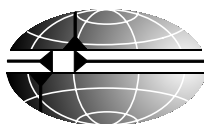

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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



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

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

CONNECTED TRANSACTIONS

Independent Financial Adviser to the Independent Board Committee



SOUTH CHINA CAPITAL LIMITED

A letter from the Independent Board Committee is set out on page 11 of this circular. A letter from South China, the independent financial adviser, is set out on pages 12 to 23 of this circular.

12 February 2004

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DEFINITIONS

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

“Agreement 1”	The Agreement entered into between the Company, Ring Road Company and SITIC on 23 December 2003
“Agreement 2”	The Agreement entered into between the Company and the Bank on 25 December 2003
“Agreements”	Agreement (1) and Agreement (2)
“associates”	has the same meaning as ascribed thereto in the Listing Rules
“Bank”	A PRC bank, an independent third party which is not connected with the directors, supervisors, chief executives, substantial shareholders of the Company and/or its subsidiaries or any of their respective associates
“Company”	深圳高速公路股份有限公司 (Shenzhen Expressway Company Limited), a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange and A Shares of which are listed on the Shanghai Stock Exchange
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	An independent committee of the Directors comprising the independent non-executive Directors, namely Denis Ho Pak Cho, Li Zhi Zheng, Zhang Zhi Xue and James K.L. Poon
“Latest Practicable Date”	9 February 2004, being the latest practicable date before the printing of this circular for ascertaining information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the amount of RMB306,000,000 advanced by the Company to Ring Road Company through SITIC as intermediary under the Loan Agreement

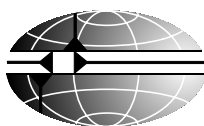
DEFINITIONS

“Loan Agreement”	the loan agreement entered into between the Company, Ring Road Company and SITIC on 22 July 1998 whereby the Company, through SITIC, advanced a sum of RMB306,000,000 to Ring Road Company
“PRC”	the People’s Republic of China
“Ring Road”	the north-western section of the ring road surrounding Changsha City, PRC
“Ring Road Company”	Changsha Ring Road Construction and Development Co. Ltd., a state owned enterprise incorporated in the PRC with limited liability under the supervision of Changsha Communication Bureau and a 49% shareholder of Shenchang Company. Save for this, Ring Road Company and its ultimate beneficial owner, Changsha Municipal Government are not connected with the directors, supervisors, chief executives, substantial shareholders of the Company and/or its subsidiaries or Shen Guang Hui or Xin Tong Chan or any of their respective associates
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Security Interests”	Ring Road Company’s 49% equity interest in Shenchang Company and its advance to Shenchang Company in the amount of RMB294,000,000 which have been charged to the Bank as security interests for the RMB70,000,000 facility provided by the Bank to Ring Road Company
“Shareholders”	holder(s) of shares of the Company
“Share Charge”	the share charge entered by Ring Road Company in 1999 charging its 49% equity interest in Shenchang Company in favour of the Company as security for the Loan Agreement
“Shenchang Agreement”	the contract dated 22 July 1998 between the Company and Ring Road Company relating to the establishment of Shenchang Company

DEFINITIONS

“Shenchang Company”	Changsha Shenchang Expressway Co. Ltd., a joint venture company incorporated in the PRC with limited liability by the Company (holding 51% equity interest in Shenchang Company) and Ring Road Company (holding 49% equity interest in Shenchang Company), pursuant to the Shenchang Agreement
“Shen Guang Hui”	深圳市深廣惠公路開發總公司 (Shenzhen Shen Guang Hui Highway Development Company Limited), a substantial shareholder of the Company holding 20.99% of the Company under the supervision of Shenzhen Municipal Government, Shen Guang Hui and its ultimate beneficial owner, Shenzhen Roads Bureau, are not connected with the Ring Road Company and the Bank or any of their respective associates
“SITIC”	Shenzhen International Trust and Investment Company Limited, a state owned enterprise incorporated in the PRC supervised by Shenzhen Municipal Government, an independent third party not connected with the director, supervisor, chief executive, substantial shareholders of the Company, Ring Road Company, the Bank and/or their respective subsidiaries or any of their respective associates
“South China”	South China Capital Limited, a deeded licensed corporation under the SFO permitted to engage in types 4, 6 and 9 of the regulated activities as defined in the SFO), being the independent financial adviser to the Independent Board Committee
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xin Tong Chan”	新通產實業開發(深圳)有限公司 (Xin Tong Chan Development (Shenzhen) Company Limited), a substantial shareholder of the Company holding 30.03% of the equity interest of the Company under the indirect supervision of Shenzhen Municipal Government, Xin Tong Chan and its ultimate beneficial owner, Shenzhen Investment Holding Corporation, a PRC state owned enterprise, are not connected with the Ring Road Company and the Bank or any of their respective associates

LETTER FROM THE BOARD



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)

Directors:

Chen Chao
Wu Ya De
Zhang Rong Xing
Zhong Shan Qun
Tao Hong
Lin Xiang Ke
Zhang Yang
Clifton Chiu Chi Cheong

Legal Address:

19/F., Tower A
United Plaza
5022 Binhe Road North
Shenzhen 518026
PRC

Independent Directors:

Denis Ho Pak Cho
Li Zhi Zheng
Zhang Zhi Xue
James K.L. Poon

Place of business in Hong Kong

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

12 February 2004

To Shareholders

Dear Sirs or Madams,

CONNECTED TRANSACTIONS

INTRODUCTION

On 23 December 2003, the Company entered into Agreement (1) with Ring Road Company and SITIC whereby the aggregate interest of RMB80,702,402 estimated to be payable by Ring Road Company to the Company under the Loan from 23 December 2003 to 30 October 2007 would be settled by Ring Road Company in advance in a lump sum of RMB66,800,000 and the Loan would be repaid in kind and replaced by an interest free advance of RMB306,000,000 to Shenchang Company by the Company.

LETTER FROM THE BOARD

On 25 December 2003, the Company also entered into Agreement (2) with the Bank whereby the Bank would, through restricting the use of its RMB70,000,000 facility to be provided to Ring Road Company, procure that Ring Road Company remits to the Company an amount of RMB66,800,000, as the advance lump sum settlement of interest owed by Ring Road Company to the Company; and the Company agrees to control the investment, borrowings, distribution of income and charge of right to toll income of Shenchang Company and impose restrictions to its 51% equity interest in Shenchang Company.

Since Ring Road Company is a connected person of the Company, the transactions contemplated in the Agreements constitute connected transactions of the Company which are subject to disclosure and Shareholder's approval requirements.

No Shareholder is interested in the Agreements and should refrain from voting in Shareholder's meeting accordingly and the Company has obtained written confirmations from its major shareholders, Xin Tong Chan (on 11 December 2003) and Shen Guang Hui (on 16 December 2003) (which are a closely allied group of shareholders together holding approximately 51.02% of the issued share capital of the Company as at the Latest Practicable date), approving the Agreements. Xin Tong Chan and Shen Guang Hui are both under the supervision of Shenzhen Municipal Government and they voted together in the same manner in respect of most of the resolutions proposed in the shareholder's meeting of the Company from 1998 to 2003. For the aforesaid purpose, Xing Tong Chan and Shen Guang Hui confirmed that they are a closely allied group of shareholders of the Company; they are not connected with the Ring Road Company and the Bank or any of their respective associates; and they have no special interest in the Agreements.

The Company has therefore applied, and the Stock Exchange has granted, a waiver from the requirement to convene a physical Shareholders' meeting to approve the Agreements on the basis that independent shareholders' approvals has been obtained, by way of the written approval issued by Xin Tong Chan and Shen Guang Hui.

The Independent Board Committee, comprising Denis Ho Pak Cho, Li Zhi Zheng, Zhang Zhi Xue and James K.L. Poon has been formed to consider the Agreements. South China has been appointed as the independent financial adviser to the Independent Board Committee in respect of the Agreements.

The purpose of this circular is to provide you with information relating to the details of the Agreements, to set out the recommendation from the Independent Board Committee and the letter of advice from South China.

LETTER FROM THE BOARD

INFORMATION ON THE LOAN

Reference is made to the announcement dated 26 November 1998 and the circular dated 16 December 1998 of the Company.

As disclosed by the aforesaid announcement and circular, the Company entered into the Shenchang Agreement with Ring Road Company on 22 July 1998 to form Shenchang Company, which is 51% owned by the Company and 49% owned by Ring Road Company. The principal business of Shenchang Company is to construct, operate and manage the Ring Road. The total investment of Shenchang Company is RMB800,000,000, out of which the registered capital is RMB200,000,000. Pursuant to the Shenchang Agreement, Ring Road Company was obliged to advance RMB600,000,000 (being the amount representing the difference between the total investment and the registered capital of Shenchang Company) as shareholder's loan (without interest, unsecured and without fixed date of repayment) to Shenchang Company for the purpose of the construction of the Ring Road.

On 22 July 1998, the Company, as lender, also entered into the Loan Agreement with SITIC as intermediary of the Company and Ring Road Company as borrower in 1998, whereby the Company, through SITIC, advanced the Loan (in the amount of RMB306,000,000) to Ring Road Company. Throughout the term of the Loan (from 22 July 1998 to 30 October 2007), Ring Road Company was obliged to pay interest on the Loan to the Company based on the RMB loan interest rate quoted by the People's Bank of China from time to time for loans over 5 years. Such interest rate stood at 5.76% per annum as at 23 December 2003. As security, Ring Road Company entered into the Share Charge in favour of the Company. The purpose of the Loan was to assist Ring Road Company to finance the advance of RMB600,000,000 mentioned above. Ring Road Company lent the amount of RMB306,000,000 borrowed from the Loan together with an additional RMB294,000,000 of its own fund to Shenchang Company, representing an aggregate of RMB600,000,000, as agreed under the Shenchang Agreement.

Pursuant to the Loan Agreement, the Loan was scheduled to be repaid on 30 October 2007 in kind by transferring to the Company an equivalent amount of RMB306,000,000 out of the amount of RMB600,000,000 previously advanced by Ring Road Company on a back-to-back basis to Shenchang Company, the principal amount of the Loan thereafter to be replaced by an interest free advance of RMB306,000,000 to Shenchang Company by the Company commencing from such date (i.e. 30 October 2007). Such advance would be unsecured, interest free and without any fixed date of repayment. Apart from such advance of RMB306,000,000, there would not be any other amount due to the Company by Shenchang Company upon maturity of the Loan. The RMB294,000,000 advanced by Ring Road Company to Shenchang Company out of the RMB600,000,000 advanced by Ring Road Company to Shenchang Company was made on the same terms as the advance of RMB306,000,000 contributed by the Company.

LETTER FROM THE BOARD

During the period from 22 July 1998 up to 22 December 2003, being the date prior to Agreement (1), Ring Road Company had already paid an aggregate of RMB75,462,793 to the Company as interest. Pursuant to the Loan Agreement, for the remaining tenor of the Loan (i.e., from 23 December 2003 to 30 October 2007), Ring Road Company is obliged to pay further interest to the Company which is estimated to amount in aggregate to up to approximately RMB80,702,402. Such amount has been estimated by applying the RMB loan interest rate quoted by the People's Bank of China for loans over 5 years of 5.76% as at 23 December 2003 to the remaining tenor of the Loan from 23 December 2003 to 30 October 2007:

	2003	2004	2005	2006	2007	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Interest payable	12,207,362	17,870,400	17,870,400	17,870,400	14,883,840	80,702,402

The rate of 5.76% per annum has been used because this is the current rate of the Loan prevailing as at the date of Agreement (1) (bearing in mind that the actual amount of interest receivable in respect of the Loan from 23 December 2003 to 30 October 2007 may be different from the amount of RMB80,702,402 estimated above because of the fluctuation of the RMB loan interest rate quoted by the People's Bank of China for loans over 5 years) and the Directors consider that the volatility of the RMB loan interest rate quoted by the People's Bank of China from time to time for loans over 5 years is not expected to have any significant impact on the aggregate interest receivable under the Loan as such rate is not used to subject to significant fluctuations.

Agreement (1)

Date: 23 December 2003

Parties:

- (1) The Company
- (2) SITIC
- (3) Ring Road Company

As the Company is only allowed to provide an interest-bearing loan to another entity through another PRC financial institution, SITIC entered into the Loan Agreement and Agreement (1) as intermediary of the Company. However, for the shareholder's advance of RMB306,000,000, it is not interest bearing and so SITIC is not required to be added as a party as intermediary of the Company.

LETTER FROM THE BOARD

Principal terms:

- (1) Payment of interest in advance - from the date of the Agreement (1) to 30 October 2007, Ring Road Company is obliged to pay interest quarterly to the Company at the RMB loan interest rate from time to time quoted by the People's Bank of China for loans over 5 years up to an aggregate amount of RMB80,702,402 (estimated by applying the rate of 5.76% per annum of the Loan as at 23 December 2003 to the Loan for the remaining tenor of the Loan). Ring Road Company agrees to pay the interest in a lump sum in advance by 31 December 2003. As incentive for the advance payment, the Company and SITIC as intermediary of the Company agree to accept RMB66,800,000 in settlement of the aforesaid estimated aggregate interest of RMB80,702,402 to be due under the Loan and waive any right to the remaining sum of estimated interest of RMB13,902,402.
- (2) Repayment of the Loan - On the date Ring Road Company pays the aforesaid interest (rather than on 30 October 2007, being the fixed maturity date of the Loan), the Loan is to be repaid in kind by transferring to the Company an equivalent amount of RMB306,000,000 out of the amount of RMB600,000,000 previously advanced by Ring Road Company on a back-to-back basis to Shenchang Company and the principal amount of the Loan shall be replaced by an interest free advance of RMB306,000,000 to Shenchang Company by the Company, on the terms described in the Loan Agreement except that it will now take effect on the earlier date. Such advance is unsecured, interest free and without any fixed date of repayment. There will be no other sum due by Shenchang Company to the Company apart from the advance.
- (3) On the date the interest is paid and the Loan settled by Ring Road Company, the Loan Agreement shall be terminated. The entrustment relationship between the Company and SITIC shall terminate at the same time. The Company shall also release the Share Charge.

The amount of RMB66,800,000 is arrived at by (1) using the RMB loan interest rate quoted by the People's Bank of China for loan with term between 3 to 5 years, which is 5.58% as at 23 December 2003 (such rate is used to reflect the remaining tenor of the Loan) for the remaining tenor of the Loan to calculate the present value of the total interest payable during the period from 23 December 2003 up to 30 October 2007, i.e., approximately RMB73,497,898; (2) apply to such net present value a discount of 9.11% which was arrived at after arm's length negotiation between the Company and Ring Road Company to account for the risk involved in collecting the interest over an extended period ending only on 30 October 2007 so as to produce the figure of RMB66,800,000. The Company intends to invest such advance lump sum payment of interest of RMB66,800,000 in the highway projects of the Company.

LETTER FROM THE BOARD

Shenchang Company is owned as to 51% by the Company and 49% by Ring Road Company. Shareholders' resolutions and directors' resolutions of Shenchang Company have been passed to confirm the replacement of the Loan by a shareholder's advance of RMB306,000,000 to Shenchang Company by the Company as per Agreement (1). The Company has also obtained PRC legal opinion to confirm the validity of Agreement (1) and Agreement (2) and that there is no legal impediment to the replacement of the Loan by the shareholder's advance of RMB306,000,000 to Shenchang Company by the Company, notwithstanding the fact that Shenchang Company is not a party to Agreement (1).

Agreement (1) is conditional on the shareholders' approval of the Company of the same as required by the Listing Rules or the grant of a waiver by the Stock Exchange from strict compliance with the requirement under the Listing Rules to convene a special general meeting for approval of Agreement (1).

The terms of Agreement (1) have been arrived at after arm's length negotiations between the parties. The Company does not consider that Agreement (1) would pose any significant impact to the profit and loss of the Company.

Financial impacts of the Agreements

Earnings

Following the completion of the Agreements, the Company will receive a lump sum of RMB66,800,000 for the advance receipt of interest payment from Ring Road Company. In accordance with the Hong Kong generally accepted accounting principles after consultation with the auditors of the Company, it is proposed to apply such amount of RMB66,800,000 to reduce its investment interest in jointly controlled entities (the carrying amount for such investment interest before reduction is RMB1,437,720,000 as per the 2003 interim report of the Company) as to approximately RMB50,000,000 after applying approximately RMB4,700,000 to offset the interest receivables from Ring Road Company accrued by the Company for the period from April 2003 to July 2003 and the payment of the relevant business tax, city development tax, education supplementary tax and PRC enterprise income tax on such advance interest received of approximately RMB12,100,000. As such, the Group will not record any profit or loss for the Agreements.

As the completion of the Agreements would not affect the equity interest of the Company in Shenchang Company nor the business operations of both the Company and Shenchang Company, the completion of the Agreements would not bring immediate material earnings effect to the Company. There will be an interest receivable foregone of approximately RMB13,902,402 up to the period ending 30 October 2007 due to the advance receipt arrangement. However, the Company intends to apply the net cash received for investing into attractive expressway projects and the Company is therefore of the view that such investments are expected to generate a return sufficient to cover the interest foregone, to enhance the earnings power and asset base of the Company in the long run.

LETTER FROM THE BOARD

Net asset value and working capital

As disclosed in the Company's unaudited 2003 interim report, the Company had a net asset value of approximately RMB6,001,621,000 as at 30 June 2003. On the basis that accounting treatments of the Agreements would not create or reduce net asset value of the Company, there will be no impact on the net asset value of the Company after the completion of the Agreements. The Company held approximately RMB654,181,000 bank balances and cash on hand as at 30 June 2003. Taking into account of advance receipt of interest repayment from Ring Road Company, the Company's bank balances and cash will increase by approximately RMB54,700,000 after paying off relevant taxation payables on the interest income of approximately RMB12,100,000. The Directors are of the view that the Agreements will enhance the working capital of the Company.

By early repayment of the Loan by Ring Road Company and granting the advance of RMB306,000,000 to Shenchang Company instead earlier than anticipated, the Company takes up a credit exposure to Shenchang Company instead of Ring Road Company at an earlier time. However, the earlier assumption of such repayment risk does not significantly increase the Company's risk since the Loan in any case has been used solely by Ring Road Company to finance the construction of the Ring Road, which will ultimately only enhance the value of the Shenchang Company, in which the Company has 51% equity interest.

Agreement (2)

The Bank has entered into a loan agreement on 25 December 2003 with Ring Road Company to provide a non-revolving facility of RMB70,000,000 repayable within one year therefrom. As security, Ring Road Company charged in favour of the Bank the Security Interests. As part of the arrangement of the early repayment of the interest of RMB66,800,000, the Bank and the Company entered into Agreement (2).

Date: 25 December 2003

Parties:

- (1) The Company
- (2) The Bank

LETTER FROM THE BOARD

Principal Terms:

- (1) Upon the provision of the RMB70,000,000 facility to Ring Road Co, the Bank shall, through restricting the use of the facility, procure that Ring Road Company remits to the Company an amount of RMB66,800,000, as the advance lump sum settlement of interest owed by Ring Road Company to the Company pursuant to Agreement (1).
- (2) Subject to the performance of the Bank's aforesaid obligation and during the period when Ring Road Company's facility remains outstanding, the Company agrees as follows:
 - (a) the Company shall exercise its voting right as controlling shareholder to procure that Shenchang Company shall not make any investment or borrowings without the written consent of the Bank;
 - (b) the advance of RMB306,000,000 to Shenchang Company by the Company as referred to above, shall not be withdrawn or bear any interest and shall not be repaid otherwise than in accordance with the principle of toll income distribution in Shenchang Agreement as described under paragraph (c) below;
 - (c) the Company shall exercise its voting right as controlling shareholder to procure that the toll income of Shenchang Company shall be distributed in accordance with the principles of Shenchang Agreement (i.e. the net cash of Shenchang Company after retaining sufficient working capital to be distributed quarterly in accordance with the respective contribution of capital by the Company and Ring Road Company) and that there shall not be any changes to the basis of the distribution of toll income without the written consent of the Bank;
 - (d) the Company shall not transfer its equity interest in Shenchang Company without the written consent of the Bank; and
 - (e) the Company shall exercise its voting right as controlling shareholder to procure that Shenchang Company shall not charge, transfer, realize, donate or otherwise deal with the Ring Road without the written consent of the Bank;
- (3) If the Company is in breach of the above agreement and Ring Road Company is in default of the RMB70,000,000 facility, and the Security Interests charged by Ring Road Company in favour of the Bank cannot be sold by the Bank at a price of not less than RMB70,000,000 during the auction of the same, the Company shall purchase the Security Interests for the amount of RMB70,000,000.

LETTER FROM THE BOARD

Agreement (2) is not a guarantee in favour of the Bank as security for the performance of Ring Road Company of its obligations towards the Bank or any liabilities owed to the Bank. The Company shall not be responsible for or pay any sum to the Bank for any liabilities owed by Ring Road Company to the Bank.

Agreement (2) is conditional on the shareholders' approval of the Company of the same as required by the Listing Rules or the grant of a waiver by the Stock Exchange from strict compliance with the requirement under the Listing Rules to convene a special general meeting for approval of Agreement (2).

Agreement (2) has been entered into by the Company as part of the arrangement of the early repayment of the interest of RMB66,800,000 by Ring Road Company and would enable the Company to ensure a secure source of funds from Ring Road Company for such repayment, which is in the interest of the Company. The Company does not consider that Agreement (2) will have any significant impact to the Company or Shenchang Company as (i) the Company does not foresee that it would be in breach of Agreement (2) so that the Company would be obliged to purchase the Security Interests and (ii) it is estimated that the net asset value of the Security Interests would be much higher than the amount of RMB70,000,000 through the term of Agreement (2) so that the Company would not suffer a loss if it is obliged to purchase the Security Interests under Agreement (2). As Agreement (2) does not affect the daily operation of Shenchang Company, the Company does not consider that Agreement (2) will have any significant impact to the operation of Shenchang Company or of the Group.

The unaudited net asset value of Shenchang Company as at 30 June 2003 was approximately RMB190,000,000 and the unaudited loss for the 6 months ended 30 June 2003 was approximately RMB770,000. The audited net tangible assets of Shenchang Company as at 31 December 2002 was approximately RMB195,000,000. The net profits/loss before and after taxation of Shenchang Company in respect of the two financial years ended 31 December 2002 is as follows:.

	Y.e. 31 December 2002 (RMB)	Y.e. 31 December 2001 (RMB)
Net loss before taxation	1,675,610	3,274,086
Net loss after taxation	1,675,610	3,274,086

Information on the Company

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

LETTER FROM THE BOARD

Connected Transactions

Since Ring Road Company is a connected person of the Company, the waiver by the Company of interest in the amount of RMB13,902,402 (estimated by applying the rate of 5.76% per annum of the Loan as at 23 December 2003 to the Loan for the remaining tenor of the Loan) originally payable by Ring Road Company, the early repayment of the Loan by Ring Road Company and the advance of RMB306,000,000 to Shenchang Company by the Company and the agreement of the Company given in Agreement (2) including the possible purchase of the Security Interests by the Company as referred to in item (3) under the paragraph headed “Agreement (2)” constitute connected transactions of the Company which are subject to disclosure and Shareholder’s approval.

Apart from Ring Road Company, no director, supervisor, chief executive, substantial shareholders of the Company and/or its subsidiaries or any of their respective associates is interested in the Agreements. Neither Ring Road Company, the Bank nor their respective associates holds any Shares of the Company.

No Shareholder is interested in the Agreements and should refrain from voting in Shareholder’s meeting accordingly and the Company has obtained written confirmations from its major shareholders, Xin Tong Chan (on 11 December 2003) and Shen Guang Hui (on 16 December 2003) (which are a closely allied group of shareholders together holding approximately 51.02% of the issued share capital of the Company as at the Latest Practicable date), approving the Agreements.

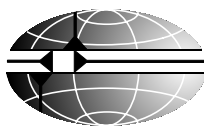
The Company has therefore applied, and the Stock Exchange has granted, a waiver from the requirement to convene a physical Shareholders’ meeting to approve the Agreements on the basis that independent shareholders’ approvals has been obtained, by way of the written approval issued by Xin Tong Chan and Shen Guang Hui.

The Independent Board Committee has been formed to consider the Agreements and giving recommendation to the Shareholders in respect of the Agreements. South China has been appointed as the independent financial adviser to the Independent Board Committee as to the fairness and reasonableness of the Agreements.

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

12 February 2004

To the Shareholders
Shenzhen Expressway Company Limited

Dear Sirs or Madams,

CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Shareholders in respect of the Agreements, details of which are set out in the letter from the Board in the circular dated 12 February 2004 (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 Agreements as set out in the letter from South China in the Circular. Having taken into account the advice of South China, we consider the entering into of the Agreements is in the interests of the Company and the Shareholders and the terms of the Agreements as a whole are fair and reasonable so far as the Company and the Shareholders are concerned. We therefore recommend you in support of the Agreements.

Yours faithfully,

Denis Ho Pak Cho

Li Zhi Zheng

Zhang Zhi Xue

James K.L. Poon

Independent Board Committee

LETTER FROM SOUTH CHINA

The following is the text of the letter of advice from South China to the Independent Board Committee dated 12 February 2004 for incorporation in this circular.



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

12 February 2004

The Independent Board Committee
Shenzhen Expressway Company Limited
19/F., Tower A
United Plaza
5022 Binhe Road North
Shenzhen 518026
PRC

Dear Sirs,

CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in respect of the connected transactions, details of which are set out in the circular of the Company dated 12 February 2004 to the Shareholders (the “Circular”), of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

On 23 December 2003, the Company entered into Agreement (1) with Ring Road Company and SITIC whereby the aggregate interest of RMB80,702,402 estimated to be payable by Ring Road Company to the Company under the Loan from 23 December 2003 to 30 October 2007 would be settled by Ring Road Company in advance in a lump sum of RMB66,800,000 and the Loan would be repaid in kind and replaced by an interest free advance of RMB306,000,000 to Shenchang Company by the Company. As incentive for the advance payment of the interest, the Company and SITIC as intermediary of the Company agree to accept RMB66,800,000 in settlement of the RMB80,702,402 estimated to be due under the Loan and waive any right to the remaining sum of RMB13,902,402.

LETTER FROM SOUTH CHINA

On 25 December 2003, the Company also entered into Agreement (2) with the Bank whereby the Bank would, through restricting the use of its RMB70,000,000 facility to be provided to Ring Road Company, procure that Ring Road Company remits to the Company an amount of RMB66,800,000, as the advance lump sum settlement of interest owed by Ring Road Company to the Company; and the Company agrees to control the investment, borrowings, distribution of income and charge of right to toll income of Shenchang Company and impose restrictions to its 51% equity interest in Shenchang Company.

The Agreements are conditional on prior approval by the Shareholders in general meeting as required by the Listing Rules or the grant of a waiver by the Stock Exchange from strict compliance with the requirement under the Listing Rules to convene a special general meeting for approval of Agreements.

No Shareholder is interested in the Agreements and therefore no Shareholders are required to abstain from voting should a shareholders' meeting is convened. The Company has obtained written confirmations from its major shareholders, Xin Tong Chan (on 11 December 2003) and Shen Guang Hui (on 16 December 2003) which are within a closely allied group of shareholders and together hold approximately 51.02% of the issued share capital of the Company as at the Latest Practicable Date, approving the Agreements. The Company has therefore applied to the Stock Exchange for a waiver of its obligations to convene a physical Shareholder's meeting on the basis that independent shareholders' approval has been obtained, by way of the written approval issued by such major shareholders. The Stock Exchange has granted a waiver to the Company in this respect.

The Independent Board Committee, comprising Messrs. Denis Ho Pak Cho, Li Zhi Zheng, Zhang Zhi Xue and James K.L. Poon has been established to advise as to the fairness and reasonableness of the terms of the Agreements. South China, an independent financial adviser, has been retained to advise the Independent Board Committee as to whether or not the Agreements are fair and reasonable so far as the Shareholders are concerned.

In formulating our recommendation, we have relied on the accuracy of the information and facts supplied to us by the Company, its Directors and management. We have reviewed, among others, (i) the terms of the Agreements, (ii) the audited financial statements of Shenchang Company for the two years ended 31 December 2002, (iii) the 2002 annual report of the Company, (iv) the unaudited 2003 interim report of the Company, (v) the computation schedule of the advance lump sum interest of RMB66,800,000, (vi) the Shenchang Agreement and (vii) the legal opinion on the Agreements issued by the PRC legal adviser of the Company. We have also discussed with the management of the Company their plans and prospects for the Company business in which the Company operates. We have also assumed that all statements of belief and intention made by the Directors in the Circular were reasonably made after due enquiry. We have assumed that all information, representations and opinions made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true so at the date of this letter. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company and its Directors and management and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

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We consider that we have been provided with, and we have reviewed, sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted any form of in-depth investigation into the business affairs, financial position or future prospects of the Company, Ring Road Company and Shenchang Company nor have we carried out any independent verification of the information supplied.

BACKGROUND

Pursuant to the announcement dated 26 November 1998 and the circular dated 16 December 1998 of the Company. The Directors disclosed that the Company entered into the Shenchang Agreement with Ring Road Company on 22 July 1998 to form Shenchang Company, which is 51% owned by the Company and 49% owned by Ring Road Company. The principal business of Shenchang Company is to construct, operate and manage the Ring Road.

Pursuant to the Shenchang Agreement, Ring Road Company was obliged to advance RMB600,000,000 (being the amount representing the difference between the total investment and the registered capital of Shenchang Company) as shareholder's loan (without interest, unsecured and without fixed date of repayment) to Shenchang Company for the purpose of the construction of the Ring Road.

On 22 July 1998, the Company, as lender, also entered into the Loan Agreement with SITIC as intermediary of the Company and Ring Road Company as borrower, whereby the Company, through SITIC, advanced the Loan (in the amount of RMB306,000,000) to Ring Road Company. Upon maturity, the Loan shall be deemed to be an advance to Shenchang Company by the Company.

Throughout the term of the Loan, Ring Road is obliged to pay interest to the Company quarterly at the interest rate of over five years' RMB loan interest rate quoted by the People's Bank of China from time to time. As security, Ring Road Company entered into the Share Charge charging its 49% equity interest in Shenchang Company in favour of the Company. From the date of Agreement (1) (being 23 December 2003) to maturity date of the Loan (i.e. 30 October 2007), Ring Road Company is obliged to pay interest to the Company up to an estimated aggregate amount of RMB80,702,402. Please refer to the section headed "Information on the Loan" in the letter from the Board of the Circular for further details.

LETTER FROM SOUTH CHINA

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

A. Agreement (1)

1. Terms of Agreement (1)

Under the terms of Agreement (1), Ring Road Company agreed to pay a lump sum interest in advance by 31 December 2003 rather than paying a quarterly payment to the Company up to 30 October 2007. As incentive for the advance payment, the Company and SITIC as intermediary of the Company agree to accept RMB66,800,000 in settlement of the aforesaid estimated aggregate interest of RMB80,702,402 to be due under the Loan and waive any right to the remaining sum of estimated interest of RMB13,902,402. The amount of RMB66,800,000 is arrived at after first applying 5.76%, which is equivalent to the RMB denominated loan interest rate quoted by the People's Bank of China for loan with term of over five years as at 23 December 2003 to calculate the total interest payable of RMB80,702,402; then discount the total estimated interest to a present value and apply to such present value a 9.11% discount rate to calculate the final agreed interest payable to account for the risk involved in collecting the interest over an extended period ending 30 October 2007. Further details of the terms of Agreement (1) are contained in the letter from the Board of the Circular.

As stated in the letter from the Board of the Circular and informed by the Directors, the Company intends to invest this advance lump sum payment of interest of RMB66,800,000 in highway projects of the Company and the 9.11% discount rate was arrived at after arms' length negotiation between the Company and Ring Road Company. By the Company's own admission, through the early repayment of the Loan by Ring Road Company and granting the advance of RMB306,000,000 to Shenchang Company instead earlier than anticipated, the Company takes up a credit exposure to Shenchang Company instead of Ring Road Company at an earlier time. However, we consider that this earlier assumption of a repayment risk will not significantly increase the Company's risk since (i) the Loan is part of the terms of the Shenchang Agreement, which has already been entered into by the Company based on its commercial assessment; (ii) under the terms of the Shenchang Agreement, there is an obligation for the Company to extend an advance equivalent to the Loan balance to Shenchang Company, to that end, there is no actual cash repayment intended to the Company by Ring Road Company; and (iii) the Loan or the advance to Shenchang Company, is utilized solely for Ring Road, currently one of the toll roads of the Company and ultimately will enhance the value of Shenchang Company, in which the Company has 51% equity interest. On this basis, we concur with the views of the Directors.

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As stated in the letter from the Board in the Circular, the Company has obtained legal opinion on the validity of the Agreements. We have reviewed the text of the legal opinion issued by the PRC legal adviser of the Company and based on the legal opinion, we agreed that the Agreements conform with applicable PRC laws and regulations.

2. Reasons for and benefits of Agreement (1)

a. Usage of the advance receipt of interest

The Company is principally engaged in the development, construction, operation and management of toll roads. Based on the unaudited 2003 interim report of the Company, the Company is determined to firmly adhere to its development strategy, focusing on toll road operation, basing on Shenzhen and expanding its business to the Pearl River Delta Region and the surrounding area, so as to broaden its profit base. As stated in the unaudited 2003 interim report of the Company, Shenzhen continues as one of the fastest growing cities in the PRC with sustained economic growth and a remarkable increase in the number of private cars. Moreover, the Shenzhen Municipal Government will invest RMB20 billion in the next 10 years to build a total length of 270 kilometers of expressway. The favourable governmental policy, economic environment and private car usage provide ample and steady market for the Company's toll road operation. As noted in the letter from the Board in the Circular, the Company intends to invest this advance lump sum interest of RMB66,800,000 in highway projects of the Company, which is in line with the business and is consistent with the long term growth strategy of the Company. Based on the future prospects of the toll road business operation of the Company, its focus on long term development strategy and the anticipated return to be received through investing the lump sum interest received in advance in new expressway projects, we concur with the Company's view that the advance receipt is advantageous to the Company as a whole.

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b. Default risk

We have been informed by the management of the Company that from the year of 2003 onwards, Changsha Municipal Government has effected a restructuring in Ring Road Company in which certain assets and associated liabilities, guarantees of Ring Road Company will be separated and diverted to another company. Upon completion of the restructuring, Ring Road Company's asset quality experienced deterioration which hindered the profitability of Ring Road Company. It has come to the attention of the Company that after the reorganization, the ability for Ring Road Company to repay the interest has been adversely affected. The management of the Company considered that the default risk of repayment of the interest from Ring Road Company has increased substantially. Once the Company has entered into Agreement (1) with Ring Road Company, they can receive the future interest payment in a lump sum before the expiry date of the Loan Agreement and the entire default risk of repayment of interest from Ring Road Company cast on the Company will be shifted to the Bank. In these circumstances, it is beneficial to the financial position of the Company as well as being able to continue to maintain a harmonious partnership with Ring Road Company in the operation of the Shenchang Company.

3. Computation of the advance lump sum interest of RMB66,800,000

The arriving of the final agreed interest amount of RMB66,800,000 has undergone two phases of calculation: (i) the discounting of the estimated aggregate further interest obliged to be paid by Ring Road Company to the Company in the amount of RMB80,702,402 to a present value of RMB73,497,898 as of the date of Agreement (1) and (ii) applying to such present value a 9.11% discount rate to calculate the final agreed interest payable to account for the risk involved in collecting the interest over an extended period ending 30 October 2007. RMB80,702,402 has been estimated by applying the RMB denominated loan interest rate quoted by the People's Bank of China for loan with a term of over five years to the remaining tenure of the Loan from 23 December 2003 up to and including 30 October 2007. This interest rate stood at 5.76% as at 23 December 2003 and has been used since this interest rate conforms with the interest rate stipulated in the Loan Agreement and prevailing as at the date of Agreement (1). In addition, the Directors do not consider there will be significant fluctuations in this rate during the remaining tenure of the Loan and thus volatility in the actual interest receivable under the original terms of the Loan is minimal. We understand that the Company has computed the present value of RMB73,497,898 using the RMB denominated loan interest rate quoted by the People's Bank of China for a loan with a term between three to five years, which is 5.58% per annum as at 23 December 2003. According to the management

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of the Company, they have chosen this discount rate to reflect the remaining tenure of the Loan, which is less than five years. Given the above, we concur with the Directors' view that the interest rate in estimating the aggregate interest of RMB80,702,402 is fair and reasonable and the adoption of the discount rate in arriving at the present value of RMB73,497,898 has taken into account the relevant pertinent uncertainty of the advance interest payment and is fair and appropriate.

As disclosed in the 2003 interim report of the Company, we noted that the more than 85% of the capital structure of the Company composed of shareholders' equity and return on equity is an appropriate estimate of the cost of equity capital. The return on equity recorded by the Company for the four years ended 31 December 2002 ranged from approximately 6.54% to 8.09%, averaging at approximately 7.62% during the period. We consider that the 9.11% discount rate has taken into account the cost of shareholders' equity while another element included in such discount rate represented the default risk shifted to the Bank as mentioned above. Based on the information provided to us by the management of the Company, we understand that the Company currently has plans to invest into two new expressway projects. According to the feasibility studies performed by an independent consultant retained by the Company and an internal assessment of the Company, the estimated internal rate of return of the two new expressway projects are approximately 11.64% and 10.54% respectively. Though the Company has granted a 9.11% discount rate to the net present value of the total interest payable of RMB80,702,402 to account for the risk involves in collecting interest over an extended period to 30 October 2007, by utilizing the advance receipt of interest into the intended expressway projects of the Company, there is an approximate potential additional 1.4% to 2.5% return accruing to the Company. Moreover, we view that it is a common commercial practice to offer a discount to an advance receipt where immediate cash will be available, the determination of discount rate to be applied is to some extent subjective and based on negotiation. In this respect, we agree with the view held by the management of the Company that the granting of the 9.11% discount rate is fair and justifiable so far as the Shareholders are concerned.

On the above basis, we concur with the Directors' view that the entering into of Agreement (1) and the terms therein to be fair and reasonable so far as the Shareholders are concerned.

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B. Agreement (2)

1. Terms of Agreement (2)

Pursuant to the terms of Agreement (2), the Company has given certain covenants to the Bank in respect of its 51% equity interest in Shenchang Company restricting, inter alia, its rights and dealings in respect of such equity interest. The covenants are as follows:

- (a) the Company shall exercise its voting right as controlling shareholder to procure that Shenchang Company shall not make any investment or borrowings without the written consent of the Bank;
- (b) the advance of RMB306,000,000 to Shenchang Company by the Company as referred to above, shall not be withdrawn or bear any interest and shall not be repaid otherwise than in accordance with the principle of toll income distribution in Shenchang Agreement as described under paragraph (c) below;
- (c) the Company shall exercise its voting right as controlling shareholder to procure that the toll income of Shenchang Company shall be distributed in accordance with the principles of Shenchang Agreement (i.e. the net cash of Shenchang Company after retaining sufficient working capital to be distributed quarterly in accordance with the respective contribution of capital by the Company and Ring Road Company) and that there shall not be any changes to the basis of the distribution of toll income without the written consent of the Bank;
- (d) the Company shall not transfer its equity interest in Shenchang Company without the written consent of the Bank; and
- (e) the Company shall exercise its voting right as controlling shareholder to procure that Shenchang Company shall not charge, transfer, realize, donate or otherwise deal with the Ring Road without the written consent of the Bank.

On top of the aforesaid covenants, the Company further undertakes that if the Company is in breach of the above agreement and Ring Road Company is in default of the RMB70,000,000 facility granted by the Bank, and the Security Interests charged by Ring Road Company in favour of the Bank cannot be sold by the Bank at a price of not less than RMB70,000,000 during the auction of the same, the Company shall purchase the Security Interests for the amount of RMB70,000,000.

Further details of the terms of Agreement (2) are set out in the letter from the Board in the Circular.

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2. Reasons for and benefits of Agreement (2)

As part of the arrangement of the early repayment of interest of RMB66,800,000, The Bank and Ring Road Company have entered into a loan agreement on 25 December 2003 to provide a non-revolving facility of RMB70,000,000 repayable within one year therefrom. As security, Ring Road Company charged in favour of the Bank the Security Interests. Agreement (2) was entered into between the Company and the Bank to facilitate such agreement and to ensure that Ring Road Company will have a secured source of funds for the advance interest repayment under Agreement (1), which is in the interest of the Company as discussed above.

Based on our discussion with the management of the Company, as a 51% equity interest shareholder of Shenchang Company, the Company has no intention to make material changes in respect of investment, borrowings, distribution of income of Shenchang Company and charge of right to its 51% equity interest in Shenchang Company. As such, we concur with the Directors' view that compliance with the covenants as stated above will not be onerous on the part of the Company.

3. Obligated purchase of the Security Interests under Agreement (2)

As set out in the sub-section "Reasons for and benefits of Agreement (2)" in this letter, the Company considers the possibility of breaching the covenants in Agreement (2) on the part of the Company to be remote. Assuming the Company has breached its undertakings, Ring Road Company is in default of the RMB70,000,000 facility granted by the Bank, and the Security Interests charged by Ring Road Company in favour of the Bank cannot be sold by the Bank at a price of not less than RMB70,000,000 during the auction of the same, the Company shall be obliged to purchase the Security Interests at the consideration of RMB70,000,000.

In order to form an independent view whether it is fair and reasonable for the Company to accept the term of purchasing the Security Interests for the amount of RMB70,000,000, we have reviewed the net tangible asset value of Shenchang Company and compared the value of the Security Interests with the consideration of RMB70,000,000. As noted in Shenchang Company's latest audited accounts for the year ended 31 December 2002 prepared by Hunan Tian Ping Certified Public Accountant's Firm Ltd. (湖南天平有限責任會計師事務所), the net tangible asset value of Shenchang Company was approximately RMB195,000,000 as at 31 December 2002. The net tangible asset value of 49% equity interest in Shenchang Company of approximately RMB96,000,000 and the shareholder's loan of RMB294,000,000 advanced by Ring Road Company in aggregate represents a total investment value of approximately RMB390,000,000, which is the estimated value of the Security Interests. The estimated value

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of the Security Interests is approximately 5.57 times of the consideration of RMB70,000,000 to be paid for the Security Interests once the Company is obliged to purchase under the terms of Agreement (2). As set out in the letter from the Board in the Circular and unveiled in the 2003 interim report of the Company, the performance of Shenchang Company is improving and Ring Road showed continual advance in traffic volume and toll revenue as compared to the corresponding period of 2002. The weighted daily average mixed traffic volume has increased by approximately 11.92% from 2,576 per day for the year ended 31 December 2002 to 2,883 per day for the period ended 30 June 2003. The daily average toll revenue has increased by approximately 16.38% from RMB36,199 per day for the year ended 31 December 2002 to RMB42,129 per day for the period ended 30 June 2003. Based on the above, we concur with Company's view that the Company would not suffer a loss if it is obliged to purchase the Security Interests under Agreement (2).

As noted in the letter from the Board in the Circular, Agreement (2) is not a guarantee in favour of the Bank as security for the performance of Ring Road Company of its obligations towards the Bank or any liabilities owed to the Bank. The Company shall not be responsible for or pay any sum to the Bank for any liabilities owed by Ring Road Company to the Bank. Also, Agreement (2) itself does not impose any impact on the daily operation of Shenchang Company and the Company.

In view of the above, we concur with the views of the Directors' that the entering into and the terms of Agreement (2) to be fair and reasonable so far as the Shareholders are concerned.

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C. Financial impacts of the Agreements

Following the completion of the Agreements, the Company will receive a lump sum of RMB66,800,000 cash for the advance receipt of interest payment from Ring Road Company, funded by the banking facility granted by the Bank. We have, for illustrative purposes, summarized the pro forma financial effects below:

1. Earnings

We have been informed by the management of the Company that in accordance with the Hong Kong generally accepted accounting principles after consultation with the auditors of the Company, it is proposed to apply the advance receipt of the interest payment from Ring Road Company of RMB66,800,000 to reduce its investment interest in jointly controlled entities as to approximately RMB50,000,000 after applying approximately RMB4,700,000 to offset the interest receivables from Ring Road Company accrued by the Company for the period from April 2003 to July 2003 and the payment of the relevant business tax, city development tax, education supplementary tax and PRC enterprise income tax on such advance interest received of approximately RMB12,100,000. As the completion of the Agreements would not affect the equity interest of the Company in Shenchang Company nor the business operations of both the Company and Shenchang Company, we agree with the view held by the management of the Company that the completion of the Agreements would not bring immediate material earnings effect to the Company. There will be an interest receivable foregone of approximately RMB13,902,402 up to the period ending 30 October 2007 due to the advance receipt arrangement, however, as discussed above, the Company intends to apply the net cash received for investing into attractive expressway projects, we agree with the view of the Company that such investments are expected to generate a return sufficient to cover the interest forgone, to enhance the earnings power and asset base of the Company in the long run.

2. Net asset value and working capital

As disclosed in the unaudited 2003 interim report, the Company had a net asset value of approximately RMB6,001,621,000 as at 30 June 2003. On the basis that accounting treatments of the Agreements would not create or reduce net asset value of the Company, there will be no impact on the net asset value of the Company after the completion of the Agreements. The Company held approximately RMB654,181,000 bank balances and cash on hand as at 30 June 2003. Taking into account of advance receipt of interest repayment from Ring Road Company, the Company's bank balances and cash will increase by approximately RMB54,700,000 after paying off relevant taxation liabilities on the interest income of approximately RMB12,100,000. The Directors are of the view that the Agreements will enhance the working capital of the Company.

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3. Effect on shareholding

As there is no involvement of share transactions in the Agreements, the existing shareholding structure of the Company will remain unchanged.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we consider that the terms of the Agreements are in the interest of the Company and are fair and reasonable so far as the Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Shareholders to approve the Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
South China Capital Limited
Richard Howard Gorges
Managing Director

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors or supervisors of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provisions of the SFO) or which are required to be entered into the register maintained by the Company under section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies were as follows:.

Units in the share appreciation right scheme granted by the Company and collectively held by the senior management and management staff of the Company are 5,501,400. The following Directors and supervisor of the Company may be granted by the Company part of the receipts from the exercise of such units as incentive:

Name	Number of units involved	Exercise price	Time of Exercise
Wu Ya De	2,750,700	Note 1	16 March 2004
(Director)	2,750,700	Note 2	16 March 2005
	5,501,400		
Zhang Rong Xing	2,750,700	Note 1	16 March 2004
(Director)	2,750,700	Note 2	16 March 2005
	5,501,400		
Yi Ai Guo	2,750,700	Note 1	16 March 2004
(Supervisor)	2,750,700	Note 2	16 March 2005
	5,501,400		

Notes

1. The receipts from exercise of the units represent the difference between RMB3.456 per unit and the arithmetic average of the closing price of the listed shares of the Company during the period of 16 March 2003 to 15 March 2004.
 2. The receipts from exercise of the units represent the difference between RMB3.456 per unit and the arithmetic average of the closing price of the listed shares of the Company during the period of 16 March 2004 to 15 March 2005.
- (b) Save as disclosed herein:
- (i) as at the Latest Practicable Date, none of the Directors or supervisors or chief executive is interested in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required to be entered into the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.
 - (ii) none of the Directors has any direct or indirect interest in any assets which have been, since 31 December 2002, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group;
 - (iii) none of the Directors is materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group

3. SUBSTANTIAL SHAREHOLDERS

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

Name of Substantial Shareholder	Class of Shares	Number of Shares interested	Capacity	Approximate percentage of shareholding in the relevant class of share capital	Approximate percentage of shareholding in the total issued share capital
J.P. Morgan Chase & Co. (note 1)	H Shares	51,798,000(L) 51,046,000(P)	Interest of a controlled corporation	6.93%(L) 6.83%(P)	2.38%(L) 2.34%(L)
Sumitomo Life Insurance Company (note 2)	H Shares	46,760,000(L)	Interest of a controlled corporation	6.25%(L)	2.14%(L)
Xin Tong Chan	Legal Person Shares (State owned)	654,780,000(L)	Beneficial owner	45.68%(L)	30.03%(L)
Shen Guang Hui	Legal Person Shares	457,780,000(L)	Beneficial owner	31.94%(L)	20.99%(L)

(L) - Long Position (P) - Lending Pool

Notes

1. Pursuant to the Corporate Substantial Shareholder Notice filed by J.P. Morgan Chase & Co. on 15 January 2004, J.P. Morgan Chase & Co. indirectly holds an aggregate 51,798,000 Shares in the following manner:
 - (a) J.P. Morgan Chase & Co. holds 100% shareholdings of J.P. Morgan Chase Bank, which directly holds 51,046,000 Shares.
 - (b) J.P. Morgan Chase & Co. holds 100% shareholdings of J.P. Morgan Chase Bank, which holds 100% shareholdings of J.P. Morgan International Inc.; J.P. Morgan International Inc. holds 100% shareholdings of J.P. Morgan International Finance Limited, which holds 100% shareholdings of J.P. Morgan Overseas Capital Corporation; J.P. Morgan Overseas Capital Corporation holds 100% shareholdings of J.P. Morgan Whitefriars Inc., which directly holds 752,000 Shares.
2. Pursuant to the Corporate Substantial Shareholder Notice filed by Sumitomo Life Insurance Company on 9 February 2004, Sumitomo Life Insurance Company indirectly holds 46,760,000 Shares in the following manner:
 - (a) Sumitomo Life Insurance Company holds 100% shareholdings of Sumitomo Mitsui Asset Management Company, Limited, which directly holds 46,760,000 Shares.

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 2002, the date to which the latest published audited consolidated accounts of the Group were made up.

5. EXPERT

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

Name	Qualification
South China	a deemed licensed corporation under the SFO permitted to engage in types 4, 6 and 9 of the regulated activities as defined in the SFO

- (b) South China does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) South China has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its letter and references to its name in the form and context in which it appears.
- (d) South China does not have, or has had, direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2002, the date to which the latest published audited accounts of the Group were made up.
- (e) The letter of advice from South China dated 12 February 2004 is given on pages 12 to 23 for incorporation herein.

6. SERVICE CONTRACTS

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

7. MISCELLANEOUS

- (a) The legal address of the Company is situated at 19/F., Tower A, United Plaza, 5022 Binhe Road North, Shenzhen 518026, PRC. Its place of business in Hong Kong is at Suites 2911 - 2912, 29th Floor, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong.
- (b) The share registrars of the Company in Hong Kong is Hong Kong Registrars Limited at Rooms 1901 - 1905, Hopewell Centre, 19th Floor, 183 Queen's Road East, Hong Kong.
- (c) The company secretary of the Company is Director Zhang Rong Xing. He holds a masters degree in mechanical engineering.
- (d) The English text of this circular shall prevail over the Chinese version for the purposes of interpretation.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours of Messrs. Loong & Yeung, the Company's solicitors at the solicitors' office at Suites 2911 - 2912, 29th Floor, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong up to and including 5 March 2004:

- (a) the Agreements;
- (b) this circular.