



(1) Material Litigation or Arbitration

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

(2) Acquisition and Sale of Assets, Consolidation and Merger Activities

Transfer of the shares of China HEAD

On 30 May 2006, the Company entered into an equity transfer agreement (“Equity Transfer Agreement”) with Information Engineering Co. in respect of the disposal of approximately 35.71% of equity interests in China HEAD held by the Company. Both parties completed the equity transfer formalities on 14 June.

In June 2002, the Company invested RMB7,500,000 in China HEAD, holding 35.71% of its equity interests. In consideration of the Company’s development strategies of focusing on its principal business and reducing diversified operations, at the 13th meeting of the fourth session of the Board held on 19 August 2005, the Company decided to transfer all of its equity interests in China HEAD. Pursuant to the approved valuation results, the market value of China HEAD as at the valuation date of 31 May 2005 amounted to approximately RMB14,030,000. The interests of the Company in China HEAD amounted to approximately RMB5,010,400. Since November 2005, the Company has openly posted the transfer of interests in China HEAD on the Jiangsu Assets and Equity Exchange for three times. The final listed transfer price was RMB4,058,400. Information Engineering Co. was the only party applying to be a transferee, and it possessed the qualification of being a transferee upon examination by the Jiangsu Assets and Equity Exchange.

Pursuant to the Equity Transfer Agreement, the net profit/loss generated during the period between the valuation date and the completion of the registration of industrial and commercial changes would be borne by the Company. As such, both parties have jointly appointed an auditing firm to audit the finance of China HEAD for the aforesaid period. For the period between 1 June 2005 and 31 May 2006, China HEAD recorded a net profit/loss of RMB64,600. In accordance with the proportionate equity interests held by the Company, Information Engineering Co. would pay the Company RMB23,100.

(3) Substantial Connected Transactions

The Company entered into the following transactions with connected parties during the reporting period:

Continued Connected Transactions

1. Road Maintenance Service Contracts with Jiangsu Sundian

On 7 April 2006, Guangjing Xicheng, the Company’s subsidiary, entered into a maintenance service contract with Jiangsu Sundian in respect of the repair and maintenance services of Guangjing Expressway and Xicheng Expressway, for a term commencing on 1 May 2006 and ending on 31 December 2006. The maximum contractual maintenance service fees were estimated to be no more than RMB30 million. The relevant announcement was published in the newspapers in both Hong Kong and the PRC on 10 April 2006.



The maintenance service fees are determined by the following principles: the tender prices so accepted will serve as 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 by reference to the prevailing market prices reviewed by an independent and qualified cost consultation institute. The upper limit of the maintenance service fees are set according to the estimated works in 2006. The maintenance service fees are to be paid out of Guangjing Xicheng's own funds. As at the end of the reporting period, the actual maintenance service fees amounted to RMB17,438,000.

2. Technological Service Agreement with the Toll-network Company

In February 2006, the Company entered into a technological service agreement with Jiangsu Expressway Toll-network Technology Service Co., Ltd. (the "Toll-network Company", 江蘇高速公路聯網收費技術服務有限公司). Pursuant to the agreement, the Toll-network Company would provide relevant data audit, statistical and analytical services and consultation services on inter-network tolling technology upgrade for the road and bridge projects of the Company. The service fees for 2006 would be RMB1,704,000 in aggregate.

The Toll-network Company was jointly established by Communications Holdings and its road and bridge subsidiaries. Communications Holdings is the largest shareholder holding 30% equity interests. The Company made a total capital contribution of RMB1,750,000 and holds 5% interests. As the Toll-network Company is a connected company of the Company, the transaction constituted a connected transaction relating to the daily operations of the Company. However, in accordance with the respective listing rules of the Shanghai Stock Exchange and the Hong Kong Stock Exchange, the transaction amount was below the level that required reporting and disclosure.

3. Business Leasing of Connected Parties

During the reporting period, Guangjing Xicheng, the Company's subsidiary, leased the operation of its petroleum products sales business at the petrol station in the Yanqiao Service Area to Jiangsu Expressway Petroleum Development Co. Ltd. (江蘇高速公路石油發展有限公司) ("Jiangsu Petroleum Company") (江蘇高速石油公司) for a period of three years.

Jiangsu Petroleum Company, a 51.17% owned subsidiary of Communications Holdings (as the Company's controlling shareholder), is an associate of the Company, and accordingly, the transaction constituted a continuing connected transaction. However, in accordance with the listing rules of the Shanghai Stock Exchange and Rule 14A.33(3) of the Listing Rules of the Hong Kong Stock Exchange, the transaction is exempted from reporting, announcement and independent shareholders approval requirements. Due to the persistent rise in the wholesale prices of petroleum products, the room for generating profits from the sale of Jiangsu Petroleum Company's self-operated petroleum products is very limited. In order to enhance operating efficiency of the company, the business was leased to Jiangsu Petroleum Company for operation. Under the agreement between both parties, the leasing fee will be calculated on the basis of the sales volume of the petroleum products at RMB100 per ton, with the minimum leasing fee paid to Guangjing Xicheng by Jiangsu Petroleum Company amounted to RMB500,000 per annum. The lease period is from 1 January 2006 to 31 December 2008.

During 2006, Jiangsu Petroleum Company has paid leasing fee to Guangjing Xicheng amounting to RMB1,807,000 in aggregate which was below the requirement for reporting and disclosure.



4. Capital Dealings with Connected Parties

During the reporting period, the Company secured a loan of RMB200,000,000 from its subsidiary, Guangjing Xicheng, by way of a trust loan for a period from 16 January 2006 to 15 July 2006 at a monthly interest rate of 3.915%. As at the date of expiration, the principal amount of the relevant loan and the interests thereon have been fully settled.

Upon maturity of the afore-mentioned loan, the Company secured a further loan of RMB300,000,000 from Jiangsu Guangjing Xicheng Expressway Co., Ltd. at favorable interest rates for a term of 6 months. Of such loan, RMB200,000,000 was at a monthly interest rate of 3.915‰ and RMB100,000,000 was at a monthly interest rate of 4.185‰.

– Transfer of Interests between Connected Parties

For details, please refer to “Asset Transfer” set out in this report. Information Engineering Co. is an associate of Communications Holdings, the Company’s controlling shareholder, which holds 33.33% equity interests in Information Engineering Co; and is a connected person of the Company. Such transaction constituted a connected transaction under Rule 14A.32(1) of the Listing Rules of the Hong Kong Stock Exchange and has been disclosed in accordance with the relevant requirements.

The independent non-executive directors of the Company have reviewed the continued connected transactions and confirmed in the annual report and accounts that:

- (1) Such transactions constituted the usual course of business of the listed issuer;**
- (2) Such transactions were conducted on normal commercial terms or, if transactions available for comparison were insufficient to determine whether the terms of such transactions are normal commercial terms, from the perspective of the Company, the terms of such transactions were not worse than the terms offered to or by (depending on the situation) independent third parties; and**
- (3) Such transactions were conducted in accordance with the terms of the agreements of respective transaction and that the transaction terms were fair and reasonable and in the best interests of the Company’s shareholders as a whole.**

(4) Significant Contracts and their Performance

1. Material trusts, subcontracting or leasing

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

The material subcontracting activities of the Company mainly involved the signing of subcontracting contracts with various subcontractors participating in the expansion project of the Jiangsu Section of Shanghai-Nanjing Expressway. During 2006, all the expansion work has been completed. The Company has performed the relevant obligations pursuant to these contracts.



2. Material guarantees and pledge of assets

During the reporting period, the Company did not provide any guarantee for any shareholders 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 engage in cash asset management activity.

(5) Undertakings

- The Board of the Company has made an undertaking in respect of the profit distribution proposal for 2006 as follows: one cash dividend distribution will be made for the year at a ratio of no less than 85% of the attributable profit of the year.

The Board of the Company has faithfully fulfilled such undertaking. For details, please refer to “2006 Profit Distribution Scheme” under the section entitled “Report of the Directors”.

- Special undertakings made by the original Non-circulating Shareholders during the process of the Share Segregation Reform and their fulfillment:

Name of shareholder	Special undertakings	Fulfillment of undertakings
Communications Holdings Huajian Transportation	<ol style="list-style-type: none"> Within 60 months from the day on which the listing status is granted, the original non-circulating shares of the Company held by the two companies will not be traded on the Shanghai Stock Exchange. The two companies will propose a motion and vote for a proposal at each of the 2005-2008 annual general meetings of the Company regarding a cash dividend payment of not less than 85% of the distributable profit of the Company realized in the relevant year. 	The Company is not aware that such shareholder was in breach of the relevant undertakings during the reporting period.
Communications Holdings Huajian Transportation Jiangsu Communications Construction Group Co., Ltd. Jiangsu Communications Engineering Co., Ltd	These companies undertake that they shall bear all relevant expenses arising from the Share Segregation Reform as per their agreement.	Fulfilled



(6) Appointment of Auditors

At the 2005 annual general meeting of the Company, it was approved that Deloitte Touche Tohmatsu Certified Public Accountants Co., Ltd. and Deloitte Touche Tohmatsu would continue to be appointed as the domestic and international auditors, respectively, of the Company for 2006. Due to the relevant asset disposals upon completion of the expansion project and the increases in the audit projects and workload in 2006, the audit fees for the year increased to RMB1.7 million. The Company did not pay any other fees and nor were there any charges that might have affected the auditors' independence.

The above-mentioned auditing firms have been providing audit services to the Company for four consecutive years since 2003.

(7) Regulatory Sanctions

During the reporting period, there was no punishment, reprimand or other public censurs imposed against the Company, the Board or any of its directors by any regulatory authorities.