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If you are in 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 Beijing Development (Hong Kong) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular does not constitute an offer of, nor is it calculated to invite offers for, shares or other securities of Beijing Development (Hong Kong) Limited.

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北京發展(香港)有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

CONNECTED AND SHARE TRANSACTION

Independent financial adviser to the Independent Board Committee

Watterson Asia Limited

A letter from the Board is set out on pages 5 to 13 of this circular. A letter from the Independent Board Committee is set out on page 14 of this circular. A letter from the independent financial adviser, Watterson Asia Limited, containing its advice to the Independent Board Committee is set out on pages 15 to 25 of this circular.

A notice convening an extraordinary general meeting of Beijing Development (Hong Kong) Limited to be held at Taishan Room, Level 5, The Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong at 10:00 a.m. on Tuesday, 27 May, 2003 is set out on pages 30 to 31 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same with Tengis Limited, the share registrar of Beijing Development (Hong Kong) Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

2 May, 2003

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DEFINITIONS

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

“Agreement”	the conditional sale and purchase agreement dated 14 April, 2003, entered into between Beijing Enterprises and Beijing Development for the acquisition by Beijing Development of the entire issued share capital in and the Shareholder’s Loan due by Business Net
“Announcement”	the joint announcement dated 14 April, 2003 issued by Beijing Enterprises and Beijing Development in relation to the Proposed Transaction
“associates”	have the meaning as defined in the Listing Rules
“Beijing Bashi”	Beijing Bashi Co., Ltd. (北京巴士股份有限公司), an independent third party not connected with any director, chief executive or substantial shareholder of Beijing Development or Beijing Enterprises or any of their respective subsidiaries or an associate of any of them
“Beijing Development”	Beijing Development (Hong Kong) Limited (北京發展(香港)有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“Beijing Development Group”	Beijing Development and its subsidiaries
“Beijing Enterprises”	Beijing Enterprises Holdings Limited (北京控股有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange and is the controlling shareholder of Beijing Development interested in 52.44% of its issued share capital as at the Latest Practicable Date
“Beijing Enterprises Group”	Beijing Enterprises and its subsidiaries
“Beijing Huaxun”	Beijing Huaxun Group (北京華訊集團), an independent third party not connected with any director, chief executive or substantial shareholder of Beijing Development or Beijing Enterprises or any of their respective subsidiaries or an associate of any of them
“Beijing Mass Transportation”	Beijing Mass Transportation Corporation (北京地鐵運營有限責任公司, formerly known as 北京市地下鐵道總公司), an independent third party not connected with any director, chief executive or substantial shareholder of Beijing Development or Beijing Enterprises or any of their respective subsidiaries or an associate of any of them
“Beijing Public Transportation”	Beijing Public Transportation Corporation (北京市公共交通總公司), an independent third party not connected with any director, chief executive or substantial shareholder of Beijing Development or Beijing Enterprises or any of their respective subsidiaries or an associate of any of them

DEFINITIONS

“BETIT”	Beijing Enterprises Teletron Information Technology Co., Ltd. (北京北控電信通信息技術有限公司), a wholly foreign owned enterprise established in the PRC on 20 February, 2001 and a wholly-owned subsidiary of Cyber Vantage
“BMAC”	Beijing Municipal Administration & Communications Card Co., Ltd. (北京市政交通一卡通有限公司), a sino-foreign equity joint venture company established in the PRC on 23 October, 2000
“Board”	board of Directors
“BOE Technology”	BOE Technology Group Co., Ltd. (京東方科技集團股份有限公司, formerly known as 北京東方電子集團股份有限公司), an independent third party not connected with any director, chief executive or substantial shareholder of Beijing Development or Beijing Enterprises or any of their respective subsidiaries or an associate of any of them
“BT Intelligent System”	Beijing Teletron Intelligent System Co. Ltd. (北京電信通智能科技有限公司), a company incorporated in the PRC on 1 March, 2000 with limited liability and is owned as to 80% by BETIT
“BT System Integration”	Beijing Teletron System Integration Co. Ltd. (北京市電信通系統集成有限公司), a company incorporated in the PRC on 2 June, 1998 with limited liability and is owned as to 51% by BETIT
“Business Day”	any day other than a Saturday, Sunday or a day on which commercial banking institutions in Hong Kong are authorized or obligated by law or executive order to be closed
“Business Net”	Business Net Limited (商網有限公司), a company incorporated in BVI with limited liability on 22 March, 2002
“BVI”	the British Virgin Islands
“Completion”	the completion of the Agreement
“Completion Date”	the date which is 3 Business Days after the date on which all of the conditions set out in the Agreement have been satisfied or waived by Beijing Development (or such later date as Beijing Enterprises and Beijing Development may agree)
“Consideration”	the aggregate consideration of HK\$40,000,000 payable by Beijing Development to Beijing Enterprises for the acquisition of the Sale Shares and the Shareholder’s Loan
“Consideration Shares”	the aggregate of 35,000,000 new Shares to be allotted and issued to Beijing Enterprises upon Completion
“Cyber Vantage”	Cyber Vantage Group Limited (網絡卓越有限公司), a company incorporated in BVI with limited liability and is wholly-owned by Beijing Development

DEFINITIONS

“Director(s)”	the director(s) of Beijing Development
“EGM”	the extraordinary general meeting of Beijing Development to be convened for approving the Proposed Transaction
“Enlarged Group”	Beijing Development Group as enlarged by 100% interest in Business Net
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFTL”	Idata Finance Trading Limited, a company incorporated in the BVI and a direct wholly-owned subsidiary of Beijing Enterprises
“Independent Board Committee”	independent committee of the Board consisting of Mr. Cao Guixing and Mr. Feng Ching Yeng, Frank appointed by the Board of Beijing Development to advise the Independent Shareholders in respect of the Proposed Transaction
“Independent Shareholder(s)”	the Shareholder(s) other than Beijing Enterprises and its associates
“IC Card(s)”	the integrated circuit card(s), which refer(s) to any plastic card with one or more embedded integrated circuit chips that allow data storage, encryption and processing
“Latest Practicable Date”	29 April 2003, being the latest practicable date before the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau and Taiwan
“Proposed Transaction”	all transactions contemplated under the Agreement, including the acquisition of the Sale Shares and the Shareholder’s Loan by Beijing Development from Beijing Enterprises; and the allotment and issue of the Consideration Shares to Beijing Enterprises
“Sale Shares”	the 100 shares of US\$1.00 each in the capital of Business Net, representing the entire issued share capital of Business Net
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder’s Loan”	the loan amounting to RMB19,000,000 (approximately HK\$17.92 million) owing by Business Net to Beijing Enterprises in connection with the transfer of 38% of the registered capital of BMAC from Beijing Enterprises to Business Net on 22 November 2002
“Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of Beijing Development
“Shareholder(s)”	holder(s) of Shares

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Watterson Asia”	Watterson Asia Limited, a licensed corporation registered under the SFO and the independent financial adviser to the Independent Board Committee
“Yikatong”	“Yikatong” (一卡通) is an IC Card which is a contactless multi-purpose electronic payment card
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

For illustration purposes only, translation of certain currencies is based on the following exchange rates:

HK\$1.00 = RMB1.06
US\$1.00 = HK\$7.80

LETTER FROM THE BOARD



北京發展（香港）有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

Directors:

Mr. Xiong Da Xin (*Chairman*)
Mr. Ng Kong Fat, Brian (*Managing Director*)
Dr. Mao Xiang Dong, Peter (*Deputy Managing Director*)
Mr. E Meng (*Deputy Managing Director*)
Mr. Cao Guixing**
Mr. Feng Ching Yeng, Frank**

Registered office:

20th Floor
Hang Lung House
184–192 Queen's Road Central
Sheung Wan
Hong Kong

** *Independent Non-Executive Directors*

2 May, 2003

To the Shareholders

Dear Sir or Madam,

CONNECTED AND SHARE TRANSACTION

1. Introduction

The Board announced on 14 April, 2003 that, the Agreement was entered into between Beijing Enterprises and Beijing Development, pursuant to which Beijing Development has conditionally agreed to acquire, and Beijing Enterprises has conditionally agreed to sell, the entire issued share capital of 100 shares of US\$1.00 each in Business Net together with all the benefits and interest of and in the Shareholder's Loan for the Consideration of HK\$40,000,000, which has been determined after arm's length negotiations between Beijing Enterprises and Beijing Development with reference to an independent business valuation.

Pursuant to the Listing Rules, the Proposed Transaction constitutes a share transaction for Beijing Development as in satisfying the Consideration, it involves an issuance of new Shares. Since Beijing Enterprises is the controlling shareholder of Beijing Development, the Proposed Transaction also constitutes a connected transaction for Beijing Development. Accordingly, the Proposed Transaction is subject to, among other things, approval by the Independent Shareholders. The purpose of this circular is to provide the Shareholders with further information in relation to the Proposed Transaction so as to enable them to vote on the resolution set out in the notice of the EGM. The recommendations of the Independent Board Committee to the Independent Shareholders are set out on page 14 of this circular. A copy of the letter from Watterson Asia containing its advice in relation to the aforesaid is set out on pages 15 to 25 of this circular.

LETTER FROM THE BOARD

2. Agreement

Date

14 April, 2003

Parties

Vendor : Beijing Enterprises

Purchaser : Beijing Development

Asset to be acquired

Subject to the terms and conditions of the Agreement, Beijing Development has conditionally agreed to acquire:

1. the Sale Shares; and
2. all the benefits and interest of and in the Shareholder's Loan, free from all liens, charges, security interests, encumbrances, adverse claims, third party rights, adverse interests and equities of any kind whatsoever.

Consideration

The aggregate Consideration for the Proposed Transaction is HK\$40,000,000.

In satisfaction of the Consideration, Beijing Development shall upon Completion pay HK\$5,000,000 in cash to Beijing Enterprises or its nominee(s), and allot and issue to Beijing Enterprises or its nominee(s), credited as fully paid, the Consideration Shares. The Consideration Shares to be issued shall rank pari passu in all respects with the Shares in issue as at the Completion Date, including ranking for payment of any dividend declared after the Completion Date.

The cash consideration will be financed by Beijing Development Group's internal resources.

The Consideration Shares will be issued pursuant to the specific mandate to be granted to the directors of Beijing Development at the EGM. The Consideration Shares represent approximately 7.63% of the existing issued share capital of Beijing Development or approximately 7.09% of the issued share capital of Beijing Development as enlarged by the Consideration Shares to be issued. Upon Completion, the shareholding in Beijing Development held by Beijing Enterprises will be increased from 52.44% to 55.81%.

The Consideration Share will be issued at HK\$1.00 per share, which was determined after arm's length negotiation between the parties to the Agreement, representing a premium of approximately 13.63% over the closing price of HK\$0.88 per Share as quoted on the Stock Exchange on 14 April, 2003, being the date of the Agreement, a premium of approximately 16.82% to the average closing price of HK\$0.856 per Share over the last ten trading days prior to the date of the Agreement, (i.e. from 1 April, 2003 to 14 April, 2003), a premium of approximately 17.65% over the closing price of HK\$0.85 per Share as quoted on the Stock Exchange as at the Latest Practicable Date and a premium of approximately 14.68% to the average closing price of HK\$0.872 per Share over the last ten trading days prior to the Latest Practicable Date (i.e. from 14 April, 2003 to 29 April, 2003). Based on the closing market price of HK\$0.88 per Share quoted on the Stock Exchange on 14 April, 2003, being the date of the Announcement, the value of the Consideration Shares is HK\$30,800,000.

LETTER FROM THE BOARD

The Consideration was determined after arm's length negotiations between all parties to the Agreement and by reference to the business valuation report of BMAC issued by Vigers Hong Kong Limited, which is an independent valuer. Vigers Hong Kong Limited has been conducting business valuation and intangible asset valuation in the Greater China region since 1993 and is permitted to conduct valuation of assets in the PRC. The fair market value of a 100% equity interest in BMAC as of 31 March, 2003 stated therein is RMB112 million (approximately HK\$105.66 million). The directors of Beijing Development consider that the terms of the Proposed Transaction are on normal commercial terms.

Conditions

The Agreement is conditional upon the following conditions being fulfilled, or (in the case of the conditions set out in paragraphs 1 to 5 below) waived by Beijing Development:

1. the warranties set out in the Agreement remaining true and accurate and not misleading in any material respect at Completion as if repeated at Completion and at all times between the date of the Agreement and Completion;
2. Beijing Development notifying Beijing Enterprises in writing that it is satisfied in reliance on the warranties set out in the Agreement and upon inspection and investigation as to:
 - 2.1 the respective financial, contractual, taxation positions and trading positions of Business Net and BMAC;
 - 2.2 the title of Business Net and BMAC to their respective assets;
3. all necessary consents being granted by third parties (including governmental or official authorities) in connection with the transactions contemplated under the Agreement and no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares, the assignment of the Shareholder's Loan or the operation of Business Net or BMAC after Completion having been proposed, enacted or taken by any governmental or official authority;
4. Beijing Enterprises having complied fully with certain obligations specified in the Agreement and otherwise having performed in all material respects all of the covenants and agreements required to be performed by it under the Agreement;
5. the provision of a PRC legal opinion to the satisfaction of Beijing Development regarding the due establishment and operation of BMAC, the proper transfer of the Sale Shares from Beijing Enterprises to Beijing Development, the issue of the Consideration Shares to Beijing Enterprises and the other transactions contemplated under the Agreement in accordance with all applicable laws, rules and regulations in the PRC;
6. the Listing Committee of the Stock Exchange granting or agreeing to grant listing of and permission to deal in the Consideration Shares (either unconditionally or subject to such conditions which are acceptable to Beijing Enterprises and Beijing Development in their reasonable opinion); and

LETTER FROM THE BOARD

7. the passing of all necessary resolutions by the shareholders of Beijing Development (other than persons who are prohibited from voting at such meeting under the Listing Rules) in the EGM, to approve the transactions contemplated under the Agreement, including the sale and purchase of the Sale Shares, the assignment of the Shareholder's Loan and the issue of the Consideration Shares to Beijing Enterprises.

Beijing Development may waive all or any of the conditions set out in paragraphs 1 to 5 above at any time by notice in writing to Beijing Enterprises.

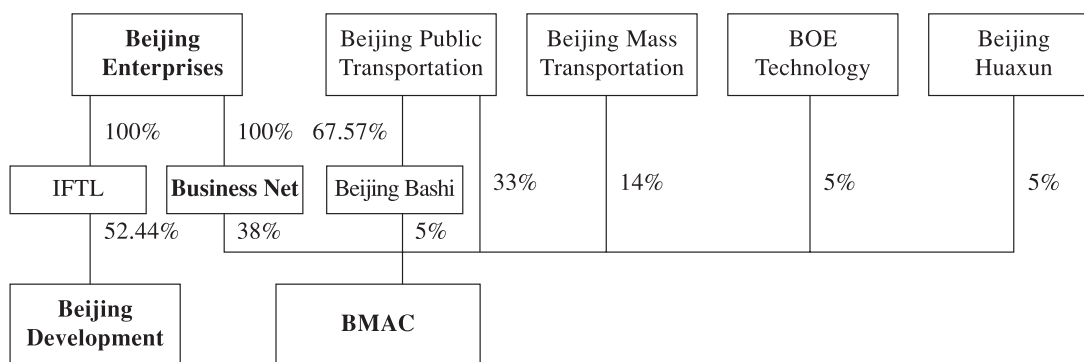
The parties to the Agreement shall use their reasonable endeavours to procure the fulfilment of the conditions set out in paragraphs 1 to 6 above on or before 31 August 2003 (or such later date as may be agreed between Beijing Enterprises and Beijing Development).

In the event that any of the conditions shall not have been fulfilled or waived (as the case may be) on 31 August 2003 (or such later date as may be agreed between Beijing Enterprises and Beijing Development), then Beijing Development shall not be bound to proceed with the purchase of the Sale Shares or the Shareholder's Loan and the Agreement shall cease to be of any effect save in respect of claims arising out of any antecedent breach of this Agreement.

3. Shareholding structure of Business Net immediately prior to and after Completion of the Proposed Transaction

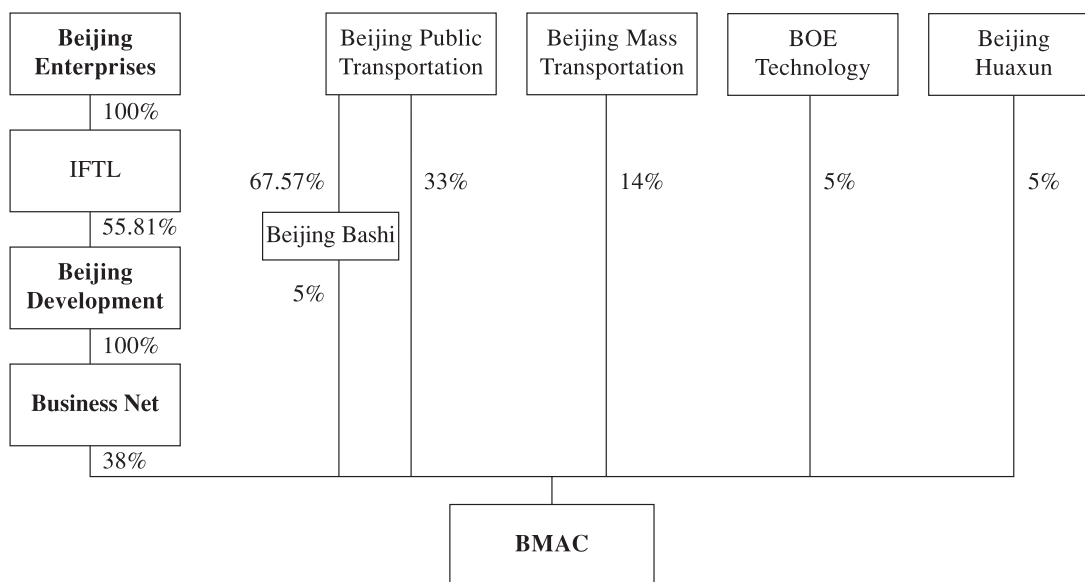
The following chart sets out the corporate structure of Business Net immediately prior to and after Completion:

Immediately prior to Completion



LETTER FROM THE BOARD

Immediately after Completion



4. Information on Business Net

Business Net is a limited liability company incorporated in the BVI on 22 March, 2002 and is wholly-owned by Beijing Enterprises. Upon completion of an internal reorganization in November 2002, Beijing Enterprises transferred its interest in 38% of the registered capital in BMAC (北京市政交通一卡通有限公司) to Business Net and the consideration for such transfer was left outstanding as a loan owing from Business Net to Beijing Enterprises (i.e. the Shareholder's Loan). At present, the sole asset of Business Net is its interest in 38% of the registered capital of BMAC.

The table sets out below shows the unaudited proforma loss before and after taxation and minority interest of Business Net:

	From 22 March, 2002 (date of incorporation) to 31 December, 2002	
	<i>RMB</i>	<i>HK\$</i>
	<i>(approx. in million)</i>	<i>(approx. in million)</i>
Loss before and after taxation and minority interest	2.30	2.17

The unaudited consolidated net assets value of Business Net as at 31 December, 2002 was approximately RMB15.30 million (approximately HK\$14.43 million), after adjusting the Shareholder's Loan.

LETTER FROM THE BOARD

5. Information on BMAC

BMAC is a sino-foreign equity joint venture with a fully paid-up registered capital of RMB50 million (approximately HK\$47.17 million) formed by Beijing Enterprises, Beijing Public Transportation (北京市公共交通總公司), Beijing Mass Transportation (北京地鐵運營有限責任公司) and Beijing Bashi (北京巴士股份有限公司), BOE Technology (京東方科技集團股份有限公司) and Beijing Huaxun (北京華訊集團) for a term of 20 years from 23 October, 2000 to 22 October, 2020. BMAC is principally engaged in (1) the production and issuance of contactless multipurpose electronic payment cards, namely “Yikatong” (一卡通); and (2) the investment, operation and management of the “Yikatong” automated fee collection system and related facilities in Beijing. BMAC performs the functions of a clearing house for the “Yikatong” system, by collecting fees from the ultimate consumers who effect payments with “Yikatong” and allocating revenues to the service providers which utilize the “Yikatong” system.

BMAC is a company authorized by the Beijing Municipal governmental authorities, including Beijing Municipal Transportation Bureau (北京市交通局), to invest, construct, operate and manage the said electronic payment and settlement system for the public transportation network in Beijing, including but not limited to buses, taxis, subway and light railway. In this regard, BMAC endeavors to promote the adoption of a multipurpose electronic card and the concepts of “digital Beijing” and “hi-tech Olympic” and extend such application from the public transportation network to other retail businesses. BMAC has already obtained a banking facility of RMB800 million (approximately HK\$754.72million) for a period of 10 years with effect from 20 February, 2001, to meet with its future capital needs and working capital requirements. Accordingly, the directors of Beijing Development believe that Beijing Development will not be required to provide capital support to BMAC in the near future.

BMAC plans to launch the “Yikatong” with different service providers including, public transport and car park operators, retailers such as convenience stores, fast food shops, self-serviced shops, leisure facilities, schools and access control facilities.

According to BMAC’s joint venture agreement, its net profit will be shared among its shareholders in accordance with their respective equity interests in BMAC, and two out of nine board members of BMAC have been and will be appointed by Beijing Enterprises and Beijing Development before and after Completion respectively. BMAC continues and will become an associated company of Beijing Enterprises and Beijing Development respectively upon Completion.

The table sets out below shows the unaudited loss before and after taxation of BMAC:

	From 23 October, 2000		For the year ended	
	(date of incorporation) to		31 December, 2002	
	31 December, 2001			
	<i>RMB</i>	<i>HK\$</i>	<i>RMB</i>	<i>HK\$</i>
	<i>(approx. in</i>	<i>(approx. in</i>	<i>(approx. in</i>	<i>(approx. in</i>
	<i>million)</i>	<i>million)</i>	<i>million)</i>	<i>million)</i>
Loss before and after taxation	3.72	3.51	6.00	5.66

BMAC has not generated any revenue from 23 October, 2000, being the date of incorporation, to 31 December, 2002 and loss recorded during the period represented the set up cost incurred. The unaudited net assets value of BMAC as at 31 December, 2002 was approximately RMB40.28 million (approximately HK\$38 million).

LETTER FROM THE BOARD

6. Reasons and benefits of the Proposed Transaction

In recent years, the PRC is striving to develop a sophisticated network system using IC Cards through the promotion of related applications and services. During the 10th Five-Year Plan period (2001-2005), the PRC will offer preferential policies to develop the IC Card industry.

Beijing Development is principally engaged in the provision of system integration services, internet and communications related services, restaurant operation and property investment. The Directors consider that the Proposed Transaction is consistent with its business objective to develop new products and services and so as to further consolidate its position as the information technology flagship of the Beijing Enterprises Group. As the majority of the Consideration will be settled by way of the issue of the Consideration Shares, the Proposed Transaction will not have a material impact on the cashflow of the Beijing Development Group and will further strengthen the Beijing Development's capital base.

The Directors consider that "Yikatong" will have good prospects as "Yikatong" provides a convenient means of settlement with regard to daily personal consumption and public transportation usage. It is expected that Yikatong can create critical mass usage in Beijing. In addition, the other shareholders of BMAC include all the major public transportation companies in Beijing, namely, Beijing Public Transportation (北京市公共交通總公司), Beijing Mass Transportation (北京地鐵運營有限責任公司), Beijing Bashi (北京巴士股份有限公司), BOE Technology (京東方科技集團股份有限公司) and Beijing Huaxun (北京華訊集團), and each of these other shareholders is committed to implement the state policy of developing and maintaining an automated and secured fee collection system. Taking into account of the continuous development of the economy and thus the continuous increase in the living standard in Beijing, and the continued support from the Beijing Municipal Government, even though BMAC is currently in a loss-making position, Beijing Development believes that the Proposed Transaction represents an excellent opportunity for Beijing Development to capture the enormous business opportunities in connection with the revolutionized electronic payment system.

Accordingly, the Directors consider that the Proposed Transaction is in the interest of Beijing Development and is fair and reasonable so far as the Shareholders are concerned.

LETTER FROM THE BOARD

7. Change in Beijing Development's shareholding structure

The following table sets out the change in the shareholding structure of Beijing Development as a result of the allotment and issue of the Consideration Shares:

	Immediately prior to Completion (Note 1)		Immediately after Completion (Note 1)	
	<i>Shares</i> (approx. '000)	%	<i>Shares</i> (approx. '000)	%
IFTL (Note 2)	240,675	52.44	275,675	55.81
Illumination Holdings Limited	58,618	12.77	58,618	11.87
Mr. Cao Wei (Note 3)	20,947	4.56	20,947	4.24
Mr. Zhong Yuan (Note 4)	10,474	2.28	10,474	2.12
Public shareholders	128,267	27.95	128,267	25.96
Total	458,981	100.00	493,981	100.00

Notes:

1. The figures assume that other than the Consideration Shares, no new Shares will be issued or repurchased by Beijing Development after the Latest Practicable Date and up to the date of Completion.
2. IFTL is a direct wholly-owned subsidiary of Beijing Enterprises. It is intended that the Consideration Shares will be issued to IFTL upon Completion.
3. Mr. Cao Wei is the director of Cyber Vantage, BETIT, BT System Integration and BT Intelligent System, which are subsidiaries of Beijing Development, his shareholding in Beijing Development is therefore not regarded as part of the public float.
4. Mr. Zhong Yuan is the director of Cyber Vantage, which is a subsidiary of Beijing Development, his shareholding in Beijing Development is therefore not regarded as part of the public float.

8. Listing and dealing

An application has been made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

LETTER FROM THE BOARD

9. The EGM

Pursuant to the Listing Rules, the Proposed Transaction constitutes a share transaction for Beijing Development as in satisfying the Consideration, it involves an issuance of new Shares. Since Beijing Enterprises is the controlling shareholder of Beijing Development, the transactions contemplated under the Agreement also constitute connected transactions for Beijing Development. As a result, the Proposed Transaction is subject to, among other things, approval by the Independent Shareholders at the EGM.

The EGM will be convened at which a resolution will be proposed to approve the Proposed Transaction. In view of the interest of Beijing Enterprises in the Proposed Transaction, Beijing Enterprises and its associates will abstain from voting at the EGM in respect of the resolution to approve the Proposed Transaction.

Set out on pages 30 to 31 of this circular is a notice convening the EGM to be held at Taishan Room, Level 5, The Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong at 10:00 a.m. on 27 May 2003 at which an ordinary resolution will be proposed to the Shareholders to approve the Proposed Transaction.

A form of proxy for use at the EGM is enclosed. Whether or not you (as a Shareholder) are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to Beijing Development's share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

10. Advice

The Directors consider that the terms of the Proposed Transaction is in the interests of Beijing Development. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Proposed Transaction.

Your will receive separate advice from the Independent Board Committee (after considering the advice from Watterson Asia) regarding the Proposed Transaction. The letters from the Independent Board Committee and Watterson Asia can be found on pages 14 and 15 to 25 respectively of this circular.

11. General

Your attention is drawn to the additional information set out in the appendix to this circular, the letter from the Independent Board Committee, the letter from Watterson Asia in respect of the Proposed Transaction and the notice of the EGM.

Yours faithfully,
On behalf of the Board
Beijing Development (Hong Kong) Limited
Ng Kong Fat, Brian
Managing Director



北京發展（香港）有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

2 May, 2003

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED AND SHARE TRANSACTION

We refer to the circular issued by Beijing Development to the Shareholders dated 2 May, 2003 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

Under the Listing Rules, the entering into the Agreement and the Proposed Transaction constitute a connected and share transaction for Beijing Development and is subject to the approval of the Independent Shareholders at the EGM.

We have been appointed by the Board to consider the terms of the Agreement and to advise the Independent Shareholders in connection with the Proposed Transaction as to whether, in our opinion, its terms are fair and reasonable so far as the Independent Shareholders are concerned. Watterson Asia has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board as set out on pages 5 to 13 and the letter from Watterson Asia as set out on pages 15 to 25 of the Circular respectively.

Having considered the principal factors and reasons considered by, and the advice of Watterson Asia as set out in its letter of advice, we consider that the terms of the Proposed Transaction are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Proposed Transaction at the EGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

Cao Guixing

Feng Ching Yeng, Frank

Independent Non-executive Director Independent Non-executive Director

LETTER FROM WATTERSON ASIA

The following is the text of a letter from Watterson Asia for the purpose of incorporation in this circular in connection with its advice to the Independent Board Committee in relation to the Proposed Transaction:

Watterson Asia Limited

5th Floor, 8 Queen's Road Central, Hong Kong
Tel: (852) 2525 1990
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2 May 2003

The Independent Board Committee of
Beijing Development (Hong Kong) Limited
20th Floor
Hang Lung House
184–192 Queen's Road Central
Sheung Wan
Hong Kong

Dear Sirs,

CONNECTED AND SHARE TRANSACTION

We refer to our engagement under which Watterson Asia has been appointed to advise the Independent Board Committee on the Proposed Transaction which involves the acquisition by Beijing Development of the entire issued share capital of Business Net together with all the benefits and interests of and in the Shareholder's Loan from Beijing Enterprises, details of which are contained in the circular dated 2 May 2003 issued by Beijing Development to the Shareholders (the "Circular"), of which this letter forms part. The terms used in this letter shall have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

Pursuant to the Listing Rules, as Beijing Enterprises is the controlling shareholder of Beijing Development, holding 52.44% of the issued share capital of Beijing Development as at the Latest Practicable Date, the Proposed Transaction constitutes a connected transaction for Beijing Development. Accordingly, the Proposed Transaction is subject to, among other things, the approval of the Independent Shareholders at the EGM. In view of the interest of Beijing Enterprises in the Agreement, Beijing Enterprises and its associates will abstain from voting on the ordinary resolution approving the Proposed Transaction at the EGM. The Proposed Transaction also constitutes a share transaction for Beijing Development as in satisfying the Consideration, it involves an issuance of new Shares.

The Independent Board Committee, comprising Mr. Cao Guixing and Mr. Feng Ching Yeng, Frank, has been established to advise the Independent Shareholders regarding the terms of the Agreement. Watterson Asia has been appointed as the independent financial adviser to advise the Independent Board Committee as to whether or not the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

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In formulating our recommendation, we have reviewed, among other things, (i) the terms of the Agreement, (ii) the business valuation report as prepared by Vigers Hong Kong Limited (“Vigers”), (iii) the audited consolidated financial statements of the Beijing Development Group for the year ended 31 December 2002, (iv) the unaudited consolidated interim results of the Beijing Development Group for the six months ended 30 June 2002, (v) the unaudited pro forma financial statements of Business Net for the period from 22 March 2002 (the date of establishment of Business Net) to 31 December 2002; and (vi) the unaudited pro forma financial statements of BMAC for the period from 23 October 2000 (the date of establishment of BMAC) to 31 December 2001 and for the year ended 31 December 2002. We also discussed with the management of the Beijing Development Group their plans and prospects of the businesses carried on by the Beijing Development Group and Business Net, respectively.

In formulating our recommendation, we have relied on the information and facts supplied to us by Beijing Development and have assumed that any representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have assumed that all information, representations and opinions contained or referred to in the Circular are fair and reasonable and have relied on them. We have also relied on the independent valuation conducted by Vigers, which was based on generally accepted appraisal procedures and practices in which we also find fair and reasonable.

We have been advised by the Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, assumed any responsibility for independent verification of any of such information, nor conducted any independent in-depth investigation into the business and affairs of Beijing Development, Beijing Enterprises, Business Net, BMAC or any of their respective subsidiaries.

PRINCIPAL FACTORS AND REASONS

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

1. Reasons for the Proposed Transaction

Beijing Development is principally engaged in the provision of information technology services, including network infrastructure facilities construction, network system integration and internet support related services. Beijing Enterprises acquired a 55.31% interest in Beijing Development in March 2001, which has become the flagship company of the Beijing Enterprises Group in the provision of information technology services.

In recent years, the PRC is striving to develop a sophisticated network system using IC Cards through the promotion of related applications and services. During the 10th Five-year Plan period (2001-2005), the PRC will offer preferential policies to develop the IC Card industry.

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The Directors consider that “Yikatong” will have good prospects as it provides a convenient means of settlement with regard to daily personal consumption and public transportation usage in Beijing. This is especially the case in the PRC where credit cards are unpopular and problems with fake currency notes should lead to popularity of multipurpose electronic payment cards. It is expected that “Yikatong” can create critical mass usage in Beijing. In addition, the other shareholders of BMAC include all the major public transportation companies in Beijing, namely, Beijing Public Transportation (北京市公共交通總公司), Beijing Mass Transportation (北京地鐵運營有限責任公司) and Beijing Bashi (北京巴士股份有限公司), BOE Technology (京東方科技集團股份有限公司) and Beijing Huaxun (北京華訊集團), and each of these other shareholders is committed to implement the state policy of developing and maintaining an automated and secured fee collection system.

The use of contactless multipurpose electronic payment cards has been successfully deployed in many Asian countries and cities including Hong Kong, South Korea, Shanghai, Taiwan and Singapore. According to the annual report of MTR Corporation Limited for the year ended 31 December 2001, the number of such payment cards issued in Hong Kong by the end of 2001, five years following the rollout, was 8.2 million, representing a penetration rate of approximately 120%, calculated as the number of such payment cards issued divided by the population of approximately 6.8 million. In Seoul, the number of cards issued five years following the rollout for the bus network was 14.25 million cards, according to a report by the Asia Pacific Smart Card Association in 2002. In Shanghai, the number of such multipurpose electronic payment cards issued during the 2 years from rollout was 5.3 million, according to Innovision Technology Corporation Limited, an independent Hong Kong based technology company specializing in the payment card application industry. This represents a penetration rate of approximately 36%, based on an urban population of Shanghai of approximately 14.78 million.

Taking into account the continuous development of the economy and thus the continuous increase in living standard in Beijing, even though BMAC is currently in a loss-making position given its present start-up phase, Beijing Development believes and we concur that the Proposed Transaction represents an excellent opportunity for Beijing Development to capture the enormous business opportunities in connection with the revolutionized electronic payment system. It is also consistent with the business objective of Beijing Development to develop new products and services so as to further consolidate its position as the information technology flagship of the Beijing Enterprises Group. As the majority of the Consideration will be settled by way of the issue of the Consideration Shares, the Proposed Transaction will not have a material impact on the cashflow of the Beijing Development Group and will further strengthen the Beijing Development Group’s capital base.

Based on the above, we concur with Beijing Development that the Proposed Transaction forms part of Beijing Development’s implementation of its business strategy and is in the interest of Beijing Development and its Shareholders as a whole.

2. Asset to be acquired

Pursuant to the Agreement, Beijing Development has conditionally agreed to acquire, and Beijing Enterprises has conditionally agreed to sell for a consideration of HK\$40 million:

- (1) the entire issued share capital of 100 shares of US\$1.00 each in Business Net; and
- (2) all the benefits and interest of and in the Shareholder’s Loan, free from all liens, charges, security interests, encumbrances, adverse claims, third party rights, adverse interests and equities of any kind whatsoever.

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Business Net is a limited liability company incorporated in the BVI on 22 March 2002 and is wholly-owned by Beijing Enterprises. Upon completion of an internal reorganization in November 2002, Beijing Enterprises transferred its interest in 38% of the registered capital in BMAC (北京市政交通一卡通有限公司) to Business Net and the consideration for such transfer was left outstanding as a loan owing from Business Net to Beijing Enterprises (i.e. the Shareholder's Loan). At present, the sole asset of Business Net is its interest in 38% of the registered capital of BMAC.

For the period between 22 March 2002 (the date of establishment of Business Net) to 31 December 2002, the unaudited pro forma loss before and after taxation and minority interest for Business Net was RMB2.30 million (approximately HK\$2.17 million). The unaudited consolidated net assets value of Business Net as at 31 December 2002 was approximately RMB15.30 million (approximately HK\$14.43 million), after adjusting the Shareholder's Loan.

BMAC is a sino-foreign equity joint venture with a fully paid-up registered capital of RMB50 million (approximately HK\$47.17 million) formed by Beijing Enterprises, Beijing Public Transportation (北京市公共交通總公司), Beijing Mass Transportation (北京地鐵運營有限責任公司) and Beijing Bashi (北京巴士股份有限公司), BOE Technology (京東方科技集團股份有限公司) and Beijing Huaxun (北京華訊集團) for a term of 20 years from 23 October 2000 to 22 October 2020.

BMAC is principally engaged in:

- (1) the production and issuance of contactless multipurpose electronic payment cards, namely "Yikatong" (一卡通); and
- (2) the investment, operation and management of the "Yikatong" automated fee collection system to service providers including public transport operators, car parks, leisure facilities, school and retailers in Beijing.

BMAC performs the functions of a clearing house for the "Yikatong" system, by collecting fees from the ultimate consumers who effect payments with "Yikatong" and allocating revenues to the service providers which utilize the "Yikatong" system.

BMAC is a company authorized by the Beijing Municipal governmental authorities, including Beijing Municipal Transportation Bureau (北京市交通局), to invest, construct, operate and manage the said electronic payment and settlement system for the public transportation network in Beijing, including but not limited to buses, taxis, subway and light railway.

Revenue for BMAC principally consists of (i) rental fee of RMB5 per year per card to be charged over a period of 6 years, in accordance with the terms and conditions of the "Yikatong" card sale, (ii) transaction fee received for each customer transaction generated, and (iii) interest income on the deposit and the aggregate value stored in the "Yikatong" cards by customers.

For the period between 23 October 2000 (the date of establishment of BMAC) to 31 December 2001, the unaudited loss before and after taxation for BMAC was RMB3.72 million (approximately HK\$3.51 million). For the year ended 31 December 2002, the unaudited loss before and after taxation for BMAC was RMB6.00 million (approximately HK\$5.66 million). BMAC has not generated any revenue from 23 October 2000 to 31 December 2002 and losses recorded during the period represented the set up costs incurred. The unaudited consolidated net assets value of BMAC as at 31 December 2002 was approximately RMB40.28 million (approximately HK\$38 million).

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We have been informed that the directors of BMAC are confident about its future prospects. BMAC intends to promote the adoption of the multipurpose electronic payment card which will help to promote the concept of a “digital Beijing” and a “hi-tech Olympic” in Beijing, and to extend such application from the public transportation network to other retail businesses. The automated fee collection system of BMAC consists of a maximum capacity to process 10 million transactions per day and the transaction data collected will be passed to the clearing-house and all revenue will be allocated to the service providers by 12:00 noon of the following day. As at the Latest Practicable Date, BMAC has issued approximately 105,000 “Yikatong” cards under a pilot system for use on selected routes of one of the two bus operators in Beijing, Beijing Bashi. BMAC plans to rollout the system to the light railway system and the remaining routes of Beijing Bashi in 2003, thereby covering a network of approximately 5,000 buses, and to approximately 30,000 of the 60,000 taxis in Beijing in 2003. Accordingly, BMAC expects to issue approximately 500,000 “Yikatong” cards for the year of 2003. By 2004, BMAC plans to expand its service coverage to include the other larger bus operator, Beijing Public Transportation, with a network of approximately 7,000 buses, Beijing’s underground rail system and the remaining of approximately 30,000 taxis in Beijing. Despite the short history of BMAC, we consider its development to-date as satisfactory.

3. Basis of Consideration

The Consideration for the Proposed Transaction of HK\$40 million was arrived at after arm’s length negotiations between all parties to the Agreement and by reference to the business valuation report of BMAC issued by Vigers, an independent valuer. According to the business valuation report of Vigers, and on the bases and assumptions set out therein, the aggregate fair market value of the 100% equity interest in BMAC is RMB112 million (approximately HK\$105.66 million) (the “Fair Market Value”) as at 31 March 2003. Accordingly, the aggregate fair market value of Business Net, of which the sole asset is a 38% interest in the registered capital of BMAC, is approximately RMB42.56 million (approximately HK\$40.15 million). The Consideration was therefore not subject to any discounts to the business valuation provided by Vigers.

In assessing the reasonableness of the Consideration, we have discussed with Vigers the bases and assumptions they adopted in performing the valuation. We understand that, in determining the Fair Market Value of BMAC, Vigers has adopted the discounted cashflow method. This method of valuation discounts projected future cashflows and eliminates the discrepancy in the time value of money by using a discount rate to reflect all business risks, and is based on the principle that an informed buyer would pay no more for a project than an amount equal to the present worth of anticipated future benefits from the same or equivalent project with similar risks. In view of the fact that the economic benefits of ownership of BMAC are derived from revenue it will earn, we concur that a cashflow based model is an appropriate method to use for the valuation.

We have discussed with Vigers and Beijing Development and understand that with respect to the cashflow projections, detailed assumptions have been made regarding, among other things, the urban population growth in Beijing, the penetration rate of the multipurpose electronic payment cards in Beijing, the rollout plan for the use of the payment cards in the public transportation system in Beijing, the operating expenses, capital expenditures, debt service and overall capital structure of BMAC, and the absence of materially adverse political or economic events or changes in law. In the course of our discussions, nothing has come to our attention that would lead us to believe that the cashflows were not prepared on a reasonable basis or do not reflect estimates and assumptions which have been arrived at after due and careful consideration. Accordingly, we are of the view that the valuation performed by Vigers, which has been adopted as a benchmark for determining the Consideration for the Proposed Transaction, is fair and reasonable.

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It should be noted also that the business valuation model adopted by Vigers does not take into account revenue generated from service providers apart from transportation providers. As seen in Hong Kong and South Korea, the use of the multipurpose electronic payment cards has been successfully extended beyond transportation providers to retail outlets such as convenience stores, fast food shops and self-services shops, leisure facilities and school. We understand BMAC plans to launch the “Yikatong” system to third party service providers beyond the transportation system, including car park operators, retailers such as convenience stores, fast food shops and self-serviced shops, leisure facilities, school and access control facilities, the revenue generated from which is not reflected in the business valuation model by Vigers. Taking into account BMAC is at its start-up phase and is in the process of rolling out its network for all the major public transportation providers in Beijing, we believe this conservative approach is fair and reasonable.

Consequently, we are of the view that the projections used by Vigers in its business valuation model are fair and reasonable so far as the Independent Shareholders are concerned.

We consider that the acquisition of a business concern is normally evaluated by the market by reference to its price earnings multiples, not only on the basis of its net assets. However, as BMAC is a start-up company with limited operating history and is currently in a loss making position, it is not possible to assess the Consideration based on a price earnings multiple analysis of companies which provide similar services to BMAC. However, taking into consideration that BMAC is still at its expansion stage and the positive effect on the earnings of the Beijing Development Group that would result from the Proposed Transaction as discussed in paragraph 7 below, we consider that the Consideration for the Proposed Transaction is fair and reasonable.

4. Funding of Consideration

The aggregate Consideration for the Proposed Transaction of HK\$40 million will be satisfied by Beijing Development upon Completion, as follows:

- (1) HK\$5 million in cash to Beijing Enterprises or its nominee(s); and
- (2) the Consideration Shares of HK\$1.00 per Share, to be allotted and issued to Beijing Enterprises or its nominee(s), credited as fully paid.

The cash component of the Consideration will be financed by Beijing Development Group’s internal resources.

The Consideration Shares to be issued shall rank *pari passu* in all respects with the Shares in issue as at the Completion Date, including ranking for payment of any dividend declared after the Completion Date.

We consider that the issue of Consideration Shares is a prudent decision and is in the interest of Beijing Development in that it will not draw on the existing cash resources of the Beijing Development Group or require Beijing Development to seek external borrowings, which may increase its gearing.

The issue price of HK\$1.00 per Share, which is equal to the par value of Beijing Development’s Shares, represents:

- a premium of 13.6% to the closing market price of HK\$0.88 per Share as quoted on the Stock Exchange on 14 April 2003, being the date of the Agreement;

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- a premium of approximately 16.8% to the average closing price of HK\$0.856 per Share over the last ten trading days up to and including 14 April 2003, being the date of the Agreement; and
- a premium of approximately 12.1% over the Beijing Development Group's consolidated net assets of approximately HK\$0.892 per Share prior to the Proposed Transaction.

In addition, the highest, lowest and month/period end closing prices of Beijing Development's Shares as quoted on the Stock Exchange for each of the months commencing from October 2002 (beginning on 14 October 2002, being the date falling six months prior to the announcement of the Agreement dated 14 April 2003) to April 2003 (up to and including the Latest Practicable Date) were as follows:

Month	Highest closing price (HK\$)	Lowest closing price (HK\$)	Month/ period-end closing price (HK\$)
October 2002 (from 14th)	0.86	0.75	0.86
November 2002	0.92	0.86	0.92
December 2002	0.92	0.80	0.90
January 2003	0.90	0.89	0.89
February 2003	0.94	0.81	0.89
March 2003	0.89	0.80	0.84
April 2003 (up to and including the Latest Practicable Date)	0.89	0.84	0.85

As can be seen from the above table, the issue price of the Consideration Shares is at a premium to the highest, lowest and month/period end closing prices of Beijing Development's Shares for each of the months commencing from October 2002 (beginning on 14 October 2002, being the date falling six months prior to the announcement of the Agreement dated 14 April 2003) to April 2003 (up to and including the Latest Practicable Date).

Moreover, based on the closing market price of HK\$0.88 per Share quoted on the Stock Exchange on 14 April 2003, being the date of the Agreement, the value of the Consideration Shares is HK\$30.8 million. Together with the cash consideration of HK\$5 million, the aggregate market value of the Consideration payable by Beijing Development to Beijing Enterprises is HK\$35.8 million as at 14 April 2003, representing a discount of 10.5% to the aggregate fair market value of Business Net, based on the valuation of BMAC provided by Vigers.

It should also be noted that the par value of Beijing Development's Shares is HK\$1.00 each. Under the Companies Ordinance, new shares cannot be issued by Beijing Development at a price below their par value.

In light of the above, we are of the opinion that the issue price of HK\$1.00 per Share is fair and reasonable so far as the Independent Shareholders are concerned.

5. Conditions of the Proposed Transaction

As noted in the “Letter from the Board” of the Circular, completion of the Proposed Transaction is conditional upon the fulfilment of various conditions precedent including obtaining the approval of the Independent Shareholders and the granting of all necessary consents by third parties (including governmental or official authorities). Please refer to the section headed “2. Agreement — Conditions” for further details of other conditions precedent.

We are of the opinion that the conditions precedent upon which Completion of the Agreement is conditional are on normal commercial terms, and that compliance with the conditions precedent will not be onerous on the part of Beijing Development. In addition, Beijing Development may waive all or any of the conditions set out in paragraphs 1 to 5 as set out on pages 7 to 8 of the Circular at any time by notice in writing to Beijing Enterprises. Accordingly, we believe that the conditions of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

6. Risk Factors

The Proposed Transaction, in our opinion, carries certain risks, including:

a. *Limited operating history*

BMAC began operations in October 2000 and has limited operating history. It is uncertain whether the uptake of the multipurpose electronic payment cards in Beijing will grow according to plan. However, looking at the popularity of such payment card systems in Asian countries and cities like Hong Kong, Seoul and in particular Shanghai, where the number of payment cards issued two years from its rollout has grown to 5.3 million as at May 2002 (equivalent to a penetration rate of approximately 36% based on the urban population of Shanghai of 14.78 million), the management of BMAC strongly believes and we concur that the use of multipurpose electronic payment cards will become popular in Beijing.

b. *Competition from new entrants*

BMAC currently does not have the exclusive rights to operate the multipurpose electronic payment cards system in Beijing and accordingly is subject to competition risks from new entrants. On the basis of our discussion with Beijing Development, we understand that it is BMAC’s belief that there are both presently and in the foreseeable future no viable competition to “Yikatong” as the dominant multipurpose electronic payment cards provider in Beijing. We understand that BMAC has significant barriers to entry due to its first-mover advantage in providing the payment cards and in signing up with all key public transportation providers. The coverage of BMAC will include almost all major modes of urban transport in Beijing and it is unlikely that people will acquire two multipurpose electronic payment cards which essentially perform the same functions. In addition, as seen in countries and cities like Hong Kong, Taiwan, Singapore and Shanghai, there has only been one such provider in each respective market.

c. *Capital expenditure*

It is likely that capital expenditure will be required in the future as BMAC expands its operations and rollouts the “Yikatong” automated fee collection system to an increasing range of transportation providers and retail outlets. In this regard, BMAC has already obtained a banking facility of RMB800 million (approximately HK\$754.72 million) from CITIC Industrial Bank (中信實業銀行) for a period of 10 years with effect from 20 February 2001, to meet its future capital needs and working capital requirements. Based on the information provided by BMAC, the expected accumulated capital expenditure of BMAC for the period from 2003 to 2005, when all the infrastructure spending in relation to the installation of contact-less cards dispensing and recharging booths is to take place, is only approximately RMB300 million (HK\$283 million), the RMB800 million banking facility which BMAC currently has in place is more than sufficient for its development purpose. In addition, we noted that the facility granted to BMAC is on a project finance and non-recourse basis. Accordingly, Beijing Development is not expected to be required to provide additional capital support to BMAC following the Proposed Transaction.

7. Pro forma financial effects on Beijing Development

Following Completion, Beijing Development will hold a 100% interest in Business Net, which in turn holds a 38% interest in BMAC. We have, for illustrative purposes, summarised the pro forma financial effects of the Proposed Transaction below:

a. *Earnings*

The Beijing Development Group reported an audited consolidated profit for the year ended 31 December 2002 of HK\$15.4 million, and an audited consolidated loss for the year ended 31 December 2001 of HK\$1.6 million.

According to BMAC’s joint venture agreement, its net profit will be shared among its shareholders in accordance with their respective equity interests in BMAC. BMAC was unprofitable for the period from 31 October 2000 to 31 December 2001, and for the year ended 31 December 2002, as it is a start up company. Given the continuous development of the economy and thus the continuous increase living standard in Beijing, the convenience multipurpose electronic payment cards provide, and based on similar models from other Asian countries and cities, we concur with the Directors that “Yikatong” will have good prospects and will create critical mass usage in Beijing. On this basis, while the Proposed Transaction may have short-term negative impact on the earnings of the Beijing Development Group, it would ultimately expand the earnings base of the Beijing Development Group.

Based on the aggregate Consideration of HK\$40 million and the unaudited consolidated net assets value of Business Net as at 31 December 2002 of approximately HK\$14.43 million, the Beijing Development Group will recognise an amortization of goodwill arising from the Proposed Transaction of approximately HK\$2.56 million annually for the next 10 years, pursuant to Hong Kong GAAP. Despite the negative impact of goodwill amortization on the earnings of the Beijing Development Group, we believe that the earnings prospects of “Yikatong” will more than offset the annual amortization amount, once BMAC rolls out its services to cover buses, taxis, light rail and underground railway in Beijing.

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b. *Net assets*

Before the Proposed Transaction, Beijing Development Group's net assets were approximately HK\$409.6 million, calculated based on its audited net assets of HK\$396.9 million as at 31 December 2002 and adjusted for the increase in net assets of approximately HK\$12.7 million upon completion of the acquisition of 60% interest in Wisdom Elite Holdings Limited, a software development company based in Beijing, in January 2003. Consequently, Beijing Development Group's net asset per Share is approximately HK\$0.892, based on 458,981,150 Shares currently in issue.

Upon Completion, Beijing Development Group's adjusted consolidated net assets will increase to approximately HK\$444.6 million, following the issue of the Consideration Shares at HK\$1.00 each as part of the Consideration, or to HK\$0.900 per Share, based on 493,981,150 Shares in issue following Completion. Based on the above, there is a 0.9% improvement in terms of net assets per Share as a result of the Proposed Transaction. We consider this improvement in terms of net assets per Share, albeit slightly, to be in the interest of Beijing Development and the Shareholders as a whole.

For the purpose of the above comparison, we have not used net tangible assets due to the fact that under Hong Kong GAAP, goodwill of approximately HK\$25.57 million, arising from the Proposed Transaction cannot be written off through reserves and has to be amortized during the estimated useful life of the business acquired; in this case, within 10 years. In addition, the Proposed Transaction relates to a business and not a property asset. That being the case, we are of the opinion that it will be more appropriate to use net assets for the above comparison purpose.

c. *Gearing and working capital*

As at 31 December 2002, the gearing ratio of Beijing Development Group, defined as total bank borrowings divided by net assets, was approximately 38.7%. As at the same date, Beijing Development Group had a cash balance of approximately HK\$114.1 million. If the above cash was deducted from total bank borrowings of HK\$153.5 million, Beijing Development Group's gearing ratio would decrease to approximately 9.9%. The issue of the Consideration Shares and the cash payment of HK\$5 million, to be funded out of Beijing Development Group's cash reserve, will not adversely affect the Beijing Development Group's gearing ratio. Capital expenditure by BMAC will be funded from the RMB800 million banking facility it has obtained for a period of 10 years, which is non-recourse to the shareholders of BMAC, including Business Net.

Given the cash generating capacity of BMAC and the RMB800 million banking facility, we are of the opinion that the Proposed Transaction will have no impact on the existing working capital of Beijing Development.

d. *Effect on shareholding*

The Consideration Shares represent approximately 7.63% and approximately 7.09% of the existing issued share capital of Beijing Development and the enlarged issued share capital of Beijing Development after the issue of the Consideration Shares, respectively. Upon Completion, the shareholding in Beijing Development held by Beijing Enterprises will be increased from 52.44% to 55.81%. This represents a dilution of 7.1% of the Independent Shareholder's percentage shareholding in Beijing Development. Taking into consideration that the Proposed Transaction will improve the net asset value and net asset value per Share, and expand the earnings base of the Beijing Development Group, we consider the dilution in percentage shareholding of the Independent Shareholders resulting from the Proposed Transaction to be acceptable.

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SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following key factors in arriving at our conclusions:

- (1) The Proposed Transaction enables Beijing Development to participate in the development of “Yikatong” together with all major public transportation companies in Beijing. Given the experience of similar systems in Asia, including Hong Kong, South Korea and Shanghai, we believe this is a unique investment that will bring significant and recurrent earnings to the Beijing Development Group once the system has been widely installed in buses, taxis and underground railway in Beijing. The Proposed Transaction is also consistent with the business objective of Beijing Development to develop new products and services so as to further consolidate its position as the information technology flagship of the Beijing Enterprises Group.
- (2) The total Consideration for the Proposed Transaction of approximately HK\$40 million was negotiated on an arm’s length basis and although represents no discount to the Fair Market Value of 38% of the registered capital of BMAC as appraised by Vigers as at 31 March 2003, was based on an independent business valuation by Vigers which has been prepared, in our view, on a fair and reasonable basis.
- (3) 87.5% of the Consideration will be satisfied by way of an issue of the Consideration Shares at HK\$1.00 each, representing a premium of 13.6% over the market closing price of HK\$0.88 per Shares on 14 April 2003, being the date of the Agreement. The market value of the total Consideration of HK\$35.8 million therefore represents a discount of 10.5% as at 14 April 2003 to the Fair Market Value of 38% of the registered capital of BMAC.
- (4) The cash consideration of HK\$5 million in the Proposed Transaction will not have a material impact on the financial position or cash flow of the Beijing Development Group.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider the terms of the Agreement to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Proposed Transaction in the upcoming general meeting.

Yours faithfully,
For and on behalf of
WATTERSON ASIA LIMITED
David Tsang
Managing Director

Note: Amounts referred to in RMB currency in this letter have been translated into Hong Kong currency at the rate of HK\$1 = RMB1.06.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors

Directors' interests in Shares

- (1) As at the Latest Practicable Date, the interests and short positions of the directors and the chief executive of Beijing Development in the shares, underlying shares and debentures of Beijing Development or any of its associated corporations (within the meaning of Part XV of the SFO) as entered in the register kept under section 352 of the SFO were as follows:
- (i) Sunbird Holdings Limited (“Sunbird”) beneficially owns 2,400 ordinary shares of HK\$1 each in the share capital of H.K. Forewell Investments Limited, representing 24% of its issued share capital;
 - (ii) Sunbird beneficially owns 2,400 ordinary shares of HK\$1 each in the share capital of Hong Kong Fortune International Limited, representing 24% of its issued share capital; and
 - (iii) Sunbird beneficially owns 6,000 ordinary shares of S\$1 each in the share capital of Ah Yat Abalone Forum Restaurant Holdings Pte Ltd, representing 24% of its issued share capital.

Each of H.K. Forewell Investments Limited, Hong Kong Fortune International Limited and Ah Yat Abalone Forum Restaurant Holdings Pte Ltd is an associated corporation (within the meaning of Part XV of the SFO) of Beijing Development. Mr. Ng Kong Fat, Brian, a Director, has beneficial equity interest of 25% in Sunbird.

In addition to the above, Mr. Ng Kong Fat, Brian has non-beneficial personal equity interests in certain subsidiaries held for the benefit of Beijing Development solely for the purpose of complying with the minimum company membership requirements.

- (2) As at the Latest Practicable Date, options exercisable for an aggregate of 13,100,000 Shares had been granted to the following Directors under the share option scheme of Beijing Development:

Name of Directors	Number of Shares covered by options	
	Note (a)	Note (b)
Mr. Xiong Da Xin	2,800,000	1,200,000
Mr. Ng Kong Fat, Brian	2,300,000	1,200,000
Mr. Mao Xiang Dong, Peter	1,600,000	1,200,000
Mr. E Meng	1,600,000	1,200,000

Notes:

- (a) These options were granted on 19 June 2001 at an exercise price of HK\$1.13 per share. The options can be exercised in two or three equal portions. The first portion is exercisable at any time commencing on 1 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26 June 2006.
- (b) These options were granted on 18 January 2002 at an exercise price of HK\$1.00 per share. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17 January 2007.

In addition, as at the Latest Practicable Date, a Director has been granted the following options to subscribe for shares of Beijing Enterprises, Beijing Development's holding company, under the share option scheme of Beijing Enterprises:

Name of Director	Number of shares covered by options	
	Note (a)	Note (b)
Mr. E Meng	50,000	450,000

Notes:

- (a) These options were granted on 3 March 1998 at an exercise price per share of HK\$17.03. The options can be exercised at any time in the next 10 years commencing on 1 September 1998.
- (b) These options were granted on 23 June 1998 at an exercise price per share of HK\$17.03. The options can be exercised in nine equal portions. The first portion is exercisable at any time commencing on 1 January 1999 and one additional portion becomes exercisable on 1 January in each of the following years. All of the options (to the extent not exercised) will become exercisable on 1 January 2007 and, if not otherwise exercised, will lapse on 1 January 2009.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of Beijing Development or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to Beijing Development 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, pursuant to section 352 of the SFO to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to Beijing Development and the Stock Exchange.

None of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group taken as a whole.

Except for the Agreement, none of the Directors has any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2002, being the date to which the latest published audited financial statements of Beijing Development were prepared.

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with Beijing Development or any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

(b) Substantial Shareholders

As at the Latest Practicable Date, so far as is known to the Directors, the following persons were, directly or indirectly, interested in 10% or more of the issued share capital carrying rights to vote at general meetings of any member of the Enlarged Group:

Name	Number of shares held <i>(shares)</i>	Percentage of shareholding <i>(%)</i>
IFTL	240,675,000	52.44
Beijing Enterprises <i>(Note)</i>	240,675,000	52.44
Beijing Holdings Limited (“BHL”) <i>(Note)</i>	240,675,000	52.44
Illumination Holdings Limited	58,618,368	12.77

Note: IFTL is a direct wholly-owned subsidiary of Beijing Enterprises. Beijing Enterprises is held indirectly as to 62.9% by BHL. Accordingly, Beijing Enterprises and BHL are deemed to be interested in the shares owned by IFTL.

Save as disclosed above, there is no person known to the Directors who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of Beijing Development which would fall to be disclosed to Beijing Development under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Enlarged Group, or any options in respect of such capital.

3. QUALIFICATION OF EXPERT

The following are the qualifications of the expert who has given opinion or advice, which are contained or referred to in this circular:

Name	Qualification
Watterson Asia Limited	Licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO

As at the Latest Practicable Date, Watterson Asia has no shareholding interest in any member of the Beijing Development Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Beijing Development Group.

As at the Latest Practicable Date, Watterson Asia does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December, 2002 (being the date to which the latest published audited accounts of Beijing Development were made up).

4. CONSENT

Watterson Asia has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 2 May, 2003 and reference to its name in the form and context in which they respectively appear.

5. LITIGATION

No member of the Enlarged Group is at present engaged in any litigation or arbitration of material importance to the Enlarged Group and no litigation or claim of material importance to the Enlarged Group is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Beijing Development Group since 31 December, 2002, being the date to which the latest published audited financial statements of the Beijing Development Group were made up.

7. GENERAL

- (a) The registered office of Beijing Development is situated at 20th Floor, Hang Lung House, 184–192 Queen’s Road Central, Sheung Wan, Hong Kong.
- (b) The share registrar of Beijing Development is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (c) The secretary of Beijing Development is Wong Kwok Wai, Robin, who is a fellow member of the Association of Chartered Certified Accountants and an associate member of The Hong Kong Society of Accountants.
- (d) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the registered office of Beijing Development in Hong Kong at 20th Floor, Hang Lung House, 184–192 Queen’s Road Central, Sheung Wan, Hong Kong from the date of this circular up to and including 27 May, 2003:

- (a) the Agreement;
- (b) the letter from the Independent Board Committee as set out in page 14 of this circular;
- (c) the letter from Watterson Asia as set out in pages 15 to 25 of this circular;
- (d) the written consent referred to in this appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



北京發展（香港）有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the shareholders of Beijing Development (Hong Kong) Limited (“Beijing Development”) will be held at Taishan Room, Level 5, The Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 27 May, 2003 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT** the conditional sale and purchase agreement dated 14 April 2003 (the “Agreement”) entered into between Beijing Development and Beijing Enterprises Holdings Limited, a copy of which has been initialed by the chairman of the Meeting and for the purpose of identification marked “A”, together with all the transactions contemplated thereunder, be and are hereby approved and confirmed and any one director of Beijing Development be and is hereby authorised to do all such further acts and things and execute such further documents (including the Deed of Assignment (as defined in the Agreement) upon completion of the Agreement) and take all steps which in his opinion may be necessary, desirable and expedient to implement and/or give effect to the terms of the Agreement, including without limitation the allotment and issue of the Consideration Shares (as defined in the Agreement) to Beijing Enterprises Holdings Limited or its nominee upon completion of the Agreement, credited as fully paid, and to approve any changes and amendments thereto as such director may consider necessary, desirable and expedient.”

By order of the Board
Wong Kwok Wai, Robin
Company Secretary

Hong Kong, 2 May, 2003

Registered office:
20th Floor
Hang Lung House
184–192 Queen’s Road Central
Sheung Wan
Hong Kong

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint a proxy (or at most two proxies) to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of Beijing Development.
2. A form of proxy for use at the Extraordinary General Meeting is enclosed herewith.
3. To be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with Beijing Development's share registrar, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before either the time appointed for holding the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof if the shareholder so desires.



北京發展（香港）有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

PROXY FORM

Form of proxy for use by shareholders at the extraordinary general meeting to be convened at 10:00 a.m. on Tuesday, 27 May, 2003 at Taishan Room, Level 5, The Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong.

I/We^(note a) _____
of _____ being the
holder(s) of _____^(note b) shares of HK\$1.00 each in
the capital of Beijing Development (Hong Kong) Limited (“**Beijing Development**”) hereby appoint the Chairman
of the extraordinary general meeting of Beijing Development (“**Meeting**”) or _____
of _____
to act as my/our proxy^(note c) at the Meeting to be held at 10:00 a.m. on 27 May, 2003 at Taishan Room, Level 5,
The Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong and at any
adjournment thereof and to vote on my/our behalf as directed below.

Please make a mark in the appropriate box to indicate how you wish your vote to be cast on a poll.

	FOR ^(note d)	AGAINST ^(note d)
To approve the Proposed Transaction (as defined in the circular dated 2 May, 2003 despatched to shareholders of Beijing Development).		

Date: _____

Signature: _____^(notes e, f, g and h)

Notes:

- Full name(s) and address(es) are to be inserted in **BLOCK CAPITALS**. The names of all joint registered holders should be stated.
- Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of Beijing Development registered in your name(s).
- A proxy need not be a member of Beijing Development. If you wish to appoint some person other than the Chairman of the Meeting as your proxy, please delete the words “the Chairman of the Meeting or” and insert the name and address of the person appointed proxy in the space provided.
- If you wish to vote for the resolution set out above, please tick (“√”) the box marked “For”. If you wish to vote against the resolution, please tick (“√”) the box marked “Against”. If the form returned is duly signed but without direction, the proxy will vote or abstain at his discretion. A proxy will also be entitled to vote at his discretion on the resolution properly put to the Meeting other than that set out in the notice convening the Meeting.
- In the case of a joint holding, this form of proxy may be signed by any joint holder, but if more than one joint holder is present at the Meeting, whether in person or by proxy, that one of the joint holders whose name stands first on the register of members in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.
- The form of proxy must be signed by a shareholder, or his attorney duly authorised in writing, or if the shareholder is a corporation, either under its Common Seal or under the hand of an officer or attorney so authorised.
- To be valid, this form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited at the office of Beijing Development’s registrar, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 48 hours before the time of the Meeting or any adjourned meeting.
- Any alteration made to this form should be initialled by the person who signs the form.