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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)

RECTIFICATION REPORT

Summary

This announcement is made pursuant to the requirements under paragraph 2(2) of the Listing Agreement which requires simultaneous disclosure of information in the PRC and Hong Kong. The SSRO has conducted an inspection on the Company, which was selected on a random basis, during the period between 22 July and 26 July, 2002 and issued a *Notice for Rectification of Shenzhen Expressway Company Limited within a Limited Period* (the "Notice") on 12 August, 2002.

The inspection examines thoroughly the operations and corporate governance of the Company including its merits and demerits at the same time. The Notice, on the one hand, affirms the Company's relatively regulated operations and initiative to perfect its corporate governance. On the other hand, it points out certain weaknesses of the Company, which are subject to further improvements. The Company has taken measures (which have been reviewed by the SSRO) to address and rectify the weaknesses stated in the Notice. The Board believes that the proposed rectification measures will not have material impact on the Company.

This announcement is made pursuant to the requirements under paragraph 2(2) of the Listing Agreement which requires simultaneous disclosure of information in the People's Republic of China (the "PRC") and Hong Kong. Shenzhen Securities Regulatory Office of the China Securities Regulatory Commission (the "SSRO") has conducted an inspection on the Company, which was selected on a random basis, during the period between 22 July and 26 July, 2002, and issued the Notice (Shen Zheng Ban Fa Zhi [2002] No. 212) on 12 August, 2002. The inspection examines thoroughly the operations and corporate governance of the Company including its merits and demerits at the same time. The Notice, on the one hand, affirms the Company's relatively regulated operations and initiative to perfect its corporate governance. On the other hand, it points out certain weaknesses of the Company, which are subject to further improvements. The Company has taken measures (which have been reviewed by the SSRO) to address and rectify the weaknesses stated in the Notice, details of which are set out as follows:

- 1. The Notice points out that a director of the Company did not devote sufficient time and energy to fulfill his duties. There were cases where such director neither attended nor appointed other director as his proxy to attend and vote on his behalf for two consecutive board meetings. In addition, certain resolutions of the board of the directors of the Company ("Board") were passed by way of written resolutions without copying the same**

to the Company's supervisory committee for reference. Certain board meeting notices were sent to the directors without sufficient prior notice as required, i.e., 10 days before the date of the meeting.

The abovementioned director has only attended four out of ten board meetings since 2001 due to his other business commitments. Each of the Board members including the above mentioned director undertakes to attend board meetings or to appoint other director as his proxy in the event that he is not available to attend such meetings.

Pursuant to the articles of association of the Company, resolutions of the Board may be passed by way of written resolutions. If the number of directors who have signed the resolution has reached the quorum required for the determination of such resolution, such resolution shall be deemed to be a resolution of the Board. To ensure that the Company's supervisors are properly informed, the Company has copied all written board resolutions to the supervisory committee since 1 January, 2000.

Certain meetings of the Board were convened without sufficient notice being given to all the members of the Board. However, under all such occasions, all the Board members have consented to such arrangement. The Board undertakes that it will and will continue to be in strict compliance with all the applicable laws, rules and regulations of the relevant jurisdictions including but not limited to the articles of association of the Company as at the date of 31 May, 2002.

- 2. The Notice points out that the decision making mechanism of the Company's investments was not adequately developed. The Company's *Regulatory Methods on Toll Road Project Investments and Regulatory Methods on the Investment of Entrusted Government Bonds* (not being approved by the Board) are not sufficient for the overall control of investment risks. The Board did not take sufficient steps to follow ups on certain approved investment projects.**

As the Company develops, the investments of the Company, though not in a large scale, are not limited to its core business, namely toll road operation. It has also extended to other related fields. The Company has improved its *Investment Decision-Making Management System*, which is expected to be reviewed and approved by the Board by the end of this year.

Due to various reasons, certain investment projects which had been approved by the Board were aborted. However, such abortive projects were not resubmitted to the Board for review and approval. The Board will strengthen its follow-up works on its existing investment projects and if necessary, will review the same in meetings of the Board and make timely announcements, if required.

- 3. The Notice points out that upon the completion of the issue of A shares of the Company, the articles of association of the Company has not yet been amended strictly in accordance with the *Guidelines for Articles of Association of Listed Companies and Corporate Regulations of Listed Companies*.**

The Company's current articles of association was drafted in accordance with the *Necessary Clauses of the Articles of Association of Companies Listed on Foreign Stock Exchanges* and the relevant requirements of The Stock Exchange of Hong Kong Limited. The Company made certain necessary amendments to the articles of association of the Company after listing of its

A shares. To accommodate the requirements under the Notice, the Company shall amend its articles of association strictly in accordance with the *Guidelines for Articles of Association of Listed Companies* and Corporate Regulations of Listed Companies before 31 December, 2002.

4. The Notice points out certain issues regarding the implementation of the share appreciation right scheme of the Company adopted on 6 March, 2001 (the “Scheme”) which forms part of its incentive system, namely disclosure of information to different classes of shareholders and the numbers of units of the rights granted in 2001.

(1) Shareholders of different classes were not fairly treated in terms of disclosure of information

The Scheme aims at providing benefits to the staff of the Company with reference to the Company’s performance and its share price, so as to encourage the staff to commit to the success of the Company. For the units granted under the Scheme, a pre-determined exercise price is fixed for such units. Upon exercise of the rights attached to the units under the Scheme, the grantee is entitled to the excess of the prevailing share price over the pre-determined exercise price of the units in cash from the Company.

After the Scheme was approved by the Board on 18 January, 2001, the Company disclosed details of the Scheme in its 2000 annual report but it failed to disclose to the same extent in its application materials for the issue of its A shares. This led to different levels of disclosure of the Scheme in the PRC and in Hong Kong.

The Company is drafting the *Information Disclosure Management System which will be released no later than 1 December, 2002*. The Board undertakes to ensure that the simultaneous disclosure of information both in the PRC and Hong Kong in the future so as to treat shareholders of different classes fairly.

(2) A resolution passed at the shareholders’ meeting on 6 March, 2001 was not strictly complied with

Due to the inadvertent mistake of the Company in the implementation of the Scheme, the actual number of units of the rights granted in 2001 (38,832,500 units) under the first batch of the Scheme exceeded those approved by the resolutions of the shareholders’ meeting of the Company on 6 March, 2001 (20,157,000 units). On 9 August, 2002, the Board resolved to take immediate action to rectify and implement the Scheme strictly in accordance with the above shareholders’ resolutions. On 13 August, 2002, the Company adjusted the units of the rights granted to its management staff in proportion to the reduced units of rights under the first batch of the Scheme to the effect that the number of rights granted is 18,405,000 units. As at the date of today, no one has actually exercised such rights. Accordingly, the adjustment of the units in relation to the rights as mentioned above has not adversely affected the Company.

5. The Notice points out that the Company has neither assessed the recoverability of the RMB43 million bank payables and the interests accrued thereon as a result of honouring its guaranteed obligations nor made any provision thereof in its financial accounts

The Group has incurred a sum of RMB43 million bank payables and interest accrued thereon (the “Receivables”) as a result of honouring its guaranteed obligations to the extent of the Receivables in favour of Shenzhen Wutongling Ropeway Company Limited (“Wutongling”), a jointly controlled entity of the Company. It was owned as to 40% by the Company and 55% by Zhong Min Investment Company Limited (“Zhong Min”), an independent third party not

connected with the promoters, directors, supervisors, chief executive, substantial shareholder of the Company or any of its subsidiaries or any of their respective associates. The Group made an aggregate provision of RMB9,284,000 for the Receivables in its financial statements prepared in accordance with Hong Kong Generally Accepted Accounting Principles for the six months ended 30 June, 2002 with reference to the book value of the tangible assets of the jointly controlled entity. The Board considered such provision is sufficient. The Company has instituted legal proceedings in May 2002 against Wutongling and Zhong Min. The Board is confident of the result of such proceedings. In case that the court fails to deliver judgment in favour of the Company by the end of 2002, the Company will reassess the recoverability of the Receivables and will make necessary provisions thereof accordingly.

By order of the Board
Zhang Rong Xing
Director & Company Secretary

Shenzhen, the PRC, 24 September, 2002

Please also refer to the published version of this announcement in the (The Standard)