

**Generating  
high return**  
for shareholders  
by continuously  
**enhancing  
corporate value**



# *Report of the Directors*

Ensuring long-term and stable return for shareholders is the Company's most important duty. In the past decade, Jiangsu Expressway has been generating high return for shareholders by continuously enhancing its corporate value. In its 10 years of listing, the Company has realized an aggregate of RMB6.715 billion in net profit, paying cash dividends for 9 consecutive years with a total of RMB4.845 billion distributed. The annual average dividend payout ratio is an impressive 72%.





## (1) Chairman's Statement



### To the Shareholders:

2006 marked the 10th anniversary of the Company's operation since commencement of its business, as well as the beginning of the Company's "second venture". It was a year of strategic importance on the Company's history of development. The 8-lane expansion project for Shanghai-Nanjing Expressway – the Company's operations cornerstone and core asset – was completed, embracing public users with a refreshed appearance. The Company's road traffic volume and operating results reached new highs since commencement. Progress was observed in all operations of the Company. The Company is ready for its second venture and is steadily marching into a new phase of development.

In 2006, the Group realized an operating revenue of RMB4,098,477,000, an increase of 83.57% as compared to the corresponding period of 2005. Under the PRC Accounting Standards, net profit realized was approximately RMB1,127,781,000 and earnings per share was approximately RMB0.224, an increase of approximately 61.93% as compared to the corresponding period of 2005. Under HKFRS, net profit realized was approximately RMB1,174,111,000 and earnings per share was approximately RMB0.233, an increase of approximately 75.76% as compared to the corresponding period of 2005.

### 1. A Decade's Development and Achievements

Owning Jiangsu Province's first expressway and as the province's first listed company of highway infrastructure projects, Jiangsu Expressway has gone through 3 phases of development over the past decade: the initial venture, the management enhancement stage, and the second venture. The first 10 years of operations represent a decade of venture, development and magnificence for the Company.

- **10 Years of Development**

- **Success in Capital Market Operation**

The Company's visionary and innovative moves in the capital market have established its position as a market pioneer in large infrastructure projects. In 1994, the Company became the first "China's Pilot Infrastructure Enterprise with a Society-Funded Joint Stock System". The Company's H-shares were listed in Hong Kong in 1997, and soon followed by an A-share offering in Mainland China in 2000. In 2002, the American Depositary Receipts ("ADR") of the Company were listed in the United States of America. Successful operation in the capital market has made the Company an internationalized listed firm with listing status in three cities (Shanghai, Hong Kong and New York) of two countries (China and the U.S.A.), whilst emulating the world standards in terms of corporate governance and operation.



### — Positive Expansion of Capital

Successful operation in the capital market has also served to provide capital sources for the Company's development and growth. The Company has achieved a positive expansion of capital by continuously acquiring and investing in quality assets, transforming itself from the operator of a single expressway to the manager of six highways and a bridge with a total mileage of over 700 km. All these projects are the best in Jiangsu Province. At present, the Company owns three subsidiaries and has equity interests in three associates, with RMB27 billion in total assets and becoming China's largest listed highway operator in terms of asset scale.

### — Regulated Corporate Governance

The Company has made internationalization its primary aim since its listing, following strict compliance with listing rules to maintain a sound foundation of governance and regulated operation procedures. The Company also dedicates itself to enhancing its corporate governance standards, thereby establishing the corporate image of being a regulated and healthy enterprise. By striving to cultivate a good relationship and harmonious atmosphere between the Company, the market and the shareholders and to achieve interactive and mutually trusting communications with investors, the Company demonstrates the character of an excellent and pro-active company. Adhering to the principle of integrity and aiming to increase corporate transparency, the Company has been dedicating to establishing itself as a company with integrity and transparency in the marketplace.



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### — Enhancement of Management Quality

In the past decade, we have been tirelessly exploring and enhancing the operational management of expressways. We have made constructive ventures in system innovations, management innovations and technical innovations, making the Company the first expressway management company in China to receive the accreditation on an integrated quality, environment and occupational health and safety management system. At the same time, the Company stimulates the dedication and service spirit of the staff by cultivating a healthy and progressive corporate culture. Based on the corporate mission of "Contributing to the harmony and development of the society through dedicated efforts to provide quality expressway service and through continuous enhancement of corporate value", we promote the spirit of "To serve with sincerity; To team up with unity; To dedicate with a sense of duty" among our staff. Our aim is to provide quality services to our users and to make the Company a top-calibre service provider.



## — Realizing the Second Venture

To cope with the demand posed by the social and economic development of the region and to realize the Company's long-term strategic goals, the Board of the Company decided to proceed with the 8-lane expansion of Shanghai-Nanjing Expressway. The expansion project has boosted the expressway's overall calibre, from standards, quality, services, environment to management. The project has further reinforced the core competitiveness of the Company's core asset, enabling the Company to maintain its leadership role in the sector and building an elevated platform of venture for the Company's long-term development.

### • 10 Years of Achievements

## — Exemplary Contributions to the Society

The social and economic development of the region has contributed to the Company's excellent results, and the Company's strong sense of duty to the society and users motivates it to reciprocate the society's contribution and serve the public. In its 10 years of operation, the Company has substantially mitigated the strained traffic condition along its roads. This has significantly improved the quality of infrastructure of the southern part and even the whole of Jiangsu Province, effectively facilitating the rapid social and economic development of local communities along the Company's roads. During its 10 years of operation, the Company has provided excellent services to drivers or passengers of almost 300 million vehicles, realizing an aggregate of RMB9.975 billion in profit and paying an aggregate of RMB3.619 billion in taxes, making positive contributions to the social progress and economic development of the region.

## — High Return for Shareholders

Ensuring long-term and stable return for shareholders is the Company's most important duty. In the past decade, Jiangsu Expressway has been generating high return for shareholders by continuously enhancing its corporate value. In its 10 years of listing, the Company has realized an aggregate of RMB6.715 billion in net profit, paying cash dividends for 9 consecutive years with a total of RMB4.845 billion distributed. The annual average dividend payout ratio is an impressive 72%.

## 2. 2006 Review

In 2006, the expansion project of Shanghai-Nanjing Expressway was completed and passed inspection a year ahead of schedule. While the operational management of an 8-lane expressway was an entirely new concept for us, the operation in the past year showed that with all preparatory measures ready, no difficulties were observed in terms of management. Its operation was stable and in good order, offering users a safe, comfortable and fast travel environment of high quality. The Company's service quality and responsiveness were highly acclaimed by the public at large.





As the Company's core asset, the 8-lane Shanghai-Nanjing Expressway recorded satisfactory recovering growth after it has come into operation, leading to an improvement in the Company's businesses across the board. The Company's road traffic volume and operating results all reached historic highs in 2006. At the same time, the Company further stepped up its efforts in enhancing its internal management system, implementation of decisions and risk control. Thorough improvement was observed in the Company's asset management, cost controls, human resource reforms, regulated operations, management procedures and so forth.

In 2006, the Company successfully completed the share segregation reform in accordance with the requirements of the China Securities Regulatory Commission ("CSRC"), striking a balance between the interests of shareholders of circulating shares and those of non-circulating shares and achieving the best scenario of benefiting all sides. Continued progress was made with regard to corporate governance issues such as company management, equity management and investor relations. At the end of 2006, the Company won the Diamond Award (the top prize in the category) in the H-share Companies Category of the Best Corporate Governance Disclosure Awards organized by Hong Kong Institute of Certified Public Accountants.

### 3. Development Environment and Strategies

The past decade has laid a solid foundation for the long-term development of Jiangsu Expressway. As we stand on an elevated platform of venture upon completion of the 8-lane expansion project of Shanghai-Nanjing Expressway, we feel that the future has just started.

- **Development Environment**

- **Economic Trends**

The domestic macroeconomic environment is generally favorable for 2007. Domestically, the positive impacts of macroeconomic control measures are gradually emerging. The continuity and stability of the measures will be maintained, and the economy's performance will become more solid. Such trends will offer new opportunities for the development of Jiangsu's economy, and it is estimated that the quality and efficiency of the province's economic performance will see further improvement. The sustained development of the regional economy will facilitate stable growth for the Company's economic efficiency.

- **Development of Transportation Infrastructure**

China's highway sector is currently in a stage of rapid development. According to the planning guidelines of the Eleventh Five-year Plan (2006-2010) promulgated by the State in 2006, preference is given to developing the transportation industry. The State and local governments have also devised comprehensive and forward-looking plans for transportation networks. We will see substantial demand for investment in China's highway sector in the future. According to the Eleventh Five-year Plan for the expressways of Jiangsu Province, 1,200 km of new expressways will be built by 2010, propelling the total mileage to 4,000 km. In the meantime, the region's civilian vehicle ownership maintains rapid growth. All these imply expansive development prospects and potential for the toll highway sector over a considerably long period in the future, thereby offering good development opportunities to the Group.



- **Upcoming Challenges**

The sustained economic growth and the increasingly regulated market environment provide opportunities for the Group's development. At the same time, the Board and the management are also acutely aware of all the risks and challenges facing the Group at present. In our view, at this moment we have to resolve the following market and management challenges: potential competition and diversion effects will inevitably arise as a result of re-distribution of traffic flows caused by road network expansion; further challenges on traffic control, road maintenance and repair, safety management and cost control resulting from the operation of an 8-lane expressway; a more demanding attitude towards service quality and responsiveness of the Company as a result of the community's high expectations on the new Shanghai-Nanjing Expressway, whereas our management level is still behind that of the first-class road facilities; pressure and risks on the rapid growth of the Company's short-term results due to the increases in asset depreciation and gearing ratio; and mounting difficulties in choosing investment projects in future due to a continuous rise in project construction and financing costs.



- **Business Strategies**

In light of various challenges, we will implement strategic measures upon a solid assessment of our own advantages and deficiencies, in order to facilitate stable growth for the Company.

In the new year, the Company will devote itself to road operation and management, elevating its service quality and ensuring an orderly operation of its roads. The Company will enhance its core competitiveness in all aspects, so as to embody its competitive edge on excellent road quality and advanced operating principles, apart from its impressive geographical location. It will continuously carry out operational innovations and enhance operating mechanisms, thereby ensuring rapid and efficient proceeding of various tasks. Accordingly, the Company will raise its quality in terms of operation, management and services, and maintain its nationwide leadership position in the construction and management of expressways.

Facing the existing financial pressure, the Company will strengthen effective controls over operating costs and financing costs. With no contributions from new projects for the time being, the Company will fully exploit the growth potential of existing projects to raise the overall return rate of the Company's assets. The Company will also explore and seek new financing approaches to reduce financing costs, in order to enhance profitability and maintain a stable growth of the Company's results.



In terms of investment strategy, the Company will continue to focus its attention on the investment, construction, operation and management of toll highways. At the same time, the Company will fully capitalize on the favorable opportunities presented by the sector's development and an active market, with a view to selecting quality projects and timely enhancing the development potential of the Company so as to achieve stable and sustainable development.

Dear shareholders, the current fifth session of the Board was formed upon the election of a new session held in 2006. In the next three years of the term of office, the fifth session of the Board will continue to perform its duties with diligence and integrity and will fully capitalize on the professional expertise of our Directors, striving to enhance the decision-making efficiency and governance standards of the Company. With the abundant experiences in operational management and market operations amassed in the past decade of development, the Board will lead the Company to set off from the starting point of yet another new venture, marching towards further success.

**Shen Chang Quan**

*Chairman*

23 March 2007





## (2) Schedule of Work of the Board of Directors

Meeting No. and Board Session	Date of Meeting	Designated Websites and Newspapers for Information Disclosure on which Board Resolutions were Published	Date of Disclosure
15th Meeting of the Fourth Session of the Board	7 April 2006	www.sse.com.cn	10 April 2006
16th Meeting of the Fourth Session of the Board	28 April 2006	www.hkex.com.hk	8 May 2006
17th Meeting of the Fourth Session of the Board	30 May 2006	www.jsexpressway.com	31 May 2006
1st Meeting of the Fifth Session of the Board	5 June 2006	China Securities Journal	6 June 2006
2nd Meeting of the Fifth Session of the Board	12 July 2006	Shanghai Securities News	13 July 2006
3rd Meeting of the Fifth Session of the Board	18 August 2006	Hong Kong Economic Times	21 August 2006
4th Meeting of the Fifth Session of the Board	26 October 2006	South China Morning Post	27 October 2006

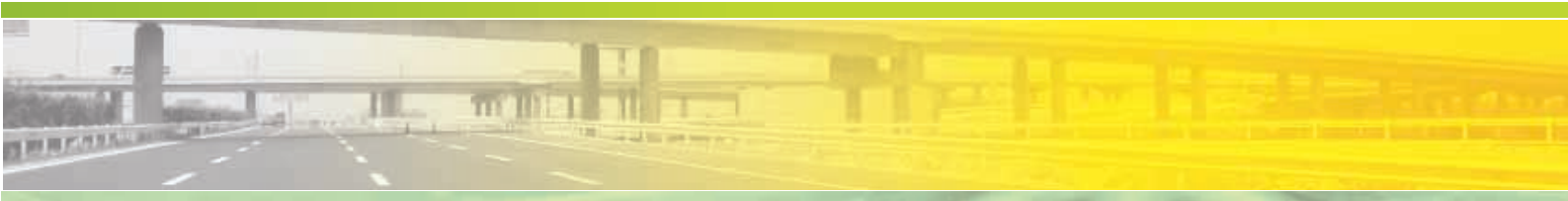
## (3) Implementation of Resolutions Approved at the General Meetings

### 1. 2005 Profit Distribution Scheme

At the annual general meeting held on 5 June 2006, the following profit distribution scheme for 2005 was considered and approved: a cash dividend of RMB1.45 (tax inclusive) for every 10 shares shall be distributed to all shareholders on the basis of a total share capital of 5,037,747,500 shares at the end of 2005. The Board of the Company, with authorization given by the shareholders' general meeting, decided that the record date for determining the entitlements of domestic shareholders was 15 June 2006, and the ex-dividend date was 16 June 2006. Dividends for H-share holders are denominated in RMB and payable in HK dollar, and a cash dividend of HK\$1.402 was paid for every 10 shares held. The deadline for registering transfer of H shares for dividends was 5 May 2006. The dividends were declared on 5 June 2006 and were paid on 26 June 2006. The profit distribution scheme for 2005 has been completed.

### 2. Principal and Interest Repayment for Short-Term Financing Bills

At the extraordinary general meeting held on 9 September 2005, the Company's proposed issuance of short-term commercial papers with an aggregate amount of not exceeding RMB4 billion was considered and approved. Short-term financing bills with an aggregate amount of RMB4 billion and a term of one year were issued to inter-bank institutional investors in two tranches on 23 September 2005 and 7 November 2005 respectively. Maturity dates of the afore-mentioned commercial papers were September 2006 and November 2006 respectively. The Company has repaid the principal and interests accordingly as scheduled.



### 3. Share Segregation Reform of A-Shares

On 24 April 2006, the Company held a relevant shareholders' meeting on the A-share segregation reform. At the meeting, the following share segregation reform proposal of the Company was considered and approved: the non-circulating shareholders shall transfer 48,000,000 shares to the circulating A-shareholders at zero consideration, representing a consideration of 3.2 shares paid by the non-circulating shareholders for every 10 circulating A-shares held by the circulating A-shareholders. On 16 May 2006, the afore-mentioned consideration shares obtained listing status and became circulating shares in the market. Accordingly, the Company's share segregation reform was fully completed. The circulating shares with selling restrictions will obtain listing status in stages upon fulfillment of the selling restrictions.

### 4. Asset-Backed Special Revenue Asset Management Scheme

At the first extraordinary general meeting for year 2006 held on 4 September 2006, the following was considered and approved: the Company would implement the Special Revenue Asset Management Scheme backed by the Shanghai-Nanjing Expressway toll revenue in a designated period in the future which is equivalent to a pre-determined sum to raise up to RMB4 billion with a scheme period of not exceeding five years. As at the date of this annual report, relevant materials for the proposal were submitted to the China Securities Regulatory Commission ("CSRC") for deliberation.

## (4) 2006 Profit Distribution Scheme Proposed by the Board

According to the audited results reported by auditors, the Group realized a net profit of RMB1,127,781,000 in 2006 under the PRC Accounting Standards. Earnings per share was RMB0.224. Under HKFRS, the net profit was RMB1,174,111,000, and earnings per share was RMB0.233. Pursuant to relevant provisions of the Ministry of Finance and the Articles of Association of the Company, in the event of any discrepancy between the profit of the Company calculated in accordance with the PRC Accounting Standards and that as calculated in accordance with HKFRS, whichever is lower will prevail.



Based on the total share capital of the Company of 5,037,747,500 shares, the Board has proposed to pay a final dividend of RMB0.19 (tax inclusive) per share to all shareholders. The afore-mentioned profit distribution scheme proposed by the Board will be submitted for consideration and approval at the 2006 annual general meeting. The exact date and procedures for the payment of final dividends will be announced separately.