

### A. Corporate Governance

The Company streamlined and modified its corporate structure with the aim of establishing a modern enterprise system and fine corporate governance in accordance with the requirements of the “Guiding Opinions on the Establishment of a System of Independent Directors by Listed Companies” and the “Standards for Corporate Governance of Listed Companies” issued by CSRC.

During the reporting period, the Company adjusted the composition of the Board of Directors by appointing two qualified independent directors. Currently, there are four independent directors on the Company’s Board of Directors, accounting for more than one-third of the total number of Directors. The arrangement is in full compliance with the Guiding Opinions.

In accordance with the requirement that specific committees under the Board of Directors shall be established, the Company established the Strategic Committee, the Nominating, Salary and Review Committee and the Audit Committee at the ninth meeting of the third session of the Board of Directors on 8th April 2002. Sound regulations and systems for deliberating Company matters have been established and the relevant clauses in the Articles of Association have been revised accordingly.

In accordance with the requirements of the “Notice Concerning the Procuring of the Establishment of Modern Enterprise System Inspection at Listed Companies” issued by CSRC and the State Economic and Trade Commission (“SETC”), the Company conducted in June 2002 a diligent and detailed self-examination and self-correction in respect of the independence of the Company, the development of the three committees, standardised operations and the code of practice for controlling shareholders. A self-examination report was prepared and submitted to CSRC and SETC.

## **B. Profit Distribution Scheme and Its Implementation**

The following profit distribution scheme for 2001 was approved at the ninth meeting of the third session of the Board of Directors held by the Company on 8th April 2002: a cash dividend of RMB1.25 (tax inclusive) for every 10 shares shall be declared to all shareholders on the basis of 5,037,747,500 shares in issue at the end of 2001. Such scheme was reviewed and approved at the 2001 Annual General Meeting held on 28th May 2002.

The Board of Directors of the Company, with authorization from the Shareholders' General Meeting, made an announcement on "Bonus Distribution and Dividend Payment" in the China Securities and Shanghai Securities on 11th June 2002, stating that the cut-off date for the purpose of determining the entitlements of domestic shareholders was 14th June 2002, and the ex-dividend date was 17th June 2002. Dividends for H Share holders were to be denominated in RMB and payable in HK Dollars. A cash dividend of HK\$1.176 was to be payable for every 10 shares held. The closing date for registration of equity interest was 26th April 2002, and the dividend was declared on 28th May 2002.

The current dividend was paid on 21st June 2002 and the profit distribution scheme for the previous year has been implemented.

## **C. Material Litigations and Arbitration Cases of the Company During the Period**

The Company was not involved in any material litigation or arbitration case during the period.

## **D. Acquisition of Assets**

At the ninth meeting of the third session of the Board of Directors held on 8th April 2002, the "Agreement on the Acquisition of 33.33% Equity Interest in Suzhou Sujiahang Expressway Co. Ltd." concerning the purchase of an approximately 33.33% stake in Suzhou Sujiahang Expressway Company Limited ("Sujiahang Expressway Co.") from Jiangsu Communications Holding Ltd. for a consideration of RMB315,400,000 was approved. The acquisition was implemented after the approval by shareholders at the 2001 Annual General Meeting held on 28th May 2002. The consideration was funded by the Company's own resources in cash.

Details of this acquisition can be found in the interim announcement made by the Company on 29th May 2002.

## E. Connected Transactions of Material Importance

### 1. Major Connected Parties of the Company (pursuant to the Rules Governing the Listing of Securities on the Shanghai Stock Exchange)

Name	Relationship with the Company
Communications Holding	Ultimate controlling shareholder of the Company
Guangjing Xicheng	Subsidiary of the Company
Shuangshilou	Subsidiary of the Company
Yangtze Bridge	Associate of the Company
Kuailu	Associate of the Company
Sujiahang Expressway Co.	Associate of the Company

### 2. Connected Transactions

During the reporting period, the Company conducted the following material transactions with connected companies:

#### Communications Holding

The Company secured loan facilities amounting to US\$9,800,000 (RMB81,140,000) from the Bank of China, Jiangsu Branch in 1998 to finance the purchase of imported machinery and technology. As at 30th June 2002, unused facilities amounted to US\$8,663,000 or RMB71,723,000. The above facilities were guaranteed by Communications Holding.

The Company acquired approximately a 33.33% equity interest in Sujiahang Expressway Co. from Communications Holding for a total consideration of RMB315,400,000 during the reporting period. The acquisition price was slightly lower than the valuation made by American Appraisal Hong Kong Limited, an international valuer appointed by the Company. The acquisition was approved at the ninth meeting of the third session of the Board of Directors and the 2001 Annual General Meeting during which connected directors and connected shareholders abstained from the voting.

## **Guangjing Xicheng Company and Yangtze Bridge Company**

Guangjing Xicheng, an 85%-owned subsidiary of the Company, invested in Jiangsu Provincial Leasing Company Limited (“Jiangsu Leasing”) for a total consideration of RMB100 million, accounting for approximately 20% of the enlarged registered capital of Jiangsu Leasing. Yangtze Bridge Company, an associate of the Company, invested in Jiangsu Leasing for a total consideration of RMB170 million, accounting for approximately 34% of the enlarged registered capital of Jiangsu Leasing. The investment amounts were converted into registered capital, at the rate of RMB1.00 in investment for RMB1.00 in share capital. The transaction prices were fair and reasonable. The investments were considered and approved at the 11th meeting of the third session of the Board of Directors, with connected directors abstaining from the voting.

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

- a) the transactions 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 is no available comparison, on terms that are no less favourable than terms available to or from third parties; and
- c) the transactions are fair and reasonable insofar as the Company’s shareholders are concerned.

## **F. Commitments**

During the reporting period, neither the Company nor any of its shareholders interested in more than 5% of the Company’s shares made any commitments that might affect the operating results or financial conditions of the Company in a significant manner.

## **G. Change of Auditors**

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

At the Company’s 2001 Annual General Meeting, PriceWaterhouseCoopers and PriceWaterhouseCoopers Zhongtian CPA were appointed as the overseas and domestic auditors of the Company, respectively, and their annual remuneration was determined at approximately RMB1.25 million. The announcement concerned was published in the China Securities, Shanghai Securities, Hong Kong Economic Times and South China Morning Post on 29th May 2002.

## H. Other Material Contracts and Their Implementations

As at 30th June 2002, material contracts being performed by the Company included:

1. As at 30 June 2002, the balance of the loan agreements between the Company and certain banks was RMB401,723,000 in aggregate, of which a loan of US\$9,800,000 under an on-lending agreement with the Bank of China Suzhou Branch, guaranteed by Communications Holding, was drawn out and the principal and interests were repaid. Currently, the remaining undrawn loan amounted to US\$8,663,000 or RMB71,723,000.
2. The Company entered into a “Management Agreement in Relation to the Operation and the Maintenance of the Nanjing Section of Nanjing-Lianyungang Highway” (being performed) with Jiangsu Ninglian-Ningtong Highway Management Office on 8th April 1999. The main terms of the management agreement are as follows: Jiangsu Ninglian-Ningtong Highway Management Office is appointed by the Company to manage the operation and the maintenance of the Nanjiang Section of Nanjing-Lianyungang Highway for a total consideration of 17% of the annual total toll revenue of the Section.
3. The Company signed an “Agreement on the Acquisition of 33.33% Equity Interest in Suzhou Sujiahang Expressway Co. Ltd.” on 8th April 2002, pursuant to which the Company was to acquire 33.33% of the equity interest of Sujiahang Expressway Co. Ltd. at RMB315,400,000.
4. Entrusted Asset Management

For the amount of RMB210,000,000 entrusted to asset management in 2001, the principal was fully repaid and an investment profit of RMB14,769,000 was made during the entrustment period.

During the reporting period, the Company entrusted Suzhou Investment Company to handle the idle funds of RMB100,000,000 for short-term asset management. The term of the agreement started from 1st June 2002 until 1st June 2003. The abovementioned asset management arrangement was considered and approved at the eleventh meeting of the third session of the Board of Directors. During the abovementioned period, the Company will periodically review the investment status so as to adequately monitor the investment risks.

## **I. Guarantees Given by the Company for Third Parties**

As at 30th June 2002, the Company has not provided any guarantee for any shareholder, connected parties or any other company.

## **J. Other Important Matters**

### **1. Dissolution of Yicao Company**

The Company resolved on 24th July 2002 to dissolve Yixing Yicao Highway Co. before the expiry of its term of operation.

Yicao Company is an associate company of the Company and is owned by the Company as to 49% of its equity interest, while the remaining 51% was owned by Yixing Communications Construction.

Xi Yi Highway, a highway nearly parallel to Yicao Highway, commenced construction in September 2000 and is expected to commence operation in 2004. By that time, a majority of traffic volume may be diverted away from Yicao Highway. In addition, the cancellation of income tax preferential policy means that Yicao Company will be required to pay the full amount of 33% income tax as from 2002, thereby significantly affecting the future financial results of Yicao Company. After negotiation with Yixing Communications Construction, the Company decided to dissolve Yicao Company before the expiry of its term of operation and liquidate Yicao Company in order to protect the interest of all parties.

The Company has organised a working committee to handle this issue. A separate announcement will be made upon receiving all invested capital and investment profits.

### **2. Purchase, Sale and Redemption of Shares in the Company**

As at 30th June 2002, the Company has not purchased, sold or redeemed any of the shares in the Company.

### **3. Pre-emptive Right to the Shares**

Under the Articles of Association and the laws of the PRC, there is no pre-emptive right arrangement pursuant to which the Company has to offer any new shares to its existing shareholders in proportion to their shareholdings.

#### **4. Income Tax**

Pursuant to the document (Reference: Cai Shui [2000] No. 99) issued by the Ministry of Finance in October 2000, the Company shall not be entitled to the preferential taxation treatment. The actual tax rate applicable to the Company is 33%.

#### **5. Trust Deposits**

As at 30th June 2002, the Company did not have any trust deposit with any financial institution in the PRC, nor did the Company experience any default in payment of its term deposit upon maturity.

#### **6. Risks Concerning the Lending Rate**

The Company has no material foreign exchange risks. The Company obtained a US\$9,800,000 loan from the Spanish government in 1998. As at 30th June 2002, the balance of the loan was US\$8,660,000. The Company currently has foreign exchange deposits of over US\$5,700,0000 which off-sets its foreign exchange risks.

#### **7. Code of Best Practice**

The Board of Directors of the Company has established an audit committee (the "Audit Committee") to review and supervise the Company's financial reporting process and internal controls pursuant to paragraph 14 of the Code of Best Practice set out in Appendix 14 to the Listing Rules (the "Code of Best Practice"). The Audit Committee consists of three members, of which two are non-executive directors. The Company has fully complied with the Code of Best Practice in this regard.

## K. Other Information Sources

Announcements of the Company can be found in China Securities, Shanghai Securities, Hong Kong Economic Times and South China Morning Post.

1. 9th April 2002: The Resolutions of the Ninth Meeting of the Third Session of the Board of Directors, The Resolutions of the Sixth Meeting of the Third Session of the Supervisory Committee and the Notice of the 2001 Annual General Meeting;
2. 9th April 2002: Connected Transaction - Acquisition of 33.33% Equity Interest in Sujiahang Expressway Company Limited;
3. 29th May 2002: The Resolutions of the 2001 Annual General Meeting and the Resolutions of the Eleventh Meeting of the Third Session of the Board of Directors;
4. 29th May 2002: Connected Transaction - Investment by Guangjing Xicheng, a connected party of the Company, in Jiangsu Leasing;
5. 11th June 2002: Bonus Distribution and Dividend Payment for the year 2001.