

SIGNIFICANT MATTERS

(I) MATERIAL LITIGATION OR ARBITRATION

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

(II) ACQUISITION AND SALE OF ASSETS, CONSOLIDATION AND MERGER ACTIVITIES

Transfer of Equity Interests in Nanjing Shuangshilou Hotel

Nanjing Shuangshilou Hotel is a joint venture established by the Company and Nanjing Gulou District Hunan Road Labour Service Company (南京市鼓樓區南路勞動服務公司) in November 2001, with a registered capital of approximately RMB1,010,000, of which the Company contributed approximately RMB960,000, representing approximately 95.05% equity interests. It was mainly engaged in catering business.

The hotel has incurred losses since its inauguration. In order to resolve its investment exposure, at the eighth session of the Fourth Board of Directors, the Company decided to transfer its entire shareholding in the hotel to Nanjing Jintang Hotel Food & Beverages Co., Ltd. (南京金塘大酒店飲食有限公司), an independent third party, at an agreed consideration of RMB2 million.

The Company entered into an equity transfer agreement with Nanjing Jintang Hotel Food & Beverages Co., Ltd. on 30th August 2004, while the subsequent legal procedures relating to the equity transfer have been completed.

(III) SUBSTANTIAL CONNECTED TRANSACTIONS

1. Principal Related Parties (Pursuant to the Listing Rules of the Shanghai Stock Exchange) of the Company:

| Name | Relationship with the Company |
|---|---|
| Jiangsu Communications Holding Company Ltd.* | Ultimate controlling shareholder of the Company |
| Jiangsu Guangjing Xicheng Expressway Co., Ltd.* | Subsidiary of the Company |
| Jiangsu Ninghu Investment Development Co., Ltd.* | Subsidiary of the Company |
| Jiangsu Sundian Engineering Co., Ltd.* | Subsidiary of the Company |
| Jiangyin Yangtze Bridge Co., Ltd.* | Associate of the Company |
| Jiangsu Kuailu Bus Transportation Stock Co., Ltd. | Associate of the Company |
| Suzhou Sujiahang Expressway Co., Ltd. | Associate of the Company |
| China Transportation HEAD New Technology (Shanghai) Co., Ltd. | Associate of the Company |
| Jiangsu Zulin Co., Ltd.* | Associate of the Company |

* Connected person under the Hong Kong Listing Rules.



2. Connected Transactions

The Company and its subsidiaries entered into the following material transactions with connected parties during the reporting period:

Road Maintenance Service Contracts with Jiangsu Sundian

On 28th April 2004, the Company and Guangjing Xicheng entered into maintenance contracts with Jiangsu Sundian in respect of the repair and maintenance service of the Jiangsu Section of Shanghai-Nanjing Expressway, Guangjing Expressway and Xicheng Expressway, for a term commencing on 1st May 2004 and terminating on 31st December 2004 and the maximum contractual maintenance service fees are estimated at no more than the maximum contract sums of RMB46 million and RMB20 million, respectively.

The maintenance service fees are determined as follows: tender prices accepted will be the fee basis for projects to be awarded through public tenders whereas the fee basis for other projects will be determined after arm's length negotiation and with reference to the prevailing market prices reviewed by an independent and qualified cost consultation institute. The limits of maintenance service fees are based on estimated works in 2004. The Company will supervise the situation to ensure that the total amount of works contracted will not exceed the relevant limits. The maintenance service fees will be financed by the own resources of the Company or Guangjing Xicheng.

As Jiangsu Sundian is a 70% subsidiary of the Company as well as substantially held by Guangjing Xicheng (which is in turn a 85% subsidiary of the Company as well as a company held by Huajian Transportation Economic Development Centre as to 15%, a substantial shareholder of the Company, and is therefore a connected person of the Company according to the Hong Kong Listing Rules), the maintenance contracts that the Company and Guangjing Xicheng entered into respectively with Jiangsu Sundian are considered as connected transactions according to the Hong Kong Listing Rules. As the aggregate maximum annual maintenance fees of these two maintenance contracts are RMB66,000,000, less than 2.5% of the audited consolidated total asset value, income and market capitalisation of the Company as at 31st December 2003, the maintenance contracts constituted ongoing continued connection transactions under rule 14A.34 of the Hong Kong Listing Rules, which required compliance with the reporting and announcement requirements but did not require independent shareholders' approval. The relevant announcement was published in the newspapers in Hong Kong and the PRC on 29th April 2004.

3. Opinions of Independent Directors

The seventh session of the Fourth Board meetings of the Company has carried out lawful and valid resolutions on these connected transactions. The independent directors have carried out conscientious reviews of the matters concerned and confirmed:

The two maintenance service contracts are in the interests of the shareholders as a whole. They have been entered into by the relevant companies in the ordinary and usual course of their businesses and the terms are normal commercial terms. The transactions have been entered into in accordance with the maintenance service contracts governing them on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

(IV) SIGNIFICANT CONTRACTS AND THEIR IMPLEMENTATIONS

1. Material Trusts, Subcontracting or Leasing

During the reporting period, the Company had no material trusts, subcontracting or leasing arrangement.

The main material subcontracting activity is the entering into of subcontracting contracts with various subcontractors participating in the expansion project of the Jiangsu Section of Shanghai-Nanjing Expressway. As at December, 2004, there were a total of 161 subcontracts entered into for the expansion project, amounting to RMB7.88 billion. The actual amount paid was RMB3.859 billion.



SIGNIFICANT MATTERS

2. Material Guarantees and Pledge of Assets

During the reporting period, the Company and its subsidiaries did not provide any guarantee to any shareholder or connected party or any other companies, nor was there any pledge of assets subsisting.

3. Entrusted Financial Management

During the reporting period, the Company did not entrust any other person to carry out cash asset management.

4. Other Material Contracts

Material contracts entered into and performed by the Company during the reporting period include the following:

- (1) On 6th April 2004, the Company entered into a maintenance contract with Jiangsu Sundian in respect of the repair and maintenance service of the Jiangsu Section of Shanghai-Nanjing Expressway, with duration of the contract being from 1st May 2004 to 31st December 2004 and estimated total contract sum not exceeding RMB46,000,000.
- (2) On 14th April 2004, the Company entered into a second supplementary contract with the Highway Bureau of Jiangsu Province in respect of the extension of the operation right after the Widening Project of Nanjing-Shanghai Class 2 Highway. The Company was granted a new operation right of the Nanjing Shanghai Class 2 Highway in consideration of RMB2.7 billion. The term of the new operation right is from 27th June 2012 to 26th June 2024.
- (3) The Company obtained a loan of RMB200 million from Jiangsu Guangjing Xicheng Expressway Co., Ltd., its subsidiary, in the form of trust lending in December 2004. The term of the loan is from 27th December 2004 to 26th December 2005. The loan interest is 5.022% per annum.

(V) UNDERTAKINGS

1. The Board of Directors of the Company has made an undertaking, in respect of the profit distribution proposal for 2004 that one cash dividend distribution will be made for the year at a ratio of no less than 50% of the net profit of the year.

The profit distribution proposal for 2004 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 "2004 Profit Distribution Scheme" in the Report of the Directors.

2. During the reporting 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.

(VI) APPOINTMENT OF AUDITORS

At the first Extraordinary General Meeting of 2004 and the 2003 Annual General Meeting, Deloitte Touche Tohmatsu Certified Public Accountants Co., Ltd. and Deloitte Touche Tohmatsu were appointed as the domestic and international auditors of the Company for the years 2003 and 2004, respectively, and their annual remuneration was fixed at RMB1,180,000. The Company did not pay any fee other than the above-mentioned, and the traveling expenses and other charges were borne by the auditors themselves and the Company did not pay any charges that might have affected the auditors' independence.

The two auditors have started to provide audit services to the Company for a continuous period of two years since 2003.

(VII) REGULATORY SANCTIONS

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

(VIII) OTHER SIGNIFICANT MATTERS

Adjustments of Toll Rates

In 2004, pursuant to the "Notice on the Announcement of Classification of Vehicles for Standard Toll Roads for the Transport Industry" (關於發佈交通行業標準收費公路車輛通行費車型分類的通知) issued by the Ministry of Communications and the "Notice on the Issue of Opinion on Reducing Vehicle Toll Rates" (關於降低車輛通行費收費標準的意見的通知) issued by the Ministry of Communications and the National Development and Reform Commission, the Government of Jiangsu Province made adjustments to the policy on highway vehicle toll collection in Jiangsu Province.

The number of classes of vehicle was changed from six to five upon the adjustments. The ranking of good vehicles has moved up one class. The vehicle classification standards were also modified.

The toll rates were adjusted based on the toll rates of goods vehicles since 28th December 2003 and the toll rates of passenger cars since 1st January 2004. For details of the new toll rates after adjustments, please refer to the section headed "Appendix".

In respect of the roads and bridges operated by the Company or by companies which the Company controls or invests in, the new toll rates will become effective in respect of all expressways from 10th January 2005 and in respect of all open-ended toll roads with effect from 20th January 2005.