorised but not contracted for | 484,000 | 2,544,496 |
| | 672,840 | 3,014,356 |
| | 4,428,190 | 7,147,356 |

In the opinion of the directors, the above commitments which included the acquisition described in Note 35(c) could be fulfilled by internal financial resources and banking facilities made available to the Group.

## 33 CONTINGENCIES

Pursuant to the provisions of the two construction management contracts described in Note 20(b), the Company undertakes to bear costs overruns for the two projects. For the Hengping Project, the Company is obliged to bear all the cost overruns incurred in construction as compared to the original budget. For the Nanping 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 is less than 2.5% of the total budgeted contract costs, while the related government department will share the overruns portion exceeding 2.5% jointly with the Company if the overrun exceeds 2.5% of the total budgeted contract costs.

Pursuant to the terms of these two contracts, in 2004, the Company had arranged banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Longgang Highway Bureau and the Shenzhen Communications Bureau amounting to RMB30,000,000 and RMB100,000,000, respectively. The Company also paid a guarantee deposit of RMB15,000,000 to the Shenzhen Longgang Highway Bureau for assuring the progress, quality and safety standards for the construction of the Hengping Project.

## 34 RELATED PARTY TRANSACTIONS

The substantial shareholder of the Company is Xin Tong Chan, which owns 30.03% of the Company's shares. Xin Tong Chan is wholly owned by Shenzhen International, a company whose shares are listed on The Stock Exchange of Hong Kong Limited.

Apart from the related party transactions and balances in relation to the loan to a jointly controlled entity, acquisition, toll income collection, guarantee for borrowings and advance from the substantial shareholder, already disclosed in Notes 10(d), 11(b), 12(b), 17(b) and 17(c) respectively to these financial statements, the following material transactions were carried out with related parties during the year:

**Key management compensation**

| | 2005 | 2004 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Salaries, bonuses and other short-term employee benefits | 6,402 | 5,428 |

The key management include directors (executive and non-executive) and senior management and there are in total 19 (2004: 18) key management personnel of the Company.

**35 EVENTS AFTER THE BALANCE SHEET DATE**

Save as disclosed in other notes to the financial statements, the Group has the following significant post balance sheet date events:

(a) As approved by the People's Bank of China, the Company has obtained approval to issue short-term financing bonds for an amount not more than RMB2 billion before November 2006. On 6 January 2006, the Company issued a portion of short-term financing bonds with an amount of RMB1 billion, bearing interest at 3.07% per annum and having a maturity of 9 months.

(b) On 14 January 2006, the Company entered into another project construction management contract with the Shenzhen Communications Bureau (representing the Shenzhen Municipal Government). The Company was appointed as the project manager for the construction of the Wutong Mountain Avenue (Supplementary Road) and the Airport-Heao Expressway Yantian Subsidiary Road Checkpoint Station Project. The Company also undertakes to enter into construction contracts on behalf of the government with the contractors who are directly responsible for the construction of the project. The aggregate project amount of the project is approximately RMB254 million and the project funds are advanced by the government.

(c) On 8 February 2006, the Company entered into an agreement with the liquidation committee of Qingyuan Yueqing Highway Construction and Development Company Ltd ("Yueqing", one of the equity owners of Qinglian Company) for the acquisition of Yueqing's 20.09% equity interest held in Qinglian Company, together with its equity owner's loan and all other distributable interests in Qinglian Company at an aggregate cash consideration of RMB484,000,000. The transaction is subject to the approval in an Extraordinary General Meeting of the shareholders of the Company. Upon completion of the acquisition, the Company will directly and indirectly hold 76.37% equity interest in Qinglian Company, including the 51.28% equity interest currently held.

(d) The Shareholding Scheme of the Company was completed on 27 February 2006. Details are set out in Note 15.

**Management Discussion and analysis for the three years ended 31 December 2005**

***For the year ended 31 December 2005***

*Review of operations*

For the year ended 31 December 2005, the Group recorded a turnover of RMB911.48 million representing an increase of 29.15% as compared to the corresponding period of 2004. The source of growth in the Group's turnover was mainly from the increase in traffic flows on the toll highways, which stemmed from the continued economic growth and proliferating number of vehicles in the PRC. For the year ended 31 December 2005, the Group recorded an operating profit of RMB766.92 million representing an increase of 46.5% as compared to the corresponding period of the previous year. The increase was mainly due to the increase in toll revenue during the period. The Group's share of loss of associates amounted to RMB24.02 million for the year ended 31 December 2005, as compared to loss of approximately RMB706,000 for the corresponding period of the previous year. The Group's finance costs amounted to RMB100,621,000 for the year ended 31 December 2005, representing an increase of 318.35% as compared to the corresponding period of the previous year. Such increase was mainly attributable to the increased scale of borrowings as compared to the corresponding period of the previous year. As at 31 December 2005, the Group's borrowings amounted to RMB2,230.60 million, representing an increase of RMB2,087.69 million as compared to the year end of 2004, which amount was primarily used for investment in new projects. As a result of the above, the net profit of the Group for the year ended 31 December 2005 amounted to RMB562.21 million, representing an increase of 33% as compared to the corresponding period of the previous year.

*Liquidity and financial resources*

As at 31 December 2005, the Group's cash and cash equivalents amounted to RMB892.49 million (31 December 2004: RMB1,241.84 million) and restricted cash of RMB31.62 million (31 December 2004: RMB55.99 million). The restricted cash represented the unutilised balance of project funds received from government authorities for the use of two management contracts.

As at 31 December 2005, the Group's short-term borrowings were RMB253.90 million (31 December 2004: RMB580 million), current portion of long-term borrowings amounted to RMB16.21 million (31 December 2004: RMB3.08 million), and the long-term borrowings amounted to RMB2,230.60 million (31 December 2004: RMB142.91 million). The increase in long-term borrowings was mainly due to the increase of bank loans to finance the investment of new projects. As at 31 December 2005, the Group's debt-to-asset ratio was 36.77% (31 December 2004: 19.38%). The Group's gearing ratio, calculated by dividing the net borrowings by total equity, was 25.24% (31 December 2004: not applicable due to negative net borrowings). The increase in debt-to-asset ratio and gearing ratio were mainly due to the increase in bank loans of the Group.

***For the year ended 31 December 2004***

*Review of operations*

For the year ended 31 December 2004, the Group recorded a turnover of approximately RMB705.78 million, representing an increase of 18.0% when compared to year 2003. Growth in the Group's turnover during the year was mainly attributable to the increase in traffic flow on each of the toll highways, which benefited from the robust growth of China's economy and the substantial increase in the number of vehicles. The Group's profit attributable to the Shareholders for 2004 amounted to RMB414.89 million, representing a decrease of 54.12% as compared to 2003. The decrease was mainly attributable to the disposal of the two class 1 highways in March 2003, which resulted in non-recurring "gain on disposal of assets". Disregarding this non-recurring gain on disposal of assets, the profit attributable to the Shareholders generated from ordinary activities during 2004 increased by approximately 94.72% over that in 2003. This showed that the Group's toll highways continued to enjoy rising profitability during 2004 and as a result, profit generated from its ordinary activities quickly returned to the same level before the disposal of the two class 1 highways. The earnings per Share for the year 2004 were RMB0.19 and the total debt to equity ratio of the Group as at 31 December 2004 was around 24.04%. This showed that the capital of the Group continued to be mainly consisted of shareholders' funds, which is approximately RMB6,027 million.

*Liquidity and financial resources*

As at 31 December 2004, the Group's cash and cash equivalents amounted to RMB1,241,838,000 (31 December 2003: RMB1,247,391,000) and restricted cash of RMB55,988,000 (31 December 2003: nil). The restricted cash represented the unutilised balance of project funds received from government authorities for the use of two management contracts.

As at 31 December 2004, the Group's short-term borrowings were RMB580,000,000 (31 December 2003: RMB40,000,000), current portion of long-term borrowings amounted to RMB3,082,000 (31 December 2003: RMB3,082,000) and the long-term borrowings amounted to RMB142,911,000 (31 December 2003: RMB102,389,000), including bank borrowings of RMB100,000,000 (31 December 2003: nil), the Spanish government loans of RMB33,901,000 (31 December 2003: RMB33,095,000), and minority shareholders' advance of RMB12,092,000 (31 December 2003: RMB15,294,000). The increase in short-term borrowings was mainly due to the RMB360 million short-term bank loans. The increase in long-term liabilities was mainly due to increase of long-term bank loans of RMB100 million. As at 31 December 2004, the Group's gearing ratio, calculated by dividing the net borrowings by total equity, was not applicable due to negative net borrowings (31 December 2003: not applicable).

***For the year ended 31 December 2003***

*Review of operations*

For the financial year 2003, the Group recorded the turnover of approximately RMB598.14 million. On 18 March 2003, the Company transferred all its interest and rights in two class 1 highways, namely NH107 Shenzhen Section and NH205 Shenzhen Section to the Shenzhen Communications Bureau at a consideration of RMB1.93 billion. The turnover during 2003 decreased by approximately 7.42% as compared with 2002. During the year 2003, the profit attributable to the shareholders was approximately RMB904.48 million, representing an increase of 167.41% as compared with that in 2002, which was mainly attributable to the after-tax contribution of RMB586 million from the transfer of titles in the two class I highways. The earnings per Share for the year 2003 were RMB0.41 and the gearing ratio of the Group as at 31 December 2003 was approximately 15.54%, which improved significantly as compared with 2002. The low gearing ratio showed the capital structure of the Group is mainly composed of shareholders' fund which is approximately RMB6,027 million (2002: RMB5,427 million).

*Liquidity and financial resources*

As at 31 December 2003, the Group's cash and cash equivalents amounted to RMB1,247,391,000 (31 December 2002: RMB775,521,000). The increase was mainly due to the increase in bank deposits in RMB.

As at 31 December 2003, the Group's short-term borrowings were RMB40,000,000 (31 December 2002: RMB610,000,000), current portion of long-term liabilities amounted to RMB3,082,000 (31 December 2002: nil) and the long-term liabilities amounted to RMB102,389,000 (31 December 2002: 167,626,000), including the Spanish government loans of RMB33,095,000 (31 December 2002: RMB24,419,000), a long-term advancement from government authorities as an inducement of the Company to participate in a toll road project of RMB54,000,000 (31 December 2002: RMB124,000,000) and minority shareholders' advance of RMB15,294,000 (31 December 2002: RMB19,207,000). The decrease in short-term borrowings and long-term liabilities was mainly due to the repayment of bank loans. As at 31 December 2003, the Group's gearing ratio, calculated by dividing the net borrowings by total equity, was not applicable (31 December 2002: 0.04%). The decrease was mainly due to the repayment of bank loans during the year.

**Segment Information**

The Group's main source of revenue is toll revenue from operations of toll roads in the PRC. Accordingly, no segment information is presented for business and geographical segments.

**Investment and Acquisition**

The Group incessantly seeks suitable opportunities to invest in toll highway projects situated in superior geographical locations so as to expand its principal operations and achieve its strategic objectives. Following the progress made in the previous year on investing beyond Shenzhen, the Group entered into agreements in 2005 to invest in Qinglian Company and Wuhuang Expressway, for which the total capitals amounted to about RMB2.5 billion and the total mileage of high-grade toll highways acquired was 280 km. The Group also plans to re-construct the Qinglian Class One Highway into an expressway. Yangmao Expressway, Guangwu Expressway, Shuiguan Extension, Nanjing Third Bridge and Jiangzhong Expressway, in which the Group invested, were all open to traffic since the end of 2004. Wuhuang Expressway has been proportionate consolidated into the Group since August 2005 and the Group's share of its profit reached approximately RMB20,565,000. The above investments have built a good foundation for a continued growth of the Group's profits in future.

**Interest Rate Risks**

The Group employs an optimised portfolio comprising fixed and floating interest rates and short and long-term borrowings to control the risks arising from interest rate fluctuations within an acceptable range. The Group's good credit rating and reputation in the sector also presented an advantage in securing more preferential borrowing rates. Furthermore, the Company is actively exploring other financing channels. On 10 October 2005, a resolution regarding issue of short-term commercial papers was considered and approved by Shareholders. Pursuant to the approval of the People's Bank of China, the Company can issue the short-term commercial papers with the maximum amount of RMB2 billion and the validity was till the end of November 2006. In January 2006, the first batch of RMB1 billion short-term commercial papers with a term of 9 months and interest rate at 3.07% per annum was issued. The issue of the short-term commercial papers expanded the financial channels of the Company, improved the borrowing structure and lowered the overall financing costs of the Company. During 2005, the Company did not use any interest rate swap option contracts.

**Foreign Exchange Risks**

All major operations of the Group are located in the PRC and the majority of transactions are settled in RMB. The Group did not have significant exposure to foreign exchange risk in the PRC, except for certain cash at bank balances of RMB58,200,000 and bank borrowings of RMB676 million which were denominated in HK$ and other borrowings of RMB30,051,000 which were denominated in United States dollars, respectively, at 31 December 2005.

**Employees and Remuneration Policy**

As at 31 December 2005, the Company has 1,303 employees, of which 318 of them are management and technical staff while 985 of them are toll collection staff. 31% of the Company's staff holds tertiary or above qualifications and 83% of the administrative, financial and technical staff holds tertiary or above qualifications.

The remuneration of the Company's employees is divided into three parts, namely salary, year-end performance bonus as well as statutory and non-statutory benefits. The remuneration is determined in accordance with an overall assessment, of which salary and performance bonus are determined by their position and performance respectively so as to maintain the competitiveness of the Company. The Group has participated in an employee's retirement scheme according to relevant regulations and requirements, and also provided basic medical insurance, industrial injury insurance, unemployment insurance to its employees in accordance with the rules and regulations promulgated by the government.

**Charge on Group Assets**

As at 31 December 2005, the Group had charge on its 95% interest in Meiguan Company for bank facilities of approximately RMB1,400 million. Further, bank borrowings to the extent of RMB676 million was secured by a pledge of the 55% equity interest of JEL held by Mei Wah, RMB260 million was secured by a pledge of the toll road operating right of Shuiguan Expressway by Qinglong Company and RMB11 million was secured by a pledge of the toll road operating right of Wuhuang Expressway of Magerk Company.

**Contingent Liabilities**

On 8 February and 12 March 2004, the Company entered into two project construction management contracts with the Shenzhen Municipal Government (represented by the Shenzhen Communications Bureau) and the Shenzhen Longgang Government (represented by Shenzhen Longgang Highway Bureau), respectively. The Company was appointed as the project manager for the phase I construction project of the Nanping Freeway as well as for the construction of the western section of Hengping class I Highway. The Company also undertook to enter into construction contracts on behalf of the governments with the contractors who are directly responsible for the construction of the two projects. Details of the contingent liabilities of the Company as at 31 December 2005 are set out in note 33 of the included restated information, which was not audited financial information of the Group.

**Entrusted Construction Management**

The Company has been appointed by the government as administrators for the Nanping and Hengping projects in 2004. As at 31 December 2005, as per the progress of the physical completion, an accumulated amount of approximately RMB1,908 million had been utilized as construction costs in Nanping Project. The western section was opened to traffic on 3 December 2005 while the whole project is scheduled for completion by the first half of 2006. During the year of 2005, the Nanping Project contributed a profit of approximately RMB59,968,000 to the Company, which is within the Company's expectations. Hengping Project is lagging behind schedule due to land requisition, demolition and relocation works, and the whole project is scheduled for completion by 2007. As at 31 December 2005, as per the progress of the physical completion, an accumulated amount of approximately RMB137 million had been utilized as construction costs in Hengping Project, representing approximately 30% of estimated investment. As the Company is not required by the agreement to be responsible for land requisition, demolition or relocation, the Company's performance in accordance with the construction schedules as stipulated in the agreement will not be affected.

**Prospects and outlook**

Sustained economic prosperity, accelerated integration of the regional economy and increasing urbanisation are the driving forces to the demand for quality transportation. To meet the needs for economic development, the state and local governments have worked out comprehensive, forward-looking plans for the transportation network. All these factors are expected to accelerate the development of the Group's principal operations in the toll highway sector. Besides, the consistent promotion and use of the "entrusted construction system" in the management of government-invested projects will also create good opportunities for the development of the Group's entrusted construction management business.

On the other hand, the sectors of both toll highways and government-invested projects' management are becoming more transparent, market-oriented and regulated. This has also brought more market entrants, more severe competitions and a faster pace. The Group is also exposed to rising interest rates on loans, changes in industry policies and highway network plans and other risk factors. The next several years will be a critical period for the Company's development. The Company will continuously focus on the investment, construction, operation and management of toll highways and roads. The Company will also fully capitalise on its advantages, consolidate its core competitive strengths, improve the operation and construction of its existing highway projects, and in line with its established development strategies, seek suitable investment opportunities. The Company will integrate its resources when appropriate, assess and prevent risks prudently, and carry out a sound operation. The Company will reward its investors with satisfactory standards in corporate governance and promising operating results.

## 1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to illustrate the effect of the SE Acquisition, assuming the transactions has been completed as at 31 December 2005, might have affected the financial position of the Group.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2005 extracted from the annual results announcement of the Group for the year ended 31 December 2005 and that of the Qinglian Company as at 31 December 2005 extracted from the Accountants' Report set out in Appendix III after making certain proforma adjustments resulting from the SE Acquisition.

The unaudited pro forma statement of assets and liabilities is prepared to provide financial information on the Enlarged Group as a result of completion of the SE Acquisition. As it is prepared for illustrative purpose only, it may not purport to represent what the assets and liabilities of the Enlarged Group shall be on the actual completion of the SE Acquisition.

| | **The Group** | **Qinglian Company** | **Total** | **Adjustments** | *Notes* | **Enlarged Group** |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | | *RMB'000* |
| Non-current assets | | | | | | |
| Property, plant and equipment | 4,055,081 | 2,725,845 | 6,780,926 | 1,018,997 | 1 | 7,799,923 |
| Construction in progress | 693,443 | — | 693,443 | | | 693,443 |
| Land use rights | 368,830 | — | 368,830 | | | 368,830 |
| Intangible assets | 824,585 | — | 824,585 | | | 824,585 |
| Loan to a jointly controlled entity | 78,240 | — | 78,240 | | | 78,240 |
| Interests in associate companies | 2,966,903 | — | 2,966,903 | (1,839,200) | 2 | 1,127,703 |
| Deferred income tax assets | 6,764 | — | 6,764 | | | 6,764 |
| | 8,993,846 | 2,725,845 | 11,719,691 | | | 10,899,488 |
| Current assets | | | | | | |
| Inventories | 3,540 | — | 3,540 | | | 3,540 |
| Trade and other receivables | 157,829 | 7,969 | 165,798 | | | 165,798 |
| Amount due from a minority shareholder of a subsidiary | — | 29,718 | 29,718 | (29,718) | 3 | — |
| Restricted cash | 31,615 | 44,407 | 76,022 | | | 76,022 |
| Cash and cash equivalents | 892,485 | 11,070 | 903,555 | 484,000 | 4 | 419,555 |
| | 1,085,469 | 93,164 | 1,178,633 | | | 664,915 |

| | The Group | Qinglian Company | Total | Adjustments | *Notes* | Enlarged Group |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | | *RMB'000* |
| Current liabilities | | | | | | |
| Other payables and accrued expenses | 670,692 | 57,373 | 728,065 | (29,718) | 3 | 698,347 |
| Amount due to a minority shareholder of a subsidiary | — | 21,446 | 21,446 | | | 21,446 |
| Loan from a minority shareholder of a subsidiary | — | 988,631 | 988,631 | (754,294) | 5 & 6 | 234,337 |
| Interest payable to a minority shareholder of a subsidiary | — | 681,270 | 681,270 | (537,578) | 5 & 6 | 143,692 |
| Taxation payable | 15,736 | — | 15,736 | | | 15,736 |
| Borrowings | 270,108 | — | 270,108 | | | 270,108 |
| | 956,536 | 1,748,720 | 2,705,256 | | | 1,383,666 |
| Net current assets (liabilities) | 128,933 | (1,655,556) | (1,526,623) | | | (718,751) |
| Non-current liabilities | | | | | | |
| Borrowings | 2,230,602 | 586,000 | 2,816,602 | | | 2,816,602 |
| Deferred tax liabilities | 155,030 | — | 155,030 | 152,845 | 1 | 307,875 |
| Government grants | 364,388 | — | 364,388 | | | 364,388 |
| | 2,750,020 | 586,000 | 3,336,020 | | | 3,488,865 |
| Total net assets | 6,372,759 | 484,289 | 6,857,048 | | | 6,691,872 |

*Notes:*

1. The adjustments reflects the net consideration paid for acquiring the toll road and corresponding deferred tax impact by the Company upon the Acquisition.

2. The adjustment reflects the reversal of first consideration payable for acquiring Qinglian Company as an associate by the Company. The Company recognised the first acquisition of 56.28% equity interest in Qinglian Company as an associate. Therefore, it was reversed the associate and recognised as a subsidiary of the Company upon this Acquisition.

3. The adjustment reflects the reclassification of amount due from a joint venturer to other payables and accrued expenses.

4. The adjustment reflects the consideration paid in amount of RMB484,000,000 upon the completion of this Acquisition.

5. The adjustment reflects the elimination of loan from a minority shareholder of a subsidiary and interest payable to minority shareholder of a subsidiary.

6. The adjustment reflects the loan from a minority shareholder of a subsidiary and interest payable to a minority shareholder of a subsidiary in the Enlarged Group.

## 2. REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

**TO THE DIRECTORS OF SHENZHEN EXPRESSWAY COMPANY LIMITED**

We report on the unaudited pro forma statement of assets and liabilities (the "Statement") of Shenzhen Expressway Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Qinglian Highway Development Company Limited ("Qinglian Company") (together with the Group hereinafter referred to as the "Enlarged Group") which has been prepared by the directors for illustrative purposes only, to provide information about how the acquisition of 20.09% equity interest of Qinglian Company might have affected the assets and liabilities of the Group presented, for inclusion in Appendix V of the circular dated 25 April 2006 (the "Circular"). The basis of preparation of unaudited pro forma financial information is set out on page 154 to the Circular.

**Respective responsibilities of directors of the company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the Statement in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to 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 paragraph 4.29(7) of the Listing Rules, on the Statement 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 Statement 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 engagements 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 consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Statement with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

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 Statement 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 purpose of the Statement as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Statement is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and because of its hypothetical nature, does not provided any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2005 or any future date.

**Opinion**

In our opinion:

a) the Statement 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 Statement as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**
Certificated Public Accountants
Hong Kong
25 April 2006

## 3. INDEBTEDNESS

At the close of business on 28 February 2006, being the latest practicable date for the preparation of this indebtedness statement prior to the printing of this document, the Group had outstanding borrowings of approximately RMB2,132.69 million which comprised of long-term bank borrowings of approximately RMB977.55 million, short-term bank borrowings of approximately RMB72.60 million, short-term commercial papers of RMB1,000 million and other long-term advances of RMB82.54 million.

The Company undertakes to bear costs overruns for two construction management contracts. For the Hengping Project, the Company is obliged to bear all the costs overruns in construction as compared to the original budget. For the Nanping Project, the Company is obliged to bear solely all the costs overruns in construction as compared to the original budget in case the overrun is less than 2.5% of the total budgeted contract costs, while the related government department will share the overruns portion exceeding 2.5% jointly with the Company if the overrun exceeds 2.5% of the total budgeted contract costs. As at the Latest Practicable Date, the construction costs of these two projects are within the original budget and no provision for contingency were provided by the Company.

Pursuant to the terms of these two contracts, the Company was requested to arrange banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Longgang Highway Bureau and the Shenzhen Communications Bureau in the amounts of RMB30 million and RMB100 million, respectively. The Company also paid a deposit of RMB 15 million to the Shenzhen Longgang Highway Bureau as a guarantee deposit for assuring the progress, quality and safety standards for the construction of the Hengping Project.

Save as aforesaid, and apart from the intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital or overdrafts, or other similar indebtedness, finance leases or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 28 February 2006.

## 4. WORKING CAPITAL SUFFICIENCY

The Board is of the opinion that after taking into account the Group's internal resources and available banking facilities, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular, which does not take into account any additional working capital in connection with Qinglian Company that may arise after the Completion.

The board of Qinglian Company is of the opinion that after taking into account Qinglian Company's internal resources, available borrowing facilities and a joint venturer of Qinglian Company agreed to provide adequate funds to enable the Qinglian Company to meet its financial obligations as they fall due in the foreseeable future, Qinglian Company has sufficient working capital for its requirements.

Based on the above, the directors are of the opinion that, after taking into account the financial resources available to the Group, including internal resources and present available banking facilities, and in the absence of unforeseen circumstances, the Group after completion of the SE Acquisition has available sufficient working capital for the next 12 months from the date of this circular.

*Set out below are the text of the letters received from: (i) the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, and (ii) Guangdong Securities, the financial adviser to this transaction, relating to the discounted cash flow assumptions for the purpose of inclusion in this circular.*

(A) **Letter from Deloitte Touche Tohmatsu**

Deloitte.
德勤

德勤 · 關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

25 April 2006

The Directors
Shenzhen Expressway Company Limited
19/F., Tower A
United Plaza
5022 Binhe Road N.
Shenzhen 518033
The People's Republic of China

Dear Sirs,

**REPORT OF FACTUAL FINDINGS**

In accordance with our engagement letter, we have performed the procedures agreed with you and enumerated below in relation to the supporting worksheets (the "Supporting Worksheets") to the business valuation report dated 25 April 2006 (the "Valuation Report") prepared by Sallmanns (Far East) Limited ("Sallmanns") in respect of Guangdong Qinglian Highway Development Company Limited ("Qinglian Company").

Our engagement was undertaken and conducted in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to perform agreed-upon-procedures regarding financial information" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The procedures were performed solely to assist the directors of Shenzhen Expressway Company Limited (the "Company") to evaluate whether the Valuation Report was compiled properly so far as the calculations are concerned.

**Our procedures are summarised as follows:**

1. We obtained the Supporting Worksheets provided by the Company which comprise the valuation of Qinglian Company (the "Valuation").

2. We checked the mathematical accuracy of the calculations of in the Supporting Worksheets.

3. We made enquiry of Sallmanns whether the accounting policies of Qinglian Company have been adopted in the preparation of the Supporting Worksheets.

**We report our findings below:**

i. With respect to procedure 1, we obtained the Supporting Worksheets containing the calculations of the Valuation.

ii. With respect to procedure 2, we found that the calculations of the Supporting Worksheets are mathematically accurate.

iii. With respect to procedure 3, we were informed by Sallmanns that as this is a cash flow model no accounting policies of Qinglian Company have been adopted in the preparation of the Supporting Worksheets.

Because the above procedures do not constitute either an audit or a review made in accordance with the Statements of Auditing Standards issued by the HKICPA, we do not express any such assurance. For avoidance of doubt, we further clarify that the above procedures do not constitute any valuation of Qinglian Company.

Had we performed additional procedures or had we performed an assurance engagement of the financial statements in accordance with Hong Kong standards on Auditing, Hong Kong standards on Review engagements or Hong Kong standards on Assurance Engagements in accordance with the Statements of Auditing Standards issued by the HKICPA, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the second paragraph of this report and for your information and is not to be used for any other purpose quoted or to be distributed to any other parties without our prior written consent. However, for the avoidance of doubt, all duties and liabilities (including without limitation those arising from negligence) to third parties are specifically disclaimed. This report relates only to items specified above and does not extend to any financial statements of Qinglian Company, taken as a whole.

Yours faithfully,
**Deloitte Touche Tohmasu**
*Certified Public Accountants*
Hong Kong

## (B) LETTER FROM GUANGDONG SECURITIES

**Guangdong Securities Limited**

25 April 2006

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

Dear Sirs,

We refer to the report of business valuation prepared by Sallmanns (Far East) Limited ("Sallmanns") in relation to the appraisal of the fair market value of 100% equity interest of Guangdong Qinglian Highway Development Company Limited as at 31 January 2006 (the "Business Valuation") as set out in appendix I of the circular (the "Circular") issued by Shenzhen Expressway Company Limited (the "Company") dated 25 April 2006.

We have reviewed the Business Valuation for which Sallmanns are responsible and discussed with you the information and documents provided by you which formed part of the bases and assumptions upon which the Business Valuation has been prepared. We have also considered the letter from Deloitte Touche Tohmatsu dated 25 April 2006 addressed to yourselves regarding whether the Business Valuation was compiled properly so far as the calculations are concerned.

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

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

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### A. Interests of Directors

As at the Latest Practicable Date:

1. So far as is known to the Directors and the chief executive of the Company, none of the Directors or supervisors or chief executive has interests or short position 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 he is taken or deemed to have under such provisions of the SFO) or which are required to be entered into the register kept by the Company under section 352 of the SFO or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules;

2. None of the Directors or supervisors has any direct or indirect interest in any assets which have been, since 31 December 2005, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group; and

3. None of the Directors or supervisors is materially interested in any contracts or arrangement entered into by any members of the Group which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

B. **Interests of substantial shareholders**

As at the Latest Practicable Date, so far as was known to the Directors or the chief executive of the Company, the following are the details of the persons (other than the Directors, supervisors or chief executives of the Company) who had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital:

*Long positions in the domestic Shares of the Company*

| | **Number of domestic Shares** | **Approximate percentage of total issued domestic share capital** | **Approximate percentage of total issued share capital** |
|---|---|---|---|
| | *(note 1)* | *(%)* | *(%)* |
| Xin Tong Chan Development (Shenzhen) Company Limited (新通產實業開發(深圳)有限公司) *(note 2)* | 654,780,000 | 45.69% | 30.03% |
| Shenzhen Shen Guang Hui Highway Development Company (深圳市深廣惠公路開發總公司) *(note 3)* | 411,459,887 | 28.71% | 18.86% |
| Huajian Transportation and Economic Development Centre (華建交通經濟開發中心) *(note 3)* | 87,211,323 | 6.09% | 4.00% |

*Long positions in the H Shares of the Company*

| | Number of H Shares *(note 4)* | Approximate percentage of total issued H share capital *(%)* | Approximate percentage of total issued share capital *(%)* |
|---|---|---|---|
| J.P. Morgan Chase & Co. *(note 5)* | 63,376,000 | 8.48% | 2.91% |
| HSBC Halbis Partners (Hong Kong) Limited *(note 6)* | 60,298,000 | 8.07% | 2.77% |
| Sumitomo Mitsui Asset Management Company, Limited *(note 7)* | 51,430,000 | 6.88% | 2.36% |
| Sumitomo Life Insurance Company *(note 8)* | 51,430,000 | 6.88% | 2.36% |

*Notes:*

1. Restricted circulating shares.
2. Xin Tong Chan Development (Shenzhen) Company Limited (新通產實業開發(深圳)有限公司) is a limited company incorporated under the laws of the PRC and is a wholly-owned subsidiary of Shenzhen International Holdings Limited of which shares are listed on the Main Board of the Stock Exchange.
3. State-owned company incorporated under the laws of the PRC with limited liability
4. Shares listed on the Main Board of the Stock Exchange
5. These 63,376,000 H Shares were held by J. P. Morgan Chase & Co. and its associates as to 70,000 as beneficial owner, as to 28,858,000 as investment manager and as to 34,448,000 as approved lending agent.
6. These 60,298,000 H Shares were held by HSBC Halbis Partners (Hong Kong) Limited as investment manager.
7. These 51,430,000 H Shares were held by Sumitomo Mitsui Asset Management Company, Limited as investment manager.
8. These 51,430,000 H Shares were held through Sumitomo Mitsui Asset Management Company, Limited, in which Sumitomo Life Insurance Company had a controlling interest.

*Substantial shareholders' interest in other members of the Company*

| Name of shareholders | Name of members of the Group | Approximate percentage of equity interest in the shareholding |
|---|---|---|
| Flywheel Investments Limited *(note 1)* | Jade Emperor Limited | 45% |
| Flywheel Investments Limited *(note 1)* | Hubei Magerk Expressway Management Private Limited (湖北馬鄂高速公路經營有限公司) *(note 2)* | 45% |
| Luan Investment Company Limited* (路安投資有限公司) | Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited (深圳機荷高速公路東段有限公司) | 45% |
| Changsha Huanlu Construction and Development Company Limited* (長沙市環路建設開發有限公司) | Changsha Shenchang Expressway Co., Ltd. (長沙市深長快速幹道有限公司) | 49% |
| Fameluxe Investment Limited (豐立投資有限公司) | Shenzhen Qinglong Expressway Company Limited (深圳清龍高速公路有限公司) | 30% |
| Shenzhen Huayu Investment & Development (Group) Co., Ltd. (深圳華昱投資開發(集團)股份有限公司) | Shenzhen Qinglong Expressway Company Limited (深圳清龍高速公路有限公司) | 30% |
| Shenzhen Huayu Investment & Development (Group) Co., Ltd. (深圳華昱投資開發(集團)股份有限公司) | Shenzhen Huayu Expressway Investment Company Limited (深圳市華昱高速公路投資有限公司) | 60% |
| Yunmeng Transportation and Development Company* (雲夢縣交通發展總公司) | Hubei Yungang Transportation Development Company Limited (湖北雲港交通發展有限公司) | 58% |

*	*for identification purpose only*

*Notes:*

(1) Flywheel Investment Limited is a wholly-owned subsidiary of Shenzhen International Holdings Limited of which shares are listed on the Main Board of the Stock Exchange.

(2) Jade Emperor Limited is an investment holding company holding 100% equity interest of Hubei Magerk Expressway Management Private Limited (湖北馬鄂高速公路經營有限公司).

(3) Assuming completion of the SE Acquisition, Qinglian Company will be accounted for as a subsidiary of the Company and it will be owned as to 76.37% by the Group and as to 23.63% by Guangzhou Cement, respectively.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any other person (other than Directors, supervisors and chief executive), who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interest in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the any other members of the Group or had any options in respect of such capital.

## 3. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Group, have been entered into by members of the Group, within the two years preceding the date of this circular and are or may be material:

(a) the underwriting agreement entered into between the Company and Industrial and Commercial Bank of China on 2 September 2005 relating to the issue of the short-term commercial papers in the amount of RMB2 billion.

## 4. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2005, the date to which the latest published audited consolidated accounts of the Group were made up.

## 5. LITIGATION

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

## 6. EXPERTS AND CONSENTS

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

| Name | Qualifications |
|---|---|
| Deloitte Touche Tohmatsu | Certified public accountants |
| Guangdong Securities | A licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities |
| South China | A deemed licensed corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activity |
| Sallmanns | Property, plant and machinery valuers |
| PBA | Traffic consultants |

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

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

Each of Deloitte Touche Tohmatsu, Guangdong Securities, South China, Sallmanns and PBA does not have, or has had, direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2005, the date of which the latest published audited accounts of the Group were made up.

## 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 2006 to 31 December 2008. Save as aforesaid, no service contracts that can be terminated within one year with compensation payable as a result (other than general statutory compensation) have been or proposed to be entered into between the Directors or the supervisors and the Company.

## 8. COMPETING INTERESTS

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

## 9. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to article 71 of the Articles of Association of the Company, a general meeting shall be voted by shows of hands unless a poll is demanded by the following person before or after any vote by show of hands:

(1) the chairman of the meeting;

(2) at least two shareholders entitled to vote in person or by proxy; and

(3) one or more shareholders present in person or by proxy representing in aggregate 10% or more of all shares carrying the right to vote at the meeting.

## 10. MISCELLANEOUS

(a) As at the date of this circular, the Directors are Mr. Yang Hai (Chairman), Mr. Wu Ya De (Director and General Manager), Mr. Li Jing Qi (Non-executive Director), Mr. Wang Ji Zhong (Non-executive Director), Mr. Liu Jun (Non-executive Director), Mr. Lin Xiang Ke (Non-executive Director), Ms. Zhang Yang (Non-executive Director), Mr. Chiu Chi Cheong, Clifton (Non-executive Director), Mr. Li Zhi Zheng (Independent non-executive Director), Mr. Zhang Zhi Xue (Independent non-executive Director), Mr. Poon Kai Leung, James (Independent non-executive Director) and Mr. Wong Kam Ling (Independent non-executive Director).

(b) The legal address of the Company is situated at 19/F., Tower A, United Plaza, 5022 Binhe Road North, Shenzhen 518033, PRC. The place of business of the Company in Hong Kong is at Suites 2911-2912, 29th Floor, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong.

(c) The share registrars of the Company in Hong Kong is Hong Kong Registrars Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The joint company secretaries of the Company are Ms. Wu Qian and Mr. Tse Yat Hong. Ms. Wu possesses the qualification of the PRC certified public accountant. Mr. Tse is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

(e) The qualified accountant of the Company is Ms. Gong Tao Tao. Ms. Gong possesses the qualification of the PRC certified public accountant and the PRC certified public valuer.

(f) The English text of this circular shall prevail over the Chinese version for the purpose of interpretation.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours of Messrs. Loong & Yeung, the Company's solicitors at Suits 2911-2912, 29th Floor, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong up to and including 10 May 2006:

(a) the articles of association of the Company and its attachments thereto;

(b) the annual report of the Company for the two years ended 31 December 2004;

(c) the interim report of the Company for the six months ended 30 June 2005;

(d) the annual results announcement of the Company for the year ended 31 December 2005;

(e) the Transfer Agreement;

(f) the letter dated 25 April 2006 from the Independent Board Committee, the text of which is set out on page 18 of this circular;

(g) the letter dated 25 April 2006 from South China, the independent financial adviser, the text of which is set out on pages 19 to 38 of this circular;

(h) the letters relating to the discounted cash flow assumptions prepared by Deloitte Touche Tohmatsu and Guangdong Securities, the texts of which are set out in Appendix VI of this circular;

(i) the accountants' report on Qinglian Company prepared by Deloitte Touche Tohmatsu for each of the three years ended 31 December 2005, the text of which is set out in Appendix III of this circular;

(j) the report prepared by Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V of this circular;

(k) the letter dated 25 April 2006 prepared by Sallmanns in connection with the business valuation of Qinglian Company, the text of which is set out in Appendix I of this circular;

(l) the report prepared by Sallmanns dated 25 April 2006, in connection with the business valuation of Qinglian Company, referred to in the letter prepared by Sallmanns as mentioned in item (k) above;

(m) the letter prepared by PBA dated 25 April 2006, the text of which is set out in Appendix II of this circular;

(n) the traffic forecast report prepared by PBA dated 25 April 2006, referred to in the letter prepared by PBA as mentioned in item (m) above;

(o) the service contracts referred to in the paragraph headed "Service Contracts" to this appendix;

(p) the written consents referred to in the paragraph headed "Experts and Consents" to this appendix;

(q) the material contract referred to in the paragraph headed "Material contracts" to this appendix;

(r) the connected transaction circular dated 3 January 2005 in relation to the acquisition of 30% equity interest in 雲浮市廣雲高速公路有限公司 (Yunfu Guangyun Expressway Company Limited);

(s) the major and connected transaction circular dated 6 April 2005 in relation to the acquisition of 56.28% equity interest in Qinglian Company; and

(t) the major and connected transaction circular dated 18 April 2005 relating to the acquisition of 55% equity interest in 湖北馬鄂高速公路經營有限公司 (Hubei Magerk Expressway Management Private Limited).

深圳高速公路股份有限公司

# SHENZHEN EXPRESSWAY COMPANY LIMITED

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

**(Stock Code: 548)**

## NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING 2006

**NOTICE IS HEREBY GIVEN** that the First Extraordinary General Meeting 2006 (the "EGM") of Shenzhen Expressway Company Limited (the "Company") will be held at the meeting room of the Company at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, the People's Republic of China, on 12 June 2006 (Monday) at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendments as ordinary resolutions:

"**THAT**:

(1) the agreement dated 8 February 2006 between the Company as purchaser and the liquidation committee of Qingyuan City Yueqing Highway Construction and Development Company Limited (清遠市粵清公路建設發展有限公司清算組) with an aim to acquire a total of 20.09% interest in Guangdong Qinglian Highway Development Company Limited (廣東清連公路發展有限公司) (the "Transfer Agreement"), a copy of which has been produced to this meeting marked "A" and initialed by the Chairman of this meeting for the purpose of identification, and the transaction contemplated thereunder be and is hereby approved, confirmed and ratified;

(2) the directors of the Company be and are hereby authorized to do all such things and acts and execute such documents which they consider necessary or expedient for the implementation of and give effect to the Transfer Agreement."

By Order of the Board
**Wu Qian**
*Joint Company Secretary*

Shenzhen, the PRC, 25 April 2006

**Notes:**

**1. Eligibility for attending the EGM**

Shareholders of the Company whose names appear on the registers of shareholders of the Company at the close of business on 12 May 2006 shall have the right to attend the EGM after complying the necessary registration procedures.

**2. Registration procedures for attending the EGM**

i. Shareholders intending to attend the EGM should deliver to the Company, on or before 23 May 2006, either in person, by post or by fax, the reply slip (together with any required registration documents) for attending the EGM.

ii. Holders of H Shares of the Company please note that the register of H Share holders of the Company will be closed from 13 May 2006 to 12 June 2006 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of H Shares of the Company who intend to attend the EGM must deliver their instruments of transfer together with the relevant share certificates to Hong Kong Registrars Limited ("HKRL"), the registrar of H Shares of the Company, at or before 4:00 p.m. on 12 May 2006.

**3. Proxy**

i. Shareholders entitled to attend and vote at the EGM are entitled to appoint, in written form, one or more proxies (whether a shareholder or not) to attend and vote on his behalf.

ii. A proxy should be appointed by written instrument signed by the appointor or his attorney. If the written instrument is signed by the attorney of the appointor, the written authorization or other authorization documents of such attorney should be notarized. In order to be valid, for shareholders of domestic shares, the written authorization or authorization documents which have been notarized together with the completed proxy form must be delivered to the Company 24 hours before the time of the holding of the EGM. In order to be valid, for shareholders of H Shares, the above documents must be delivered to HKRL within the same period.

iii. If a shareholder appoints one or more proxies, the proxies shall not have the right to vote individually on a show of hands.

iv. Shareholder or his proxy should produce identity proof when attending the EGM.

**4. Poll**

Article 71 of the Articles of Association of the Company is extracted as follows:

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

(1) The chairman of the meeting;

(2) At least two shareholders entitled to vote present in person or by proxy;

(3) One or more shareholders present in person or by proxy representing in aggregate 10% or more of all shares carrying the right to vote at the meeting."

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

**5. Other business**

i. The duration of the EGM is expected not to exceed one day. Shareholders who attend the EGM shall arrange for food and accommodation at their own cost.

ii. Address of HKRL (for share transfer):

Shops 1712-16
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

iii. Legal address of the Company:

19/F, Tower A, United Plaza
No. 5022 Binhe Road North
Shenzhen, 518033, PRC
Telephone: (86) 755-8294 5880
Facsimile: (86) 755-8291 0496 / 8291 0696

深圳高速公路股份有限公司

# SHENZHEN EXPRESSWAY COMPANY LIMITED

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

**(Stock Code: 548)**

## Proxy Form for the First Extraordinary General Meeting 2006

| Number of Shares related to this proxy form *(note 1)* | Domestic Shares/H Shares *(Delete the inappropriate)* |
|---|---|
| | |

I/We *(note 2)*: ______________________________

of ______________________________ being the registered holder(s) of the Company's

ordinary shares: Domestic shares ______________ /H Shares ______________

now appoint ______________________________

of *(note 3)* ______________________________

or failing him the Chairman of the Meeting as my/our proxy to attend and vote for me/us on the resolution in accordance with the instruction below and on my/our behalf at the First Extraordinary General Meeting 2006 ("General Meeting") to be convened and held at the meeting room of the Company on 19th Floor, Tower A, United Plaza, No.5022 Binhe Road North, Shenzhen, the People's Republic of China on 12 June 2006 (Monday), at 9:30 a.m. and at any adjournment thereof. In the absence of any indication, the proxy may vote for or against the resolution at his own discretion *(note 6)*.

| Ordinary Resolution | For *(note 4)* | Against *(note 4)* |
|---|---|---|
| To consider and pass the resolution as set out in the Notice for the First Extraordinary General Meeting 2006 | | |

Date: ______________ 2006 Signature(s) *(note 5)*: ______________

*Notes:*

1. Please insert the number of shares registered in your name(s) relating to this form and strike out not applicable items. If no number is inserted, this form of proxy will be deemed to related on all the shares in the capital of the Company registered in your name(s).

2. Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.

3. Please insert the name and address of your proxy. If they are left blank, the Chairman of the General Meeting will act as your proxy. One or more proxies, who may not be a shareholder of the Company, may be appointed to attend and vote in the General Meeting in person. Any changes made to this proxy form shall be initialed by the person who signs this form.

4. ATTENTION: If you wish to vote FOR the Resolution, please indicate with a "√" in the appropriate space under "For". If you wish to vote AGAINST the Resolution, please indicate with a "√" in the appropriate space under "Against". In the absence of any such indication, the proxy will vote or abstain at his discretion.

5. The proxy form must be under the hand of you or attorney duly authorized in writing on that behalf. If the appointor is a corporation, this form must be under its common seal or under the hand of any director or agent duly appointed on that behalf.

6. This proxy form together with the power of attorney, or other authority, if any, under which it is signed, or a notarially certified copy of that power of authority or other authority, must be deposited at the registered office of the Company (for holders of domestic shares) at 19/F, Tower A, United Plaza, No. 5022 Binhe Road North, Shenzhen, the People's Republic of China or the registrar of H shares of the Company (for holders of H shares) Hong Kong Registrars Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for the General Meeting.

7. Where there are joint holders of any share of the Company, any one of such holders may vote at the General Meeting, either personally or by proxy, in respect of such share as if he were solely entitled therein provided than. If more than one of such joint holders be present at the meeting personally or by proxy, the person whose name stands first on the register of shareholders in respect of such share shall alone be entitled to vote in respect thereof.

8. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the General Meeting if he so wishes. In the event that he attends the meeting in person, his form of proxy will be deemed to have been revoked.

深 圳 高 速 公 路 股 份 有 限 公 司

# SHENZHEN EXPRESSWAY COMPANY LIMITED

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

**(Stock Code: 548)**

## Shareholder's Reply Slip for the First Extrordinary General Meeting 2006

I/We (or unit): ________________________________________

of: ________________________________________

being the holder(s) of the Company's shares: Domestic Shares: ____________________ /

H Shares: ________________________________________

Telephone: ____________________ Facsimile: ____________________

I am/We are willing to attend (or appoint ______________________________ as my/our proxy to attend on my/our behalf) the First Extraordinary General Meeting 2006 to be convened and held at the meeting room of the Company on 19th Floor, Tower A, United Plaza, No.5022 Binhe Road North, Shenzhen , the People's Republic of China on 12 June, 2006, Monday, at 9:30 a.m., and hereby serve a written reply to the Company.

Shareholder: ____________________

Date: ____________________

*Notes:*

1. Shareholders may make a copy of, complete and deliver the reply slip, to the Company.

2. The reply slip has to be delivered to the registered address of the Company by 23 May, 2006. In case of postal delivery, the delivery date will be the date of the postal chop.

3. Shareholders of domestic shares shall stamp on the reply slip a chop of their respective organizations.