

## I. MATERIAL LITIGATION AND ARBITRATION

The Company was not involved in any material litigation or arbitration during 2004.

## II. ACQUISITIONS AND DISPOSALS OF ASSETS AND MERGERS

### **The Acquisition of the Anhui Section of Lianhuo Expressway**

The Company entered into an agreement with AEHC to acquire the Anhui Section of Lianhuo Expressway with a total consideration of RMB1.18 billion. The Company has used the proceeds raised from A Shares issue to pay the consideration of the acquisition and the shortfall was financed by the Company's operating fund.

In January 2003, the Company paid RMB526,960,000, which was raised from A shares issue, to AEHC for the acquisition of Lianhuo Expressway (Anhui Section) and the two parties completed the acquisition procedure of Lianhuo Expressway (Anhui Section).

As at 30th June 2004, the Company has paid the remaining consideration to AEHC according to the Acquisition Contract.

From the date of start of road traffic of Lianhuo Expressway (Anhui Section), the traffic volumes of Lianhuo Expressway (Anhui Section) increase gradually. For the year ended 31st December 2004, the total revenue of Lianhuo Expressway (Anhui Section) amounted to RMB215,394,000.

### **Transfer of shares in Anhui Wantong Science and Technology Development Company Limited ("Wantong Technology")**

Wantong Technology is a subsidiary of the Company with the registered capital of RMB20,000,000. The Company had paid-in-capital of RMB15,100,000 in Wantong Technology, accounting for 75.5% of the total capital. On 25th June 2004, the Company and Anhui Guoyuan Trust and Investment Company Limited ("Guoyuan Trust") entered into an agreement (the "Agreement") of transferring the said 75.5% equities. Anhui Guoxin Assets Evaluation Company Limited carried on a revaluation of the assets of Wantong Technology as at 31st December 2003, the revalued net assets value was RMB24,694,600. The transfer consideration of RMB18,644,400 was determined according to share of equities owned by the Company in Wantong Technology. The Agreement has been approved by the Board of directors of the Company and the Agreement has been approved by relevant government bodies. After the share transfer, the Company will hold no equity interests in Wantong Technology. According to the Agreement, Anhui Guoyuan Trust and Investment Company Limited paid all the consideration in a lump-sum to the Company on 23rd September 2004. Up to this point, the Company has no interests in Wantong Technology.

### **Liquidation and Deregistration of Beijing Haiwei Investment Company Limited (“Haiwei Company”)**

Haiwei Company is a subsidiary of the Company with the registered capital of RMB50,000,000. The Company's capital injection of RMB35,000,000, accounting for 70% of the total. In April 2004, all shareholders of Haiwei Company reached a consensus to end its operation, liquidate Haiwei Company and drew back investments. According to the result of liquidation, the Company took back the investment of approximately RMB34,870,000. During the reporting period, the liquidation procedures of Haiwei Company in respect of legal and taxation matters have been completed.

### **Subsequent Acquisition Event**

#### **Acquisition of 49% interests in Anhui Gaojie Expressway Company Limited (“Gaojie Company”)**

The principal operation of Gaojie Company is the construction and operation of Gaojie Expressway. Gaojie Company is a majority owned subsidiary of the Company. Prior to this transaction, its registered capital was RMB300 million, of which the Company accounted for 51% of its total capital, and AEHC accounted for 49% of its total capital. On 4th March 2005, the Company entered into the Equity Transfer/Acquisition Agreement in relation to the Acquisition of Anhui Gaojie Expressway Company Limited with AEHC. It was agreed that the Company would acquire the 49% equity interests in Gaojie Company held by AEHC at an amount of RMB616.01 million and acquired shareholders' loan due to AEHC by Gaojie Company at an amount of RMB733.99 million. The consideration was RMB1,350 million in aggregate.

A circular to shareholders containing the notice of shareholders general meeting, recommendation from the independent board committee, letter of advice from the independent financial adviser to the independent board committee, letter on traffic forecast report, letter on business valuation report will be dispatched shortly for the information of the shareholders.

This transaction was approved in the fourteenth meeting of the third board. Approval was also granted by relevant government authorities. As AEHC is the controlling shareholder of the Company, this transaction constituted a connected transaction pursuant to the Rules Governing the Listing of Securities on the Shanghai Stock Exchange and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), and is subject to the approval by the shareholders' general meeting of the Company. AEHC and its associates (as defined in the Listing Rules), who are interested in the connected transaction, will be abstained from voting for the resolution in the shareholders' general meeting.

## **III. CONNECTED TRANSACTIONS**

For the year ended 31st December 2004, the Company has the following connected transactions:

1. Pursuant to the acquisition contract signed on 20th June 2001 and the supplementary acquisition contract signed on 28th March 2002 between the Company and AEHC, the Company acquired Lianhuo Expressway Anhui Section from AEHC for a total consideration of RMB1,181,000,000 effectively from 1st January 2003. The last consideration of RMB59,000,000 was paid to AEHC on 28th June 2004. Up to this point, the Company has paid all the consideration of RMB1,181,000,000 to AEHC according the acquisition contract.

2. The Company and AEHC entered into an agreement to provide AEHC with management service of Expressway Networking Toll System, the service fees of which totaled RMB2,980,000.
3. The Company and Anhui Anlian Expressway Company Limited ("Anlian Company"), a subsidiary of AEHC, entered into an agreement to provide Anlian Company with management service of Expressway Networking Toll System, the service fees of which totaled RMB1,500,000.
4. The Company and Beijing Anlian Investment Company Limited ("Beijing Anlian"), a subsidiary of AEHC, entered into an agency service agreement regarding importing asphalt, the agency commission of which totaled RMB467,000.

#### IV. CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS REGARDING CONNECTED TRANSACTIONS

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

1. The transactions were carried out in the normal and usual course of business of the Company;
2. The transactions were carried out on normal commercial terms (as compared with transactions of similar nature carried out by the similar entities in the PRC) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
3. The transactions were carried out in accordance with the terms of agreement governing such transactions.

#### V. MATERIAL CONTRACTS AND IMPLEMENTATION

##### 1. Material custody, subcontracting and leasing items

During the reporting period, the Company was not involved in any material custody, subcontracting and leasing.

##### 2. Material guarantee

During the reporting period, the Company did not provide guarantee for shareholders, connected persons, holding companies and other companies.

##### 3. Financial entrustment

During the reporting period, the Company was not involved in any financial entrustment.

## 4. Entrusted Deposit and Overdue Fixed Deposit

During the reporting period, the Company did not have any entrusted deposit with financial institutions in the PRC, neither has the Company experienced any incident of not being able to withdraw fixed deposits when they became mature.

## VI. COMMITMENTS BY THE COMPANY AND SHAREHOLDERS HOLDING MORE THAN 5% OF THE TOTAL CAPITAL

- (1) Pursuant to the Reorganization Agreement signed by the Company and AEHC on 12th October 1996, AEHC has undertaken that it will not participate in any businesses or activities, which will compete against the Company either directly or indirectly.
- (2) The Company intended to invest in the construction of Maba-Liuhe Highway, with RMB528,000,000 authorised but not contracted for;
- (3) Xuanguang Company intended to reconstruct Xuanguang Expressway, with RMB380,000,000 authorised but not contracted for.

## VII. APPOINTMENT OF ACCOUNTANTS

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Ltd. Co. and PricewaterhouseCoopers were approved to be appointed as the PRC auditors and Hong Kong auditors for 2004 respectively at the 2003 Annual General Meeting. The fees paid to the above accountants for 2004 were as follows:

	Unit: RMB	
	2004 Audit fees	2003 Audit fees
PricewaterhouseCoopers Zhong Tian Certified Public Accountants Ltd. Co.	690,000	600,000
PricewaterhouseCoopers Certified Public Accountants	690,000	600,000

Apart from the said fees, the Company did not pay any other fees and traveling and lodging expenses were paid by the auditors themselves. As at 2004, they have provided services to the Company for 3 years.

## VIII. PUNISHMENT BY REGULATORY AUTHORITIES

During the reporting period, neither the Company nor the Board of Directors and its directors were involved in any punishment by the regulatory authorities.

## IX OTHER MAJOR EVENTS DISCLOSEABLE ACCORDING TO LISTING RULES OF THE STOCK EXCHANGE OF HONG KONG LIMITED

### 1. Code of best practice

The Directors are of the opinion that the Company has complied with the requirements of the “Code of Best Practice” as set out in Appendix 14 of the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange in 2004.

### 2. Pre-emptive Rights

Neither the Articles of Association of the Company nor the PRC laws require the Company to offer pre-emptive rights to its existing shareholders for subscription of new shares according to the proportions of their shareholdings.

### 3. Purchase, Sale and Redemption of the Company’s Shares

During the reporting period, the Company did not repurchase any of its listed shares, nor purchased or re-sold any listed shares of the Company.