

Significant Matters

(1) Material Litigation or Arbitration

During the year, the Company was not involved in any material litigation or arbitration.

(2) Material Connected Transactions

1. Principal related parties (as defined in the Listing Rules of the Shanghai Stock Exchange) of the Company:

Name	Relationship with the Company
Communications Holding	Ultimate controlling shareholder of the Company
Guangjing Xicheng	Subsidiary of the Company
Shuangshilou	Subsidiary of the Company
Ninghu Investment	Subsidiary of the Company
Yangtze Bridge	Associate of the Company
Kuailu Transportation	Associate of the Company
Sujiahang	Associate of the Company
HEAD Techonology	Associate of the Company
Jiangsu Provincial Leasing	Associate of the Group

2. Connected Transaction

The Company's material transactions with connected parties during the period under review are as follows:

Communications Holding

During the reporting period, the Company acquired an approximately 33.33% equity interest in Sujiahang from Communications Holdings for a total consideration of RMB315.4 million. The acquisition price was slightly lower than the valuation made by American Appraisal, a foreign valuer appointed by the Company. The acquisition was approved at the ninth meeting of the third Board of Directors and the 2001 Annual General Meeting, at which connected directors and shareholders abstained from voting.

Guangjing Expressway and Yangtze Bridge

During the reporting period, Guangjing Xicheng, a subsidiary of the Company and Yangtze Bridge Company, an associate of the Company, invested in Jiangsu Leasing, with total considerations of RMB100 million and RMB170 million respectively. Jiangsu Leasing increased its share capital by issuing new shares. Each RMB1 in the investment amounts was translated into RMB1 in the registered capital of Jiangsu Leasing. The transaction prices were fair and reasonable. The transactions were approved by the 11th session meeting of the third Board of Directors of the Company, at which connected directors abstained from voting.

The independent directors of the Company have reviewed the aforesaid connected transactions and confirmed that:

- a. the transaction have been entered into by the Company in the ordinary course of its business;
- b. the transactions have been entered into either: (1) on normal commercial terms (the expression of which will be construed by reference to transactions of a similar nature and to be made by similar entities within the PRC); or (2) where there are no comparable terms, on terms that are no less favourable than terms available to or from third parties; and
- c. the transactions are fair and reasonable so far as the shareholders of the Company are concerned.

(3) Material Contracts and Their Performance

1. Material trusts, subcontracting or leasing

As at 31st December 2002, the Company had no material trusts, subcontracting or leasing arrangement.

2. Material guarantees

As at 31st December 2002, the Company had not provided any guarantee to any shareholder or connected party or any other companies.

3. Entrusted deposits

As at 31st December 2002, the Company had not placed any entrusted deposits with PRC financial institutions. There had been no time deposits that were not repaid on maturity.

4. Entrusted financial management

The principal amount of the sum of RMB210 million that the Company placed for entrusted investment management in 2001 was fully recovered in the period under review together with an investment gain of RMB14.769 million (according to PRC accounting standards) generated from entrusted investment.

During the reporting period, the Company entered into an entrusted investment management agreement with Suzhou Investment Company in respect of RMB100 million, representing the portion of the Company's funds that were not immediately required, for a term from 1st June 2002 to 31st May 2003. The aforesaid entrusted investment management was approved by the 11th session meeting of the third Board of Directors. The agreement was not due at 31st December 2002, and therefore, the Company had not carried out any account settling with the trustee. Based on market value on the book, no losses were incurred in the entrusted amount. The Company intends to withdraw the entrusted amount once the agreement expires, and there are currently no plans for further entrusted financial management.

Significant Matters

5. Other material contracts

As at 31st December 2002, material contracts being performed by the Company include the followings:

- (i) Outstanding loan owed by the Company to relevant banks amounted to RMB188,316,000, among which a loan transfer agreement with Bank of China Jiangsu Branch amounting to US\$9,800,000 guaranteed by Communications Holding had been fully utilized and repaid with interest. Currently the outstanding amount of the loan is US\$8,252,000, equivalent to RMB68,316,000.
- (ii) The Company entered into the Contract on Management of Operation and Maintenance of Nanjing Section of Nanjing-Lianyungang Expressway (which is currently being performed) with the Nanjing-Lianyungang Expressway Management Office on 8th April 1999, pursuant to which the Management Office was entrusted by the Company for the management of operation and maintenance of the Nanjing Section of Nanjing-Lianyungang Expressway, for a fee equivalent to 17% of the aggregate toll revenues of the section each year.

(4) Undertakings

1. The Board of Directors of the Company has undertaken, in respect of the profit distribution proposal for 2002, one cash dividend distribution of no less than 50% of the net profit of the year.

The profit distribution proposal for 2002 was in full compliance with the above resolution of the Board of Directors. Details of the distribution plan are set out in the section headed "Profit Distribution Scheme" in the Report of the Directors.

2. During the period, there were no disclosures regarding any undertakings made by shareholders holding 5% or more of the shares capital of the Company in press or on websites designated.

(5) Appointment of Auditors

Arthur Andersen & Co and Arthur Andersen Hua-Qiang CPA, the international and domestic auditors of the Company, respectively, entered into agreements on 17 April 2002 to merge their respective operations in China and Hong Kong with PricewaterhouseCoopers.

At the Company's 2001 Annual General Meeting, PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. were appointed as the international and domestic auditors of the Company, respectively, and their annual remuneration was determined at RMB1,250,000. The Company had not paid any other expenses in this respect. The traveling expenses were borne by the auditors. There were no expenses that might have affected the auditors' independence. The auditors did not provide other consultancy services other than auditing.

As at 2002, the auditors had been serving the Company for six years.

(6) Regulatory Sanctions

During the period, there was no punishment, reprimand or public censures imposed against the Company, any of its Directors or Senior Management Officers by any regulatory authorities.

(7) Other Significant Matters

1. Dissolution of Yicao Company

Yicao Company was an associated company of the Company that was 49% held by the Company with an investment of RMB100 million. The remainder of the equity was held 51% by Yixing Communication Construction and Development Co Ltd (“Yixing Communication”).

Yicao Highway’s traffic flow is expected to be largely be diverted to Xiyi Expressway, a toll road running almost parallel with Yicao Highway that will be completed and opened to traffic in 2004. In addition, following the State’s decision to abolish concessions in corporate profit tax, Yicao Company was required to pay profit tax at a 33% tax rate in 2002 and beyond. These developments are set to affect Yicao’s operating results. With a view to protecting the interests of all parties concerned, the Company and Yixing Communication decided after consultation to dissolve and liquidate Yicao Company ahead of its due term. The dissolution was approved by the 13th session meeting of the third Board of Directors.

As at 26th January 2003, the legal procedures for dissolving and liquidating Yicao Company had been completed and the annulment of Yicao Company had been approved. As at 31st December 2002, the Company recouped RMB110,770,000 for its investment in Yicao Company. Liquidation of assets is still in progress and a separate announcement will be made by the Company when the process is completed.

2. Issuance of Level-1 ADRs

The Company’s American Depositary Receipt (ADR) programme was approved on 2nd August 2002 by virtue of the CSRC document Zheng Jian Guo He Zi [2002] No. 22 and became effective on 23rd December 2002, whereby the Company’s ADRs started trading in the US over-the-counter market.

The custodian bank for the Company’s Level-1 ADRs is Bank of New York. Each ADR is equivalent to 20 H-Shares listed on the Stock Exchange of Hong Kong. The successful issue of ADRs has increased the liquidity of the Company’s H-Shares, expanded its existing shareholders’ base and enhanced its corporate image, and is in line with the Company’s as well as its shareholders’ interests. The Company has not issued any new shares because of the ADR programme and has no plans to do so.

