



MEXAN LIMITED

茂盛控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 22)

ANNOUNCEMENT

On 28 July 2004 and 10 August 2004, the Company issued separate announcements which referred to the entering into by Beilun Company of a management services agreement with Shanghai Mexan Enterprise Development (Group) Limited (上海茂盛企業發展(集團)有限公司) on 8 June 2004. Further to these announcements, the Company sets out the details of and reasons for the entering into of the management services agreement and the effect of the management services agreement upon the Acquisition.

On 1 June 2004, the Company issued a press announcement (the "Announcement") relating to the Acquisition. This is a further announcement to provide more information on the acquisition of Ningbo Beilun Port Expressway Company Limited set out in the Announcement. Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement unless otherwise stated.

On 28 July 2004 and 10 August 2004, the Company issued separate announcements which referred to the entering into by Beilun Company of a management services agreement (the "Agreement") with Shanghai Mexan Enterprise Development (Group) Limited ("Shanghai Mexan") (上海茂盛企業發展(集團)有限公司) on 8 June 2004. The Company hereby sets out the details of and reasons for the Agreement and the effect of the Agreement upon the Acquisition.

This is a further announcement to provide more information on the acquisition of Ningbo Beilun Port Expressway Company Limited.

DETAILS OF THE AGREEMENT

Pursuant to the Agreement, Shanghai Mexan shall be responsible for operating and managing the Ningbo Beilun Port Expressway (the "Toll Road") (including, among other things, preparing business development plans, setting annual operational targets, management and maintenance of the Toll Road and liaison with the Ningbo government) and Beilun Company shall pay to Shanghai Mexan a sum of RMB300 million (approximately HK\$283.02 million) (the "Sum") representing an annual management fee of RMB12.5 million (approximately HK\$11.79 million) which shall cover all the daily operation and maintenance costs of Beilun Company (except for major maintenance cost) for a period of 24 years commencing from 1 January 2004. The Company was informed that the Sum was arrived at based on arm's length negotiations between Beilun Company and Shanghai Mexan after taking into account factors including, among other things, the estimated operating cost of Beilun Company in the future and a reasonable management fee margin under such a contract structure. Under a supplementary agreement dated 2 August 2004, the parties to the Agreement agreed to postpone the commencement of the Agreement to 1 July 2004. Payment for the Sum has been made in advance in a single instalment.

Under the Agreement, Shanghai Mexan is obliged to ensure that the Toll Road achieves specified annual revenue targets ("Targets") specified in the Agreement, which are subject to annual review by Beilun Company and Shanghai Mexan. If Beilun Company and Shanghai Mexan fail to reach any agreement to change the Targets during the annual review, the Targets specified in the Agreement shall prevail. Shanghai Mexan is under an obligation to make compensatory payments to Beilun Company in the event that the Targets are not met, which will vary according to the level of the shortfall. The compensatory payments may range from RMB1 million (approximately HK\$943,396) for a 5%-15% shortfall to RMB10 million (approximately HK\$9.43 million) where the shortfall exceeds 50%. The Agreement may be terminated by agreement between Beilun Company and Shanghai Mexan. Beilun Company and Shanghai Mexan have agreed that, upon termination of the Agreement, Shanghai Mexan will refund the balance of the Sum which has not been accrued to Beilun Company. The Agreement may also be terminated if there is a breach of the terms of such agreement.

Although Beilun Company is an associate of Shanghai Mexan, the Company was not involved at any time in the negotiations relating to the Agreement, the Company was only made aware of the Agreement subsequent to the Announcement and after the Agreement has been entered into.

REASONS FOR THE AGREEMENT

Subsequent to the entering into of the Acquisition Agreement, the Company, as part of its due diligence into Beilun Company, separately conducted an assessment on the necessity for a dedicated operator in the operation and management of the Toll Road. The Company came to the view that although its management has experience in toll road investment and operations in the PRC, the Toll Road requires a dedicated and experienced operational team to oversee its day-to-day operations.

Prior to the entering into of the Agreement, Shanghai Mexan had already been providing resources and management support for the operation and maintenance of the Toll Road since the Vendor acquired its interest in Beilun Company on 8 November 2002. The Company understands that the relevant parties entered into the Agreement in order to formalise the role of Shanghai Mexan in the management and operation of the Toll Road.

EFFECT OF THE AGREEMENT ON THE ACQUISITION

The prepayment of the Sum was made by way of an offset against an accounts payable of Shanghai Mexan in favour of Beilun Company as detailed in the accountants' report on Beilun Company, which is to be included in the circular to be despatched to the shareholders of the Company (the "Circular") relating to the Acquisition. The reporting accountants were unable to provide an unqualified opinion on the value of the prepayment under the Agreement as they were not able to assess whether Shanghai Mexan has the ability to fulfil its obligations under the Management Contracts or to assess the value of the future economic benefits of the Management Contracts or to assess the value of the further economic benefits of the Management Contracts.

As part of the due diligence process and the determination of the final consideration payable by Pacific Land to the Vendor under the Acquisition Agreement (the "Consideration"), the Company has taken into account the accountants' opinion on Beilun Company and BMI Appraisals' valuation. The Consideration has been determined on the basis of the discounted cashflow method which, according to BMI Appraisals, is the most appropriate method for valuing the Toll Road. The net asset value of Beilun Company was not taken into account when determining the Consideration. As a result of the due diligence findings and the uncertainty cast over the prepayment by the reporting accountants, the Company has subsequently negotiated the Consideration downwards to take into account the risks caused by any impact arising from a loss in the benefit of the Agreement, which resulted in a downside valuation of Beilun Company. Had Beilun Company not entered into the Agreement, the Company believes that the reporting accountants would also have qualified their report on the basis of the uncertainty over the recoverability of the said accounts receivable due from Shanghai Mexan to Beilun Company. In such circumstances the Company would also have negotiated the Consideration downwards to take into account the risks that arise as a result of such uncertainty.

In this announcement, unless otherwise stated, certain amounts denominated in RMB have been converted (for information only) into HK\$ using an exchange rate of HK\$1.00: RMB1.06. Such conversions shall not be construed as a representation that amounts of RMB were or may have been converted into HK\$ (as the case may be) using such exchange rate or any other.

By order of the Board
Yan Sheng
Chief Executive Officer

The Board comprises Mr. Lau Kan Shan, Mr. Yan Sheng, Mr. Yuen Hiu Kwan and Ms. Ching Yung, all of whom are executive Directors, Mr. Chan Wai Dune, Mr. Lau Wai and Mr. Cheng Chun Pong, Paul, both of whom are independent non-executive Directors.

Hong Kong, 4 November 2004

* For identification purposes only