

Strengthening Our Prowess

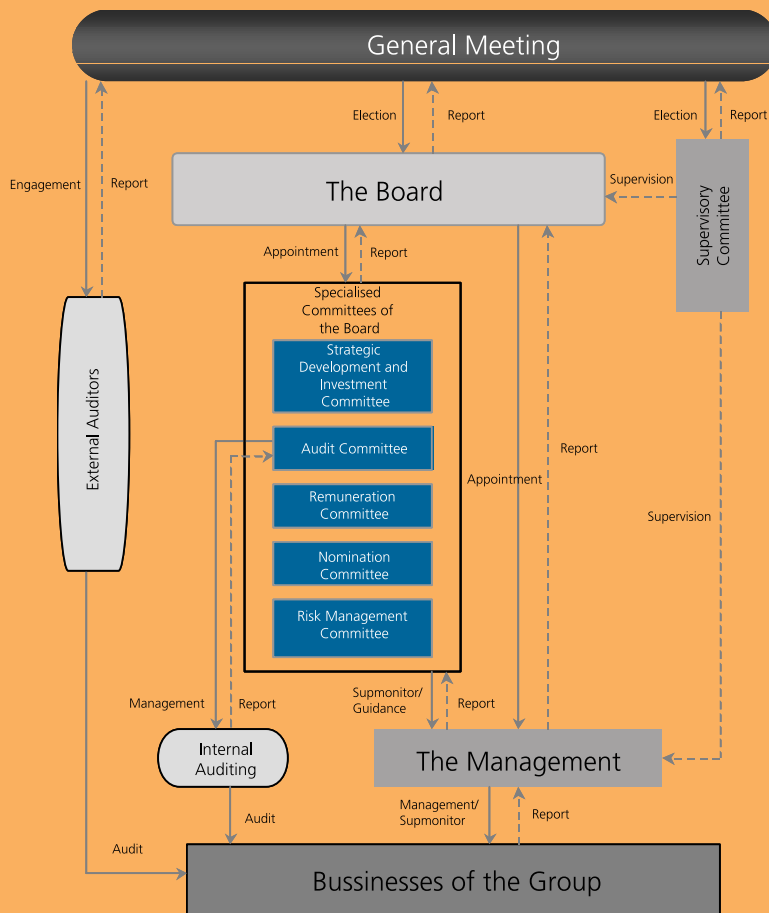


Corporate Governance Report

The Company is listed on both HKEx and SSE. Besides complying with the relevant laws and regulations, we have to comply with the requirements of Code on Corporate Governance Practices of HKEx and Code of Corporate Governance for Listed Companies of CSRC.

The Company fully understands that it can ensure its stable development and increase shareholders' value by adhering to a corporate principle of truthfulness and diligence, maintaining good corporate governance principles, increasing the transparency and independence of the Company's operations and establishing an effective accountability system. Therefore, the Company has been striving to enhance its governance standards.

Corporate Governance Structure of Shenzhen Expressway



Compliance with the Code on Corporate Governance Practices

During the Reporting Period, the Company has fully adopted the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules of the HKEx.

The current corporate governance practices of the Company have gone beyond the requirements of the aforesaid Code in certain aspects, including:

- √ the adoption of the cumulative voting system for election of directors;
- √ the appointment of 4 Independent Directors, accounting for 1/3 of the Board membership. The total of 10 non-executive directors (including Independent Directors) exceeds 2/3 of the Board membership;
- √ the stipulation on the terms of office for Independent Directors of no more than 6 years;
- √ the establishment of the Nomination Committee, the Risk Management Committee (RMC) and the Strategic Development and Investment Committee (SDIC) under the Board, in addition to the Audit Committee and the Remuneration Committee;
- √ the provision of independent channel for the Audit Committee to obtain information about fraudulence risks, whereby informants may report alleged fraudulence directly to the chairman of Audit Committee;
- √ disclosure of senior management remunerations on a named basis in the annual report;
- √ preparing and publishing quarterly results announcements in accordance with CAS, and voluntarily notify major differences between the accounting statements under CAS and HKFRS;
- √ increasing disclosure of shareholder information;
- √ further enhancing communication with shareholders.

Details regarding the above are contained in this report, whereas the contents marked with the symbol[□] can be found on the website of the Company.

A. Board of Directors

Responsibilities and Division of Work

The Board is responsible for leading the Group’s development, establishing the Group’s strategic goals, and ensuring the availability of necessary financial and other resources for the Group to achieve pre-set strategic goals. The principal duties of the Board are to exercise management and decision-making authorities as conferred by the shareholders’ general meeting in respect of corporate development strategies, management structures, investment and financing, planning, financial control, human resources, and so forth. The Articles and the attachments to the Articles[□] have already spelt out the Board’s duties and authorities in respect of corporate development strategies and management as well as its duties and authorities to supervise and inspect the Company’s development and operation.

The different duties and roles of the Chairman of the Board (the “Chairman”) and the Chief Executive (the “President”) have been clearly defined which have also been spelt out in the Articles and the attachments to the Article[□]. The Chairman of the Company is Mr. Yang Hai, while the President is Mr. Wu Ya De. The Chairman is responsible for providing leadership in the Board to set strategies and achieve the Group’s goals and his duties include: overseeing and coordinating the operation of the Board, confirming the agenda of each Board meeting and ensuring the Board functions effectively and discusses all major and appropriate matters in a timely and constructive manner; ensuring the availability of accurate, timely and clear information to induce effective contribution from the Board; monitoring the execution of the Board’s resolutions; and maintaining effective communication with shareholders. The President, with the support and assistance of the Board and other senior management of the Company, is responsible for coordinating and managing the Group’s business and operations, implementing the strategies laid down by the Board and making day-to-day operating decisions.

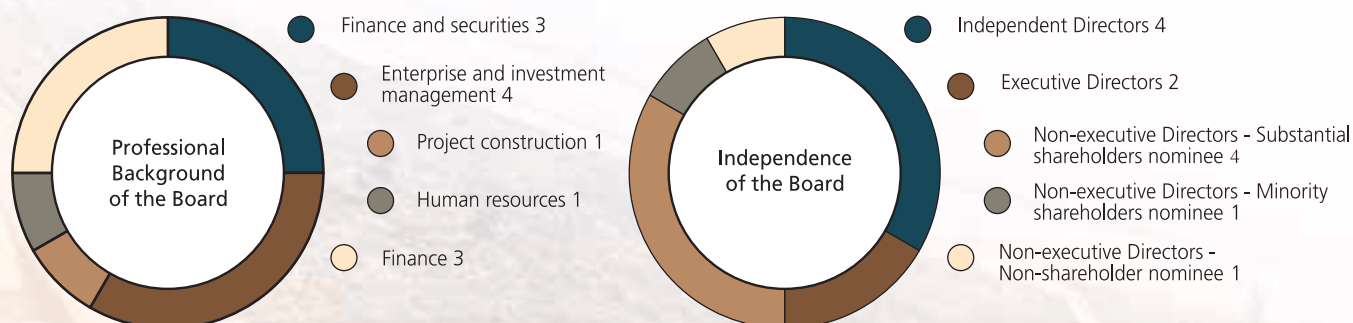
Composition of the Board

The current Board is in its fourth session since the establishment of the Company and it comprises 12 directors. Details of the members of the Board are as follows:

Name	Date first become Director	Period	Experience/skill
Executive Directors:			
Yang Hai	April 2005	3 years	industry experience, road and bridge construction
Wu Ya De	January 1997	11 years	industry experience, corporate management
Non-Executive Directors			
Li Jing Qi	April 2005	3 years	international banking experience, risk management
Wang Ji Zhong	April 2005	3 years	industry experience, financial management
Liu Jun	January 2006	2 years	financial and foreign investment management
Lin Xiang Ke	June 1998	10 years	industry experience, financial management
Zhang Yang	March 2001	7 years	industry experience, investment project management
Chiu Chi Cheong, Clifton	December 1996	11 years	financial, securities and accounting
Independent Directors			
Li Zhi Zheng	January 2003	5 years	technical, operations and administrative management
Zhang Zhi Xue	January 2003	5 years	human resources management
Poon Kai Leung, James	May 2003	5 years	investment banking experience, financial and risk management
Wong Kam Ling	June 2005	3 years	financial management

The afore-mentioned directors possess different professional background or professional expertise, with more than one Independent Director possessing professional accounting qualifications or appropriate expertise in accounting or related financial management as required by the regulatory organisations. Brief biographies, terms and positions held in shareholding institutions of the directors are set out in the section "Directors, Supervisors and Senior Management" of this annual report.

Composition of the Board



The Board currently has four Independent Directors, representing one third of the total membership of the Board. There are only two executive directors, representing one sixth of the total membership of the Board. Such a structure helps the Board to analyse and discuss issues from various perspectives. It also helps the Board to maintain its independence and to review and monitor the Company's management procedures in a strict manner, thereby providing sound supervision and balance to safeguard the overall interests of the Company and the shareholders.

Board Meetings

8 Board meetings were held in 2007 to discuss the Group's operational and financial performance, investment and financing proposals, management structure, human resource management and so forth. Major items discussed include:

- consideration of the annual final accounts and budgets, work reports of the Board and internal control assessment reports;
- consideration of the annual, interim and quarterly reports;
- consideration of the annual profit distribution proposal;
- formulating or amending certain administrative rules of the Company, including the 《信息披露事務管理制度》(Rules Governing Information Disclosure Matters), 《投資者關係管理制度》(Rules Governing Investor Relations) and 《董事會秘書工作細則》(Work Guidelines for Secretary to the Board);
- processing specific work on the enhancement of corporate governance and approving the self-inspection report and the reform report on corporate governance matters;
- determining the Company's annual performance targets and approving the implementation of the proposals on enhancing staff performance management and incentive system;
- re-appointing senior management of the Company and adjusting and optimising the Company's organisational structure;
- studying and determining matters on changes in accounting policy, significant accounting matters and re-appointment of auditors;
- consideration of the corporate bond issue proposal and relevant matters and approval of the Company's annual financing arrangements and mandates;
- consideration of the commencement of preliminary works of Coastal Expressway (Shenzhen Section) and the entrusted construction of Nanping Expressway (Phase II), and so forth; approving on the entrusted operations management business and the purchase of office properties, and so forth.

The Board holds one regular meeting each quarter and holds ad hoc meetings when necessary. Notices of all regular meetings shall be dispatched to all directors at least 14 days before the meeting is held, while notices of ad hoc meetings shall be dispatched at least 5 days before the meeting is held. The Company's Chairman, President and Supervisory Committee have the right to call for an ad hoc meeting. Meanwhile, over 1/3 of the directors, over 1/2 of the independent directors and shareholders representing 10% of the voting rights may also propose to hold an ad hoc Board meeting when necessary, so as to ensure that all significant matters of the Company can be considered and discussed appropriately.

The Company's management is responsible for supplying the Board with the relevant information and data necessary for the consideration of various resolutions, as well as arranging managers to report on various businesses especially the progress of the Group's substantial matters, so that the Board can make rational and scientific decisions on the basis of adequate understanding in the required information. When necessary, directors may individually and independently contact the Company Secretary and other senior management members directly to obtain more detailed information and opinions. Directors and the specialised committees of the Board may engage independent professional institutions for services with reference to the needs of duty and business, and reasonable fees incurred shall be borne by the Company.

Whenever a transaction is considered at a Board meeting, the Directors are required to report their respective interests involved, and abstain when appropriate. According to the Company's Rules of Procedures for the Board of Directors[□], a Director should abstain from a meeting and be given no voting rights in case an item considered by the Board is relevant to his/her personal economic interests. In addition, according to the Listing Rules of the SSE, a Director who also holds office in a connected company is not allowed to vote in case the Board is considering a transaction between the connected company and the listed company. During the Year, when the Company was considering a resolution on accepting an entrusted operations management business, 4 Directors holding offices in connected companies reported their respective interests in accordance with the relevant rules and abstained from voting.

The minutes of the Board meeting contains detailed information of matters discussed at the meeting, including the factors considered by each Director, any doubts raised or opposing opinion expressed, and the final decisions. The draft of the meeting minutes shall be dispatched to each Director for further opinion within a reasonable period of time after each meeting. The finalised version shall be kept properly according to the Company's file management rules and dispatched to each Director for inspection. Directors may also inspect the minutes any time through the Company Secretary.

B. Directors

Appointment

Directors are elected or replaced at shareholders' general meetings. Shareholders of the Company, the Board and the Supervisory Committee are eligible to nominate candidates for directorship in writing. Directors serve for a term of 3 years and, upon expiry of the term, their appointment is subject to further consideration at a general meeting and they may offer themselves for re-election. Independent Directors are eligible for re-election, subject to a maximum term of 6 years.

The Company's Rules of Procedures for the Board of Directors[□] have listed the Company's requirements on the qualifications and basic qualities of Directors, the nomination format and the proposing procedures: that is, the Nomination Committee is responsible for qualification inspection and quality assessment on the candidates for directorship, as well as making proposals to the Board and providing explanations to the general meetings.

The Company's election of Directors adopts the cumulative voting system whereby, on election of Directors, the number of votes that each shareholder is entitled to cast is equal to the number of shares that he/she holds multiplied by the number of Directors whom he/she has the right to elect. Each shareholder may elect a Director by using all the votes held or may allocate the votes to all the candidates whom he/she has the right to elect at discretion. The candidate with more votes will be elected. The voting on the election of Independent Directors shall be conducted separately from that of non-independent Directors.

Information Support

The Company strives to enhance its internal information support systems and communication regimes to adequately guarantee the effective operation of the Board. During their respective terms of office, all Directors are able to duly obtain from the Company Secretary the relevant information and updates on the required statutory, regulatory and other continuing obligations that a director of a listed company should comply with, as well as other information such as relevant industry policies, market opinions and the Company's operations. In 2007, the Company compiled 7 editions of reference document summaries and 5 editions of market news briefings for the Directors, so as to provide them with the most updated regulatory policy documents and relevant reports and analyses on the securities market and the news media. During the Year, the Company also arranged for the Board the annual work report meeting and group learning on relevant regulatory rules, as well as organizing site visits to Wuhuang Expressway and Qinglian Project for the Directors.

Through the various approaches mentioned above, all Directors, particularly the Non-executive Directors, may obtain timely and diversified updates on the Company's business development, competition and regulatory environment and other information which may affect the Group and the industry. Each Director is provided with channels to communicate and contact the senior management member of the Company and specific committee secretaries independently when necessary. The provision of timely, adequate and continuing information to all the Directors ensures a good understanding of their duties, facilitating them to exercise correct decision-making and effective monitoring, and also guarantees a thorough implementation of the procedures of the Board and due compliance with applicable laws and regulations.

Corporate Governance Report

Performance of Duties in the Year

Attendance of Directors at the Board meetings in 2007 was 100% (including attendance by appointing other Directors as proxies). Details of attendance of each Director at the Board meetings and the specialised committees are as follows:

Directors	Attendance in person/Total number of meetings					
	The Board	SDIC	Audit Committee	Remuneration Committee	Nomination Committee	RMC
Executive Directors:						
Yang Hai	8/8	1/1	3*	—	2/2	2*
Wu Ya De	8/8	1/1	4*	3*	2*	2*
Non-executive Directors:						
Li Jing Qi	6/8 [#]	1*	—	—	—	2/2
Wang Ji Zhong	8/8	1*	—	—	—	—
Liu Jun	7/8 [#]	—	—	—	—	—
Lin Xiang Ke	8/8	1*	—	—	—	—
Zhang Yang	7/8 [#]	1*	—	3/3	—	2/2
Chiu Chi Cheong, Clifton	6/8 [#]	1/1	4/5 [#]	—	—	—
Independent Directors:						
Li Zhi Zheng	7/8 [#]	1/1	—	3/3	2/2	—
Zhang Zhi Xue	6/8 [#]	1*	—	3/3	2/2	—
Poon Kai Leung, James	7/8 [#]	1*	5/5	—	—	2/2
Wong Kam Ling	8/8	1*	5/5	—	—	—

#: Directors who were unable to attend meetings in person had appointed other Directors as their proxies to attend and vote at the meetings on their behalf.

* Had attended the meetings as observer

During the Reporting Period, the Company's Directors attended Board meetings in a prudent, responsible, proactive and serious manner, adequately capitalising on their respective professional experience and expertise. They provided independent judgment, knowledge and experience towards the matters discussed, thereby helping to ensure that the Board dutifully fulfills its financial and other required reporting duties, as well as enhancing corporate governance, preventing operation risks and pushing forward the Company's business development.

The Company's Independent Directors were able to perform their duties independently and were not subject to the influence of the Company's substantial shareholders, de facto controllers or other units or individuals having interests in the Company. Besides attending Board meetings in a serious manner and performing their duties loyally, the Independent Directors held meetings with the external auditors according to the requirements and directions of the relevant regulations to discuss the annual auditing work. They also provided independent opinions and proposals to the Board regarding the Group's significant matters and connected transactions, thereby giving sound supervision and balance of safeguarding the overall interests of the Company and shareholders. In 2007, the Independent Directors gave no dissent to matters discussed by the Board and did not propose to hold any Board meeting. The Company's Independent Directors assumed crucial duties and tasks in the 5 specialised committees of the Board, based on their respective professional experience and expertise, making substantial contributions to enhance the decision-making efficiency and quality of the Board through the specialised committees' effective operation. Since 2005, the Independent Directors have been submitting annual work reports at the general meeting each year for shareholders' review.

Remunerations of Directors

The Company has been disclosing the remunerations of Directors and Supervisors on a named basis since 2004 and the same policy has been adopted for senior management since 2005. According to the Company's regulations, Directors or the senior management are not allowed to set their own remunerations. Details of the Company's remuneration policies, Directors' and senior management's remunerations, and the appraisals and incentive regimes for senior management are set out in "Emoluments of the Directors, the Supervisors and Senior Management" in the section "Report of Directors" and "Human Resource Management" in the section "Management Discussion and Analysis" of this annual report.

Independence of Directors

The Company has appointed a sufficient number of Independent Directors. The Board has obtained written confirmations from all Independent Directors concerning their independence in accordance with rule 3.13 of the Listing Rules of HKEx. The Company believes that the incumbent Independent Directors have all complied with the relevant guidelines as stipulated in such rule and are regarded as independent.

Securities Transactions by Directors

The Securities Transaction Code of the Company[□] has been adopted by the Board in accordance with Appendix 10 to the Listing Rules of HKEx entitled "Model Code for Securities Transactions by Directors of Listed Issuers" as a written guide to regulate dealings in the Company's securities by the Directors, Supervisors and relevant staff. The standards set under Appendix 10 to the Listing Rules have been incorporated into the Securities Transaction Code of the Company. After making specific enquiry of all the Directors, Supervisors and senior management, the Company confirms that all of the Directors, Supervisors or senior management have complied with the standards on securities transactions by directors as stipulated by the aforementioned code during the Reporting Period.

Insurance on Directors' Liabilities

The Company is considering to arrange appropriate insurance against legal actions possibly faced by the Directors and is planning to submit the proposal for consideration at the 2007 annual general meeting. The Company believes that an appropriate insurance arrangement can enhance the Company's ability to resist risks, as well as diversifying and reducing professional risks for the Directors. This will in turn encourage the Directors' innovative spirit and will create the condition for the Company to attract more excellent management staff. In addition, this will also help to protect the legal interests of small/medium shareholders and is a good practice to enhance corporate governance.

C. Specialised Committees of the Board

Five specialised committees have been set up under the Board, each of which has formulated its terms of reference[□] for monitoring the specific areas of the Company's business. Such terms of reference have been approved by the Board.

Strategic Development and Investment Committee

Established in November 2001, its current members include Mr. Yang Hai (Chairman), Mr. Wu Ya De, Mr. Chiu Chi Cheong, Clifton and Mr. Li Zhi Zheng.

Responsibilities

Responsible for examining and reviewing the directions of the Company's strategic plans, formulating strategic plans, monitoring the implementation of strategies and facilitating adjustments to the Company's strategies and governance structure on a timely basis.

Major Tasks in the Year

One meeting of the SDIC was held in 2007, during which the “Five-year Development Strategies 2005-2009” and their implementation in the past 3 years were reviewed and evaluated. The Company’s strategic development directions, investment and financing strategies, development strategies for existing businesses such as toll highway investment, entrusted construction and advertising, share option incentives, the Board’s authorisation system, and so forth were discussed with reference to the internal and external environment.

Audit Committee

Established in August 1999, it comprises mainly Independent Directors. The current members include Mr. Wong Kam Ling (Chairman), Mr. Poon Kai Leung, James and Mr. Chiu Chi Cheong, Clifton.

Responsibilities

Principally responsible for reviewing and monitoring the quality and procedures of the Group’s financial reporting; evaluating whether the Company’s internal control regimes are sound and effective; appointing the independent auditors, coordinating their work and reviewing the efficiency and quality of their work; and reviewing all written reports furnished by internal audit officers as well as the management’s feedback to such reports.

Major Tasks in the Year

Annual Work Report of the Audit Committee

Five meetings of the Audit Committee were held in 2007, with two more meetings held in early 2008 (as at the date of signature of this report) to fulfill the duties. Among the aforementioned meetings, external auditors were invited to five meetings to discuss the relevant issues. The Audit Committee has the regime of holding independent meetings at the request of external auditors, the Company’s management or the Audit Department, so as to guarantee the independence and objectivity of reporting. The Audit Committee will, after each meeting, submit a report to the Board on major items discussed and brief the Board at least every six months on its work and progress. The Audit Committee hereby reports the major tasks in the said period as follows:

1. Review of Periodic Financial Statements

The Audit Committee is responsible for reviewing and monitoring the quality and procedures of the Group’s financial reporting. Pursuant to the relevant procedures, the management is responsible for the preparation of the Group’s financial statements, including the selection of the appropriate accounting policies therefor; the external auditors are responsible for auditing and verifying the Group’s financial statements and evaluating the Group’s internal control regimes about the compilation of financial statements of the Group; while the Audit Committee supervises the work of the management and the external auditors and approves the procedures and protective measures adopted by the management and the external auditors.

The unaudited financial statements for the first and third quarters of 2007 (prepared under CAS) and the unaudited financial statements for the first six months of 2007 have been reviewed by the Audit Committee and submitted to the Board for approval prior to their publication.

The Audit Committee’s reviewing on the 2007 financial statements include:

- Before the annual audit began, the committee had obtained the working plan on the annual financial report and annual audit from the Company’s Financial Controller. The committee had also considered the external auditors’ report on the annual audit plan, and discussed and confirmed with them the method, scope, time of auditing work, as well as the evaluation and counter-measures for significant misrepresentation risks regarding the Group’s financial statements.

- Before the external auditors began the audit, the committee preliminarily reviewed the Group's 2007 financial statements with special attention paid to the handling of the Year's significant financial and accounting matters. The Audit Committee gave preliminary approval to the management's proposal and suggested giving further attention to the impairment assessment of Changsha Ring Road and enhancing the annual financial statements and the notes' contents, so as to ensure the compliance, completeness and accuracy of disclosure and the consistency between the overall data in the financial statements and the notes.
- On 10 March 2008, after the external auditors issued the preliminary auditing opinion, the Company held a joint meeting attended by the Audit Committee, the Independent Directors and the external auditors, with the Chairman at Supervisory Committee invited to participate as well. The committee again reviewed the 2007 financial statements of the Group and had in-depth discussion and communication with the management and the external auditors over the appropriateness of the accounting policies adopted by the Group and the rationality of the accounting estimates. The Audit Committee believes that the accounting policies and accounting estimates adopted by the Group for 2007 satisfied the requirements of the domestic and overseas accounting standards, while the significant accounting estimates adopted and the handling of significant financial and accounting matters were reasonable.
- Through adequate communication in advance and timely supervision during the process, the external auditors had submitted as scheduled the annual auditing report and their management letter on the internal control relevant to the preparation of financial statements on 14 March 2008.

Based on the aforementioned work and the external auditors' auditing report, the Audit Committee believes that the Group's 2007 financial statements truthfully and reasonably reflect the Group's 2007 operating results and the financial position as at 31 December 2007, and hereby suggests the Board to approve as such.

2. Internal Control and Risk Management

To gradually enhance the Group's internal control and risk management regimes, the Audit Committee furnished the management promptly with professional advice on the Group's significant matters or reminded the management of any risks associated with such matters, as well as furnishing the management with professional advice on the enhancement of internal control and corporate governance standards on an ongoing basis.

In early 2007, the Audit Committee set up a separate reporting mail box to obtain fraud-related information in a timely manner and a cooperation memorandum was reached with the Company's disciplinary supervision committee on this basis to strengthen the communication and cooperation between both sides. Meanwhile, the Audit Committee regularly exchanged opinion with the external auditors on the control of fraudulent risks.

The Audit Committee is also responsible for monitoring and appraising the Company's internal audit. It reviewed all auditing reports and annual internal control inspection reports submitted by the Audit Department and issued independent evaluation on the effectiveness of the Group's internal control regime, so as to ensure that the Group sets up and executes the appropriate internal control regime and procedures.

3. Work Evaluation and Re-appointment of Auditors

After discussion and evaluation with the management, the Audit Committee summarised the external auditors' auditing work in 2007. The committee believes that PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. performed well in terms of independence and objectivity, professional skills, quality and efficiency of financial information disclosure auditing, and communicating with the management and the Audit Committee. We hereby proposes to the Board to re-appoint the aforementioned institutions as the Company's international auditors and statutory auditors for 2008, respectively.

Members of the Audit Committee: Wong Kam Ling, Poon Kai Leung, James, Chiu Chi Cheong, Clifton

14 March 2008

Remuneration Committee

Established in November 2001, it comprises mainly Independent Directors. The current members include Mr. Li Zhi Zheng (Chairman), Mr. Zhang Zhi Xue and Ms. Zhang Yang, all being Non-Executive Directors.

Responsibilities

Responsible for studying and examining the Company's remuneration policies and incentive regimes, devising the appraisal standards for the Company's Directors and members of the senior management, and conducting appraisals thereof.

Major Tasks in the Year

Annual Work Report of the Remuneration Committee

Three meetings of the Remuneration Committee were held in 2007 and one meeting was held in early 2008 (as at the date of signature of this report), with studies conducted and proposals made for the enhancement of the Company management's operating performance management and incentive regime. Major tasks include:

- Inspecting the management operating performance evaluation method for 2007 and making proposals to the Board. Based on a scientific and rational principle, the committee conducted adequate studies and discussions on the evaluation method and provided concrete amendment proposals to achieve effective motivation and control on the management and to ensure the execution of the Company's strategic objectives.
- Appraising and evaluating the execution of the 2006 and 2007 management operating results targets. Based on the annual performance evaluation method approved by the Board, the committee inspected and evaluated each of the indicators and key tasks, with the annual performance scores of the management calculated and submitted to the Board for consideration.
- Providing guidance to the enhancement of the management incentive regime and considering the resolutions on enhancing the staff performance management and incentive regimes, with proposals made to the Board; inspecting the distribution proposal of the special incentive fund under the share appreciation rights scheme for the year 2005. As mandated by the Board, the committee supervised and guided the execution of the Company's remuneration and benefit regimes and the establishment and enhancement of the incentive regime, based on a prudent principle and adequate consideration of the market practice and the Company's actual situation.
- Reviewing the remuneration disclosure proposal for the Company's Directors, Supervisors and senior management. The committee reviewed the drafts of the disclosure proposal submitted and conducted serious discussions on the exact items and format of disclosure, arriving on the view that the overall disclosure proposal complies with the requirements of the relevant regulatory rules.

Members of the Remuneration Committee: Li Zhi Zheng, Zhang Zhi Xue, Zhang Yang

14 March 2008

Nomination Committee

Established in November 2001, it comprises mainly Independent Directors. The current members include Mr. Li Zhi Zheng (Chairman), Mr. Zhang Zhi Xue and Mr. Yang Hai.

Responsibilities

Responsible for examining and devising the Company's human resources development strategies and planning; and conducting studies and making proposals in respect of nominees, nomination criteria and nomination procedures for the Directors and members of the senior management.

Major Tasks in the Year

Two meetings of the Nomination Committee were held in 2007. Tasks completed during the Year include:

- Conducting studies and providing guidance on enhancing the Company's organisational structure in accordance with the Company's development needs; and considering the resolution regarding organisational structure adjustment made by the management, and submitted the relevant proposal to the Board.
- Studying the positions of senior management and making adjustment proposals to the Board; giving guidance to the Company on enhancing other positions.
- Providing guidance and conducting supervision on assessing the service of the terms of office and re-appointment of the Company's senior management, as well as making adjustment proposals on the terms of office of senior management.
- Conducting continuous documentation management on the work of representatives assigned by the management to invested enterprises.

Risk Management Committee

Established in August 2004, its current members include Mr. Poon Kai Leung, James (Chairman), Ms. Zhang Yang and Mr. Li Jing Qi.

Responsibilities

Responsible for improving and enhancing the Company's procedures and systems for managing its investment activities, and providing support to the Company's business decision-making and operations by performing risk analysis and controls in relation to individual investment projects.

Major Tasks in the Year

Two meetings of the RMB were held in 2007. Major tasks in the Year include:

- Determining the investment report templates for various projects, including investment proposals, thereby creating standardised templates for investment proposals and financial analysis in the decision-making of investment projects; and determining the persons-in-charge, frequencies, basic content and formats of reporting tasks such as post-investment tracking reports and post-investment-evaluation reports.
- Reviewing the progress tracking report on Qinglian Project.
- Discussing with the management the risk management work for the Company's entrusted construction projects and advising the Company to establish separate management procedures for this business, as well as summarising experience in a timely manner, so as to facilitate better identification and evaluation of entrusted construction risks in future.

D. Accountability and Audit Supervision

Statement of Responsibility by the Board for the Financial Statements

This statement intends to clarify for our shareholders the responsibilities to be assumed respectively by the Directors and the auditors of the Company for the financial statements. It should be read together with the statement of responsibility by the auditors set out in the Independent Auditor's Report on page 97.

It is the Board's opinion that the financial statements were prepared on the basis of ongoing operations given that the resources available to the Company are sufficient enough for carrying out ongoing business operations in the foreseeable future. Appropriate accounting policies have been adopted in preparing the financial statements on pages 99 to 173. These policies have been applied throughout the preparation of the financial statements and supported by reasonable and prudent judgments and estimates, and in accordance with all accounting standards which the Board deems appropriate.

It is the responsibility of the Board to ensure that the account records prepared by the Company can reflect a reasonable and accurate view of the Company's financial position and that the financial statements are in compliance with the requirements of relevant accounting standards of Hong Kong.

Auditors

The financial statements contained in the Company's 2007 annual report were prepared in accordance with CAS and HKFRS respectively, and have been audited by PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. ("PwC Zhong Tian") and PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) ("PwC"), respectively.

PwC Zhong Tian was appointed as statutory auditors since 2004, and it has been providing audit services to the Company for 4 consecutive years. PwC as the Company's international auditors has been providing audit services to the Company for 12 consecutive years since 1996. Its partners in charge of the Company's audit were changed in 2003.

From the perspective of improving governance quality, the Audit Committee has clarified its principles on the issue of appointing the Company's auditors to provide non-audit services such as specific audits and evaluations for investment projects. Since 2006, the Company has ceased appointing the Company's auditors to conduct other non-audit services.

The remuneration of the auditors in the year 2007 is set out as follows:

(RMB '000)	2007		2006	
	Audit fees ^{Note 1}	Other fees ^{Note 1}	Audit fees ^{Note 1}	Other fees ^{Note 1}
PwC	1,950	—	1,650	—
PwC Zhong Tian	990	—	1,800 ^{Note 2}	—

Note 1 Pursuant to the requirements of CSRC's "Q&A No.6 on Information Disclosure Regulations for Companies with Publicly Issued Securities", audit fees are fees paid by a listed company for appointing auditors to conduct audit, verification and review services for financial reports or other matters in accordance with the requirements of laws, administrative rules and regulatory documents; other fees represent fees, other than those mentioned above, paid by a listed company for asset evaluation or appointing auditors for consultation services, and so forth.

Note 2 The auditors have submitted a written confirmation in respect of the aforementioned remuneration issues.

Note 3 Apart from the fees for the annual audit, the 2006 audit fees for PwC Zhong Tian include RMB1 million of fees for the statutory engagement of PwC Zhong Tian for specific services in relation to the Company's proposed issuance of Bonds With Warrants.

Note 4 Pan-China Schinda Certified Public Accountants of Shenzhen were the original auditors of The Company's subsidiaries Qinglian Company and Advertising Company engaged Carea Schinda Certified Public Accountants (originally Pan-China Schinda Certified Public Accountants of Shenzhen; after merging with other accounting firms to form Carea Schinda Certified Public Accountants in 2007, it remained as the auditors for the 2 subsidiaries mentioned above) to perform audit services. The audit fees paid during the Reporting Period amounted to RMB43,000.

The Audit Committee is responsible for reviewing the appointment, resignation or replacement of independent auditors, as well as assessing the quality of the auditors' services and whether their audit fees are reasonable and making recommendations to the Board in this regard. The appointment and replacement of auditors as well as the audit fees are proposed by the Board to the general meetings for approval or authorisation. The Audit Committee has conducted a summarising evaluation on the 2007 auditing work of PwC Zhong Tian and PwC and has made proposals to the Board on the appointment of the Company's auditors for 2008. For details, please refer to the content of "Annual Work Report of the Audit Committee" above.

E. Internal Control Mechanisms

Supervisory Committee

The Supervisory Committee exercises independently the power of supervision upon the Company in accordance with the law to ensure that legal rights of the shareholders, the Company and its staff are not infringed.

The Supervisory Committee of the Company is composed of three supervisors, including Mr. Jiang Lu Ming (Chairman of the Supervisory Committee), Mr. Zhang Yi Ping and Mr. Yi Ai Guo. During the Reporting Period, Supervisor Mr. Zhong Shan Qun resigned on 3 September 2007 because of internal work re-assignment by the nominating shareholder. On the same date, Mr. Jiang Lu Ming was elected as a Supervisor and was elected by the Supervisory Committee as the Chairman of the Supervisory Committee. Changes in Supervisors, as well as the biographies, terms, principal positions held in shareholders of the Supervisors are set out in the section "Directors, Supervisors and Senior Management" of this annual report.

The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations. Eight meetings of the Supervisory Committee were held during 2007 to supervise, on behalf of the shareholders, on the Company's financial matters and on whether the discharge of duties by the Directors and senior management was lawful and regulated. The Supervisory Committee's members attended all Board meetings and general meetings, and diligently performed their supervisory duties. Details relating to the work of the Supervisory Committee are set out in the section "Report of the Supervisory Committee" of this annual report.

Internal Control

A comprehensive and practicable internal control system is the foundation of good corporate governance. The Board is responsible for developing and maintaining an internal control system of the Company to protect shareholders' interest and to safeguard the Group's assets by reviewing the effectiveness of major control procedures for financial, operational, compliance and risk management matters.

The Company always emphasises regulated internal management and enhances its market competitiveness by strengthening regulated scientific management and continuously improving operations management quality. On aspects such as project construction, toll highway operation and maintenance, financial management, human resources management, investment management, capital operations, accounting and auditing, information disclosure and investor relations management, the Company has devised comprehensive management systems and application guidelines to ensure stable development for the Company.

The major management rules for various aspects of the Company's operation include the following:

Corporate Governance
<ul style="list-style-type: none"> ◆ Articles of Association and rules of procedures ◆ Work Rules for the General Manager ◆ Terms of Reference for Specialised Committees ◆ Securities Transactions Code ◆ Rules Governing Information Disclosure Matters ◆ Rules Governing Investor Relations ◆

Financial Management
<ul style="list-style-type: none"> ◆ Basic rules on Financial Management ◆ Rules Governing Financial Budgeting ◆ Rules Governing Capital ◆ Rules Governing Financing ◆ Rules Governing Fixed Assets ◆ Management Rules for Financial and Accounting Reports ◆

Highway Construction Management
<p>Construction Project Management Manual: Detailed management procedures are set out for various aspects of the project construction business, such as establishing project institution, tendering, project analysis and design, construction work, work inspection and receipt upon completion, settlement upon work completion, project supervision and assessment.</p>

Human Resources Management
<ul style="list-style-type: none"> ◆ Management Rules for Staff Recruitment ◆ Performance Management Rules ◆ Rules Governing Remuneration and Benefits ◆ Management Rules for Competition and Promotion ◆ Rules Governing Training ◆ Management Rules for Delegated Representatives ◆

Toll Highway Management
<p>Toll Highway Management Manual: Detailed management procedures are set out for the highway operation's management structure, division of labour among different positions and business procedures, encompassing aspects such as toll collection operation, sales and marketing, maintenance of highway maintenance of mechanical and electrical maintenance of highway facilities, toll station logistics and procurement and services.</p>

In December 2004, the Company's "Internal Control System Manual", which was based on the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework, was considered and approved by the Board. Scientific and controllable internal control is achieved through effective operational procedures such as personnel management, segregation of duties, authorisation and limitation of authorities, cross-checking, asset protection, file safe-keeping, budget management, electronic information control, accounting system control and so forth. The internal control system is implemented by the management upon the authorisation of the Board and the effectiveness of the system is reviewed by the Board through the Audit Committee.

The Board makes every effort to conduct continuous inspection and assessment on the effectiveness of internal control. In 2007, the Company began to try a complete series of internal control assessment procedures which include:

- Early in the Year, based on its own operational characteristics, the Company devised the annual internal control inspection and supervision plan as the basis of assessing the functioning of internal control.
- Through comprehensive assessments and combining specific audits and continuous audits, the audit department conducts regular and irregular inspections on the internal control system's functioning and completeness. The annual inspection and assessment for the Company's internal control system is conducted according to the assessment checklist designed on the basis of the COSO internal control framework.
- After the annual and interim periods, with reference to the auditing work results, the audit department submits the report on internal control inspection to the Audit Committee and the Board.