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*(incorporated in Hong Kong with limited liability)*

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## **JOINT ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS**

### **SUMMARY**

On 30 November 1996, GHDC entered into three Fixed Cost Service Agreements with Guangzhou Weian, Guangzhou Taihe and Guangzhou Nanxin respectively, whereby GHDC will provide the operational and maintenance services of Guangshan Highway, Guangcong Highway Section I and Guangshen Highway respectively in return for a service charge at fixed rate of 18 per cent. of the gross aggregate toll revenue of each toll highway per annum. On 15 August 1997 and 3 May 1998, GHDC entered into another two Fixed Cost Service Agreements with Guangzhou Xinguang and Guangzhou Tailong respectively. Under the two Fixed Cost Service Agreements, GHDC will carry out the day-to-day operational and maintenance services of Guanghua Highway and Guangcong Highway Section II and Provincial Highway 1909 respectively in return for a service charge at a fixed rate of 18 per cent. of the gross aggregate toll revenue of the respective toll highways per annum.

The provision of the operational maintenance service under the Fixed Cost Service Agreements by GHDC, which is a connected person of GZI Transport and Guangzhou Investment, constituted on-going connected transactions under the Listing Rules. GZI Transport and Guangzhou Investment had applied to the Stock Exchange and been granted waivers from strict compliance with the reporting and independent shareholders' approval requirements under the previous Chapter 14 of the Listing Rules. Details of the Fixed Cost Service Agreements and the waivers were disclosed in GZI Transport's prospectus dated 21 January 1997 and the joint circular of GZI Transport and Guangzhou Investment dated 21 July 1997.

On 31 January 2004, the Stock Exchange announced certain amendments to Listing Rules which took effect from 31 March 2004.

To comply with the amended Listing Rules GZI Transport procured the Operational Joint Ventures to re-negotiate with GHDC and enter into the Management Agreements to replace the respective Fixed Cost Service Agreements.

GHDC is a connected person of Guangzhou Investment and GZI Transport because GHDC is a substantial shareholder of five subsidiaries of GZI Transport. The entering into the Management Agreements between the Operational Joint Ventures and GHDC therefore constitute connected transactions of Guangzhou Investment and GZI Transport under the Listing Rules.

In the case of Guangzhou Investment, the total annual fees payable RMB66,280,000 (equivalent to approximately HK\$62,234,742) to GHDC under the Management Agreements is more than 0.1 per cent. but less than 2.5 per cent. under the total assets test, the revenue test and the consideration test set forth in Rule 14.15 of the Listing Rules. Hence, the entering into the Management Agreements between the Operational Joint Ventures and GHDC constitutes continuing connected transactions exempt from independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules.

In the case of GZI Transport, the total annual fees payable RMB66,280,000 (equivalent to approximately HK\$62,234,742) to GHDC under the Management Agreements is more than 2.5 per cent. but less than 25 per cent. under the consideration test set forth in Rule 14.15 of the Listing Rules. Hence, the entering into the Management Agreements between the Operational Joint Ventures and GHDC constitutes non-exempt continuing connected transactions for GZI Transport under Rule 14A.35 of the Listing Rules which requires GZI Transport's independent shareholders' approval.

GZI Transport will send a circular containing the details of the Management Agreements, a recommendation letter from the Independent Board Committee of GZI Transport and a letter from an independent financial adviser to the Independent Board Committee of GZI Transport as soon as practicable and in accordance with the provisions of the Listing Rules.

No shareholder of GZI Transport is interested in the Management Agreements or should abstain from voting at GZI Transport's shareholders' meeting. GZI Transport will obtain written confirmation from a closely allied group of shareholders of GZI Transport holding more than 50 per cent. in nominal value of the issued share capital of GZI Transport giving right to attend and vote at the general meeting to approve the Management Agreements in lieu of a resolution to be passed at the shareholders' meeting of GZI Transport approving the Management Agreements under Rule 14A.43. Accordingly, GZI Transport will apply to the Stock Exchange for a shareholders' meeting waiver of its obligation to convene a general meeting pursuant to Rule 14A.43 of the Listing Rules on the basis that an independent shareholders' approval will be obtained by way of the written approval by the independent shareholders.

## 1. BACKGROUND

On 30 November 1996, GHDC entered into three Fixed Cost Service Agreements with Guangzhou Weian, Guangzhou Taihe and Guangzhou Nanxin respectively, whereby GHDC will provide operational and maintenance services to Guangshan Highway, Guangcong Highway Section I and Guangshen Highway respectively in return for a service charge at a fixed rate of 18 per cent. of the gross aggregate toll revenue of each toll highway per annum.

On 15 August 1997 and 3 May 1998, another two Fixed Cost Service Agreements were entered into between GHDC and Guangzhou Xinguang and Guangzhou Tailong respectively. Under the two Fixed Cost Service Agreements, GHDC will carry out the day-to-day operational and maintenance services of Guanghua Highway and Guangcong Highway Section II and Provincial Highway 1909 respectively in return for a service charge at a fixed rate of 18 per cent. of the gross aggregate toll revenue of the respective toll highway per annum.

The provision of the operational and maintenance services under the Fixed Cost Service Agreements by GHDC, which is a connected person of GZI Transport and Guangzhou Investment, constituted on-going connected transactions under the Listing Rules. GZI Transport and Guangzhou Investment had applied to the Stock Exchange and been granted by the Stock Exchange waivers from strict compliance with the reporting and independent shareholders' approval requirements under the previous Chapter 14 of the Listing Rules. Details of the Fixed Cost Service Agreements and the waivers were disclosed in GZI Transport's prospectus dated 21 January 1997 and the joint circular of GZI Transport and Guangzhou Investment dated 21 July 1997.

On 31 January 2004, the Stock Exchange announced certain amendments to the Listing Rules which took effect from 31 March 2004. Under the new Rule 14A.35 of the Listing Rules, where an issuer enters into non-exempt continuing connected transactions, it must, amongst other things, in respect of each connected transaction:

- (i) enter into written agreement(s) with the connected persons, and the period for which must be fixed and except in special circumstance, must not exceed three years; and
- (ii) set a maximum aggregate annual value which must be expressed in terms of monetary value rather than a percentage of the issuer's annual revenue.

To comply with the amended Listing Rules GZI Transport procured the Operational Joint Ventures to re-negotiate with GHDC and enter into the Management Agreements to replace the respective Fixed Cost Service Agreements. Notwithstanding the early negotiations, agreements between each of the Operational Joint Ventures and GHDC were not reached until after considerable negotiations as GHDC was hesitate with the short term nature of the Management Agreements and it was also very time consuming for GHDC to agree on the consideration payable under the respective Management Agreements.

## 2. PARTICULARS OF THE MANAGEMENT AGREEMENTS

Set out below are the principal terms of the Management Agreements entered into between the respective parties on 6 September 2004:-

(i) Guanghua Highway Management Agreement

Parties: Guangzhou Xinguang and GHDC  
Toll road under management: Guanghua Highway  
Management fees: RMB5,170,000 per annum  
Term: From 1 January 2004 to 31 December 2004

(ii) Guangshan Highway Management Agreement

Parties: Guangzhou Weian and GHDC  
Toll road under management: Guangshan Highway  
Management fees: RMB21,390,000 per annum  
Term: From 1 January 2004 to 31 December 2004

(iii) Guangshen Highway Management Agreement

Parties: Guangzhou Nanxin and GHDC  
Toll road under management: Guangshen Highway  
Management fees: RMB13,700,000 per annum  
Term: From 1 January 2004 to 31 December 2004

(iv) Guangcong Highway Section I Management Agreement

Parties: Guangzhou Taihe and GHDC  
Toll road under management: Guangcong Highway Section I  
Management fees: RMB15,790,000 per annum  
Term: From 1 January 2004 to 31 December 2004

(v) Guangcong Highway Section II and Provincial Highway 1909 Management Agreement

Parties: Guangzhou Tailong and GHDC  
Toll road under management: Guangcong Highway Section II and Provincial Highway 1909  
Management fees: RMB10,230,000 per annum  
Term: From 1 January 2004 to 31 December 2004

Save for the management fees payable and the term of the agreements mentioned above, the other terms and conditions of the Management Agreements are primarily the same as those of the Fixed Cost Service Agreements. Under the Management Agreements, GHDC will be responsible for regular and routine maintenance and medium scale repairs of the Highways pursuant to the standards prescribed by the Ministry of Communications of the PRC from time to time and the repairs and maintenance costs of road safety devices, flood damage prevention works, maintenance of traffic signals and signs, lighting systems and landscaping (but excluding the costs of major repairs or re-construction works). In addition, GHDC is responsible for all toll station operational expenses including repairs and maintenance of the toll stations and computerised toll collection systems, provision of stationery, office equipment, water, electricity and telephone charges and all other expenses required for the normal operations of the toll stations. Under the Management Agreements, GHDC also assumes full responsibility for the salaries and all statutory benefits, insurance and welfare funds required to be paid pursuant to the relevant laws and regulations of the PRC to the staff and workers employed by GHDC to perform clerical and routine operational duties at the toll station(s) of the respective Operational Joint Ventures, subject, however, to the Group's overriding authority in recruiting and dismissing any of such staff and workers.

According to the terms of the Management Agreements, the finance team and engineering team, among other teams, of the Operational Joint Ventures shall investigate and monitor the standard, quality and the punctuality of the management services provided by GHDC. Depending on the seriousness of the contractual breach committed by GHDC (if any), the Operational Joint Ventures may terminate the Management Agreements by giving written notice to GHDC in the event GHDC is unable to provide maintenance and repair services of the Highways pursuant to the standard prescribed by the Ministry of Communication of the PRC from time to time; or normal operations of the toll station.

### **3. INFORMATION ABOUT THE CONNECTED TRANSACTIONS**

GHDC is a connected person of Guangzhou Investment and GZI Transport because GHDC is a substantial shareholder holding 20 per cent., 49 per cent., 20 per cent., 45 per cent. and 20 per cent. of five subsidiaries of GZI Transport (namely Guangzhou Taihe, Guangzhou Tailong, Guangzhou Weian, Guangzhou Xinguang and Guangzhou Nanxin respectively, which are the Operational Joint Ventures). Given that GZI Transport is a subsidiary of Guangzhou Investment, the above subsidiaries are also subsidiaries of Guangzhou Investment. The entering into the Management Agreements between the Operational Joint Ventures and GHDC therefore constitutes connected transactions of Guangzhou Investment and GZI Transport.

The following is a summary of the total amount of fees paid under the Fixed Cost Service Agreements for each of the three years ended 31 December 2003 and the total fees payable in 2004 under the Management Agreements. GZI Transport and Guangzhou Investment propose to fix an annual consideration (“Fixed-sum”) for each of the connected transactions equal to the fees payable under the Management Agreements in 2004:

	<b>Year ended 31st December,</b>			
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>Actual 18 per cent. charges</b>	<b>Actual 18 per cent. charges</b>	<b>Actual 18 per cent. charges</b>	<b>Proposed Fixed-sum</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Guanghua Highway	4,145,357	4,686,375	5,162,153	5,170,000
Guangshan Highway	22,312,824	19,757,385	21,385,658	21,390,000
Guanshen Highway	10,550,089	3,674,153	13,704,128	13,700,000
Guangcong Highway Section I	12,384,820	13,006,912	15,785,894	15,790,000
Guangcong Highway Section II and Provincial Highway 1909	<u>13,022,057</u>	<u>14,818,692</u>	<u>10,230,008</u>	<u>10,230,000</u>
Total:	<u><u>62,415,147<sup>1</sup></u></u>	<u><u>55,943,517<sup>2</sup></u></u>	<u><u>66,267,841<sup>3</sup></u></u>	<u><u>66,280,000</u></u>

1 Source: Note 38 to the Accounts in Guangzhou Investment Annual Report 2001 and Note 27 to the Accounts in GZI Transport Annual Report 2001

2 Source: Note 37 to the Accounts in Guangzhou Investment Annual Report 2002 and Note 25 to the Accounts in GZI Transport Annual Report 2002

3 Source: Note 39 to the Accounts in Guangzhou Investment Annual Report 2003 and Note 26 to the Accounts in GZI Transport Annual Report 2003

The Fixed-sum for the connected transactions payable under each of the Management Agreements in 2004 are expressed in terms of monetary value and are determined by reference to previous transactions and figures which are ascertainable from published information of Guangzhou Investment and GZI Transport. The Fixed-sum stipulated in the Management Agreements is payable by the Operational Joint Ventures to GHDC in cash by monthly installment.

In the case of Guangzhou Investment, the total annual fees payable of RMB66,280,000 (equivalent to approximately HK\$62,234,742) to GHDC under the Management Agreements is more than 0.1 per cent. but less than 2.5 per cent. under the total assets test, the revenue test and the consideration test set forth in Rule 14.15 of the Listing Rules. Hence, the entering into the Management Agreements between the Operational Joint Ventures and GHDC constitutes continuing connected transactions exempt from independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules.

In the case of GZI Transport, the total annual fees payable of RMB66,280,000 (equivalent to approximately HK\$62,234,742) to GHDC under the Management Agreements is more than 2.5 per cent. but less than 25 per cent. under the consideration test set forth in Rule 14.15 of the Listing Rules. Hence, the entering into the Management Agreements between the Operational Joint Ventures and GHDC constitutes non-exempt continuing connected transactions for GZI Transport under Rule 14A.35 of the Listing Rules which requires GZI Transport's independent shareholders' approval.

The directors of GZI Transport has confirmed that save as aforesaid, GHDC is not a connected person of GZI Transport by virtue of any other connection with GZI Transport. Therefore, no shareholders of GZI Transport are required to abstain from voting if GZI Transport were to convene a general meeting for the approval of the Management Agreements in accordance with the Listing Rules.

As at the date of this announcement, Yue Xiu and its associates (including Guangzhou Investment) beneficially own 808,988,076 shares in GZI Transport (collectively, the "**Group Shareholders of GZI Transport**"), representing approximately 72.6 per cent. of the issued share capital of GZI Transport.

GZI Transport will obtain written confirmation from a closely allied group of shareholders of GZI Transport holding more than 50 per cent. in nominal value of the issued share capital of GZI Transport giving right to attend and vote at the general meeting to approve the Management Agreements in lieu of a resolution to be passed at the shareholders' meeting of GZI Transport approving the Management Agreements under Rule 14A.43. Accordingly, GZI Transport will apply to the Stock Exchange for a shareholders' meeting waiver of its obligation to convene a general meeting pursuant to Rule 14A.43 of the Listing Rules on the basis that an independent shareholders' approval will be obtained by way of the written approval by the independent shareholders.

GZI Transport will send a circular containing details of the Management Agreements, a recommendation letter from the Independent Board Committee of GZI Transport and a letter from an independent financial adviser to the Independent Board Committee of GZI Transport as soon as practicable and in accordance with the provisions of the Listing Rules.

#### **4. BENEFITS OF THE CONNECTED TRANSACTIONS**

The Group's intention for entering into the Management Agreements with pre-determined management costs and quality standards is to minimize GZI Transport's risk associated with cost overrun of its toll highway projects.

The total annual fees payable to GHDC under the Management Agreements have been arrived at after arm's length negotiations between the Operational Joint Ventures and GHDC and are based on normal commercial terms. The Board of Guangzhou Investment and the Board of GZI Transport believe that the terms of the Management Agreements are fair and reasonable. In view of past operational convenience and benefits brought to the Group, the Board of Guangzhou Investment (including the independent non-executive directors) and the Board of GZI Transport (including the independent non-executive directors) consider it to be in the interests of the Group and its Shareholders as a whole to enter into the Management

Agreements. For the benefit of the Group, new management agreements will be negotiated before the expiry of the Management Agreements and new management contracts will be entered into between the Operational Joint Ventures and GHDC at the end of 2004 for the continuing management of the respective toll highway projects if the then circumstances deemed appropriate.

## **5. GENERAL INFORMATION ABOUT GUANGZHOU INVESTMENT**

Guangzhou Investment is principally engaged in property investment and development, operation of toll roads and bridges, manufacture and sale of newsprint and corrugated paper.

As at the date of this announcement, the Board of Guangzhou Investment comprises the following members:-

*Executive directors:-*

Mr. OU Bingchang (Chairman), Mr. CHEN Guangsong, Mr. LI Fei, Mr. LIANG Ningguang, Mr. XIAO Boyan, Mr. LIANG Yi and Mr. WONG Chi Keung

*Independent non-executive directors:-*

Mr. YU Lup Fat Joseph and Mr. LEE Ka Lun

## **6. GENERAL INFORMATION ABOUT GZI TRANSPORT**

GZI Transport is principally engaged in the investment in and development, operation and management of toll highways, expressways and bridges mainly in Guangdong Province, the PRC.

As at the date of this announcement, the Board of GZI Transport comprises the following members:-

*Executive directors:-*

Mr. OU Bingchang (Chairman), Mr. LI Xinmin, Mr. CHEN Guangsong, Mr. CHEN Jiahong, Mr. LIANG Ningguang, Mr. XIAO Boyan, Mr. LIANG Yi, Mr. DU Liangying, Mr. DU Xinrang, Mr. ZHONG Ming, Mr. HE Zili and Mr. ZHANG Siyuan

*Non-executive director:-*

Mr. POON Jing

*Independent non-executive directors:-*

Mr. FUNG Ka Pun, Mr. LAU Hon Chuen Ambrose and Mr. CHEUNG Doi Shu



## DEFINITIONS

In this announcement, unless the context requires otherwise, the use of capitalized terms here shall have the following meanings:-

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board of Guangzhou Investment”	means the board of directors of Guangzhou Investment;
“Board of GZI Transport”	means the board of directors of GZI Transport;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules;
“Fixed Cost Service Agreement(s)”	the three fixed cost service agreements entered into between GHDC and each of Guangzhou Weian, Guangzhou Taihe and Guangzhou Nanxin on 30 November 1996 and the two fixed cost service agreements entered into between GHDC and each of Guangzhou Xinguang and Guangzhou Tailong on 15 August 1997 and 3 May 1998 respectively;
“GHDC”	means 廣州市公路開發公司 (for identification purpose, in English, Guangzhou Highways Development Company), a PRC state-owned enterprise and a substantial shareholder of five subsidiaries of GZI Transport. Hence, GHDC is a connected person of Guangzhou Investment and GZI Transport;
“Group”	means Guangzhou Investment and its subsidiaries including GZI Transport and its subsidiaries;
“Guangcong Highway Section I”	means the Guangcong Highway connecting Guangzhou Institute of Foreign Language and Tai Ping Chang;
“Guangcong Highway Section II and Provincial Highway 1909”	means the Guangcong Highway connecting Tai Ping Chang and Wenquan and Provincial Highway 1909 connecting inter-provincial traffic between Guangdong and Hunan Provinces;
“Guanghua Highway”	means the Guanghua Highway connecting the urban area of Guangzhou and the suburb of Huadu District;
“Guangshan Highway”	means the Guangshan Highway Guangzhou Section connecting Guangzhou and Shantou;
“Guangshen Highway”	means the Guangshen Highway Guangzhou Section connecting Guangzhou and Shenzhen;

“Guangzhou Investment”	means Guangzhou Investment Company Limited (越秀投資有限公司), a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board and on the stock exchange operated by Singapore Exchange Securities Trading Limited;
“Guangzhou Nanxin”	means Guangzhou Nanxin Highways Development Company Limited, a cooperative joint venture established in the PRC, the interest of which is held as to 80 per cent. by Superfield Limited, a wholly-owned subsidiary of GZI Transport and as to 20 per cent. by GHDC, and which operates Guangshen Highway;
“Guangzhou Taihe”	means Guangzhou Taihe Highways Development Company Limited, a cooperative joint venture established in the PRC, the interest of which is held as to 80 per cent. by Ickleton Limited, a wholly-owned subsidiary of the GZI Transport, and as to 20 per cent. by GHDC, and which operates Guangcong Highway Section I;
“Guangzhou Tailong”	means Guangzhou Tailong Highways Development Company Limited, a cooperative joint venture established in the PRC, the interest of which is held as to 51 per cent. by Fortune Success Group Ltd., a wholly-owned subsidiary of the GZI Transport and as to 49 per cent. by GHDC, and which operates Guangcong Highway Section II and Provincial Highway 1909;
“Guangzhou Weian”	means Guangzhou Weian Highways Development Company Limited, a cooperative joint venture established in the PRC, the interest of which is held as to 80 per cent. by Teckstar Limited, a wholly-owned subsidiary of GZI Transport and as to 20 per cent. by GHDC, and which operates Guangshan Highway;
“Guangzhou Xinguang”	means Guangzhou Xinguang Highways Development Company Limited, a cooperative joint venture established in the PRC, the interest of which is held as to 55 per cent. by Top Global Holdings Ltd., a wholly-owned subsidiary of the GZI Transport and as to 45 per cent. by GHDC, and which operates Guanghua Highway;

“GZI Transport”	means GZI Transport Limited (越秀交通有限公司), a company incorporated in Bermuda with limited liability, the interest of which is held as to approximately 72.6 per cent. by Yue Xiu and its associates (including Guangzhou Investment) and the shares of which are listed on the Main Board;
“Highways”	means Guangcong Highway Section 1, Guangcong Highway Section II and Provincial Highway 1909, Guanghua Highway, Guangshan Highway, Guangshen Highway;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	means The Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee of GZI Transport”	means an independent committee of the Board of GZI Transport appointed to advise the independent shareholders of GZI Transport in respect of the Management Agreements, comprising the independent non-executive directors of GZI Transport;
“independent shareholder(s)”	has the meaning ascribed to it under Chapter 14A of the Listing Rules;
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange;
“Main Board”	means the securities market (excluding the option market) operated by the Stock Exchange, which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange;
“Management Agreements”	means the five management agreements all dated 6 September 2004 and entered into between GHDC and each of the Operational Joint Ventures in respect of the management of Highways;
“Operational Joint Venture(s)”	means the five operational joint ventures, namely Guangzhou Taihe, Guangzhou Tailong, Guangzhou Weian, Guangzhou Xinguang and Guangzhou Nanxin;
“PRC”	means the People’s Republic of China;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiary”	has the same meaning as defined in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as at the date hereof and “subsidiaries” shall be construed accordingly;

“substantial shareholder(s)” has the meaning ascribed to it under the Listing Rules; and

“Yue Xiu” means Yue Xiu Enterprises (Holdings) Limited (越秀企業(集團)有限公司), a company incorporated in Hong Kong with limited liability and the ultimate holding company of Guangzhou Investment and hence the ultimate holding company of GZI Transport.

*For the purpose of this announcement, translation of RMB into HK\$ or vice versa has been calculated by using an exchange rate of RMB 1 = HK\$1.065.*

By order of the Board  
**Guangzhou Investment Company Limited**  
**OU Bingchang**  
*Chairman*

By order of the Board  
**GZI Transport Limited**  
**OU Bingchang**  
*Chairman*

Hong Kong, 6 September 2004

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