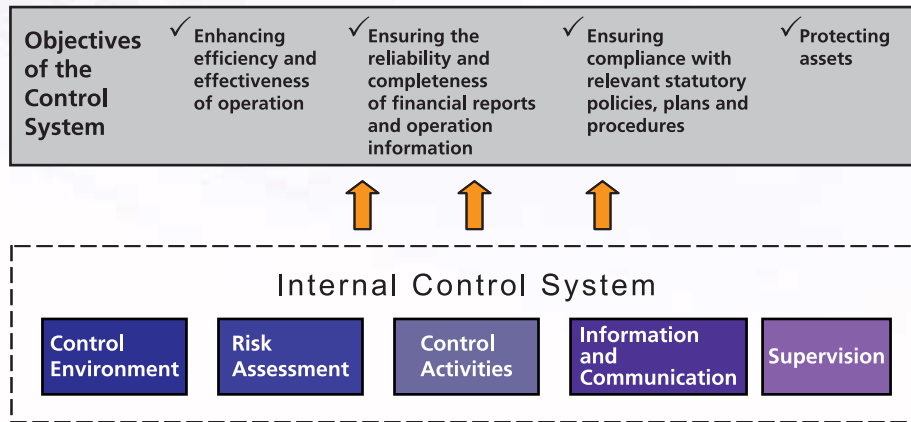


Through the aforementioned tasks, the Board has thoroughly reviewed the effectiveness of the Company's internal control system for the year ended 31 December 2007. In view of the past review work and the internal assessment this year, the Board believes that during the Reporting Period, the Company's internal control on the five major aspects, namely the control environment, risk assessment, control activities, information and communication, and supervision, were basically sound and effective. It was able to meet the Company's requirements on corporate governance, operation, construction, investment, finance and personnel management, thereby providing reasonable assurance on compiling accurate and fair financial statements and thorough compliance with the relevant laws and regulations.



Given the limitations inherent to any internal control system, the Company's internal control system has been established for the purpose of managing potential risks. It is impossible for the system to eliminate all risks. Thus the system can only offer a reasonable, rather than absolute, assurance for the achievement of the Company's operating objectives. Accordingly, it is impossible for the system to eliminate all significant false representations or losses.

Basic Evaluation of the Internal Control System, 2007

Control Environment	<ul style="list-style-type: none"> ◆ The functioning for the general meeting, the Board and the Supervisory Committee and the internal control system are normative and internal management system are generally sound. ◆ The Board is composed of Directors with appropriate knowledge, skills and qualities, with a generally sound overall structure and division of duties. ◆ The management has set forth the value on integrity and stable development, whilst at the same time setting the integrity and ethical standards to the staff through their own deeds. A corresponding reward and punishment system is established. In 2007, themed training sessions on the comprehensive corporate risk management system were held to strengthen the risk awareness of the management. ◆ A rational setting and dissection of medium/long-term strategic objectives is in place, with a strategic objective-based performance incentive regime established. ◆ A rational organisational structure with corresponding authorisation documents is in place. Allocation of authorities and responsibilities is basically rational. ◆ Established relevant human resources management regimes and timely adjusted the positions and staff roll according to business development needs, thus allowing the Company to recruit and retain adequate capable staff. ◆ A long-term incentive regime is yet to be established and the implementation of human resources policies and performance management system are to be strengthened. The Company should also timely supplement and improve the relevant management systems and procedures according to regulatory environment changes and the Company's own development needs.
Risk Assessment	<ul style="list-style-type: none"> ◆ At SDIC meetings, the management gave detailed analyses on the risks and concerned areas in the process for achieving the strategic objectives. ◆ The audit department has compiled the Company's Basic Procedures for Risk Management and the relevant procedure according to the risk management work plan proposed by the President. Such items will be implemented upon consideration and approval by the Company. ◆ The RMC has compiled the "Risk Management Manual for Highway Project Investments" to establish standardised models of investment proposals and financial analysis for project investment decision-making. ◆ Conducting internal operation analysis and external information collection regularly to timely discover changes.
Control Activities	<ul style="list-style-type: none"> ◆ Control activities cover all levels and departments of the Company. The audit department undertook selective checks on the operational effectiveness of certain control activities of the Company through specific audits. No substantial weaknesses were discovered in the checked control activities. ◆ In 2007, the Company introduced the excellent performance management model, implemented a strategy of fully enhancing the Group's performance and began to establish a standardised quality management regime to further make various management tasks completely procedural and regulated. ◆ Establishing the "Crisis Management System" and certain contingency handling methods, in order to effectively prevent and handle contingencies.
Information and Communication	<ul style="list-style-type: none"> ◆ Devised the relevant systems and work guidelines regulating the Company's tasks on information disclosure, information flow and confidentiality. During the Reporting Period, the "Rules Governing Information Disclosure Matters" was effectively executed to ensure the openness, fairness and impartiality of information disclosure. ◆ The management managed to report timely to the Board on important or sensitive information or extraordinary matters regarding the Company. ◆ Regular weekly and monthly meetings are held by management members and the President Working Meetings are convened when necessary. ◆ All regular reports and specific analyses regarding operations and project construction management are submitted timely to the management and the functional departments. ◆ The intra-net provides a platform for internal sharing of public information. ◆ Specific staff are assigned to collect, process and analyse external information in order to compile reports for internal circulation. ◆ Investors hotline and customer query and complaint hotlines are established to conscientiously handle opinions and proposals offered by investors and customers, as well as discovering possible shortcomings in management.
Supervision	<ul style="list-style-type: none"> ◆ Emphasis on day-to-day supervision work and regular checks on the follow-up/implementation of matters decided upon at meetings and on completion of annual plans. ◆ Established the Standards Management Department in 2007 as the Company's internal quality control department, which is responsible for establishing the Company's quality management regime and exercising real supervision on the operation process. ◆ Compiled the Supervision System for the General Office to allow the Administrative Office to conduct supervision and inspection on working plans, matters decided at meeting, authorisation, and so forth. ◆ The audit department conducts specific audits each year at the request of the Audit Committee or the Company's management to compile auditing reports and submit them to the Audit Committee, as well as helping the Company to discover shortcomings in internal control and monitoring the implementation of the relevant enhancement measures.

Internal Audit

The Company's internal audit department has been established since August 2000 for the purpose of reviewing the effectiveness of the Company's operating management activities and the internal control system in a more effective manner, and for the purpose of assuring the Company's transparency as well as its compliance with the regulations when disclosing information to the public. Depending on the materiality and the potential risks existing in the internal control systems of various businesses and processes of the Company, the internal audit department carries out inspection, monitoring and evaluation of the Company's financial information disclosures and internal control activities on a regular or as-needed basis. It furnishes independent and objective evaluations and recommendations in the form of an audit report. The internal audits conducted by the audit department covered key business aspects including the Company's operation, construction, investment, corporate governance and financial management, providing continuous monitoring and evaluation of the Company's internal control system and management efficiency. Internal audit staff are authorised to gain access to any information relating to the Company and to make enquiries to staff concerned, and the audit manager will directly report to the Audit Committee on the findings and views, on the basis of which the Audit Committee will make recommendations to the management and submit regular reports to the Board.

In 2007, the audit department has reviewed all the periodic reports compiled by the Company; examined the preliminary drafts of such reports in terms of compliance with statutory disclosure rules, thoroughness and accuracy of disclosed items; and submitted internal audit reports and improvement proposals to the Audit Committee. In addition, the audit department conducted specific audits for the construction management of Qinglian project, road assets maintenance management, construction change management of Yanpai Project and regular audits on toll revenue and tolling station management as well as conducting selective checks on the Company's implementation of the Rules Governing Information Disclosure Matters. The respective audit reports and management recommendations were submitted to the Audit Committee for consideration and the major contents of such reports were furnished to the Board in the form of committee meeting memoranda.

F. Shareholders and Investor Relations

The Company strives to ensure that all shareholders, especially minority shareholders, are able to fully exercise their rights on an equal basis. According to the regulations of the Articles and the attachments to the Articles³, subject to the stipulated procedures and requirements, shareholders individually or collectively holding 10% or more of the voting shares are entitled to request the Board to convert an extraordinary general meeting or a class shareholder meeting, while shareholders individually or collectively holding 5% or more of the voting shares are entitled to propose new motions at the annual general meeting.

General Meetings

The general meeting is vested with the supreme authority of the Company, where duties and powers are exercised in accordance with the law to make decisions on significant matters of the Company. The annual or extraordinary general meeting provides a channel of direct communication between the Board and the shareholders of the Company. The Company puts high regard to the general meeting. The notice on the convening of a general meeting is issued 45 days prior to the date of the meeting. All shareholders are encouraged to attend the general meeting, and all the Directors and members of the senior management are requested to make their best effort to attend. At the annual general meeting ("AGM"), all shareholders have an opportunity to raise questions to the Directors regarding issues about the Group's operation and results. The Chairman of the Company attended the AGM held in April 2007, and arranged the chairmen or the representing committee members of the Audit Committee, the Remuneration Committee and the Nomination Committee to attend the AGM to answer shareholders' questions. Details of the general meetings held during the Reporting Period are set out in the section "Profiles of Securities and Shareholders" of this annual report.

Substantial Shareholders

XTC Company and SGH Company are substantial shareholders of the Company. The Company is independent from the substantial shareholders in terms of business, staffing, assets, institution and finance, possessing independent and wholesome businesses and the capability of independent operation. As substantial shareholders of the Company, they have never been involved in any acts of by-passing the general meetings in ultra vires interference, whether direct or indirect, with the Company's decision-making or operations.

Information about other shareholders as at the end of the Reporting Period, including shareholder categories, public float, shareholding details of the top ten holders of circulating shares, controlling shareholder and changes are set out in the section "Profiles of Securities and Shareholders" of this annual report.

Information Disclosure

Continuous and credible information disclosure can effectively build a bridge of communication and understanding between the Company, the public, investors and regulatory authorities. This can facilitate a broader and more thorough understanding of the Company's values. For years, according to the principles of openness, impartiality and fairness, the Company has been striving to comply with the requirements of the relevant laws and listing rules, and fulfilling the statutory information disclosure obligations in a timely and accurate manner. On this basis, the Company takes initiative to disclose other relevant information on issues concerned by investors and continuously enhancing the quality of information disclosure.

In 2007, interim and annual results announcements were made promptly and some 40 announcements were released, providing, in an objective and detailed manner, the Company's information on results and operations, bond issue, corporate governance, shareholding changes in de facto controlling entities, Board and Supervisory Committee operations, holding of general meetings, and so forth. Meanwhile, to further regulate the Group's information disclosure activities, the "Rules Governing Information Disclosure Matters" was further amended and improved, while the corresponding "Guidelines on Statutory Information Disclosure Standards" was promulgated. The aforementioned rules and guidelines provide clear regulations on the accountability regime, disclosure scope and content, and the reporting, reviewing and disclosure procedures for periodic report and discloseable information. Such rules and guidelines were effectively implemented during the Reporting Period.

Investor Relations Management

The Company believes that efforts on investor relations can help investors to enhance their understanding of the Company's business and development trends, thereby increasing investors' recognition on the Company's development prospects and in turn facilitating the enhancement of the Company's market value. The focus of investor relations work is effective communication. On the one hand, the Company insists on relaying investors concerned information with different methods to increase the transparency of the Company's operations. On the other hand, in such investor relations activities, the Company should also take the initiative to understand and listen to investors' opinions and suggestions, so as to help the Company to continuously elevate its corporate governance and operations management standards.

The Company established the Investor Relations Department in 2004 and amended and enhanced the "Rules Governing Investor Relations" and "Work Guidelines for Investor Relations" in 2007, thereby strengthening the management of investor relations work in its management structure and internal system. In organising investor relations activities, the Company mainly adopts the following approaches:

- Announcing the investor hotline and investor relations email box to respond to investors' phone or email queries promptly.
- Regular meetings with investors and analysts. In 2007, the Company received 61 investor visits involving about 155 visitors.
- Regular dispatches of press releases and investor newsletters in connection with the Company's operations and development.
- Participation in presentation activities such as investor forums, results presentations, press conference, telephone conferences, local and overseas roadshows and Online Investors Reception Days. In 2007, the Company organised annual and interim results presentations and press conferences in Shenzhen and Hong Kong, as well as three online exchange meetings. The Company also participated in six different investor forums, as well as organising roadshows in Hong Kong, Beijing, Shanghai and Shenzhen. Details of the various presentation activities during the Year are set out in the section "Events of the Year" of this annual report.
- Organising reverse roadshows. In 2007, 39 analysts or fund managers from 35 institutions participated in the Company's reverse roadshow held in July, having discussions with the Company's major management members and having field observations on the operating projects of Meiguan Expressway, Jihe Expressway, Yanpai Expressway and the projects Nanguang and Qinglian which were under construction.
- Investors and the public may also check out information and data about the Group's assets, traffic volume data, information disclosure and corporate governance at the Company's website.

Investor hotline	: (86) 755-8295 1041
Investor relations email box	: ir@sz-expressway.com

Company's website	: http://www.sz-expressway.com
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Shareholder Return

The Company insists in rewarding its shareholders with high return ever since its flotation, underpinned by the payment of cash dividends for 10 consecutive years with an aggregate dividend payment of approximately RMB 2.2 billion.

The Board will maintain a consistent dividend payout policy in the years ahead in consideration of both the long-term interest of the Company's investors and for their benefit of current gains. The Board recommended the payment of a cash dividend of RMB0.16 per share for the year 2007, representing 51.8% of the profit distributable for the Year under the PRC statutory financial statements or 51.7% of adjusted profit distributable for the Year under HKFRS.

G. Social Responsibilities

The Company clearly understands that an enterprise's long-term development requires a solid relationship with all stakeholders, which include not only shareholders and investors, but also the staff, the relevant government authorities, customers, suppliers and the whole society. The sustainable and healthy development

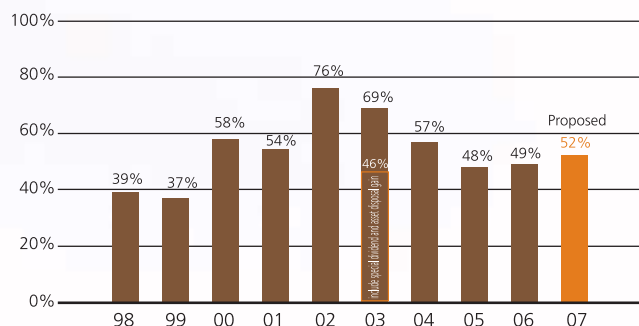
of an enterprise cannot be achieved in isolation from harmonious internal and external environments. Meanwhile, noble corporate conduct is also instrumental for enhancing a company's competitiveness. Accordingly, the Company strives to become a responsible corporate citizen, besides providing satisfactory rewards to shareholders. We act with integrity and in good faith, paying taxes as required by the law and contributing to the society; we care about customers' needs, providing them with good service and striving to ensure smooth traffic on our roads; we care about staff performance, providing them with a pleasant working environment and room for development and alleviating their worries; we care about social development, managing and developing our businesses in compliance with the law and participating in social charities and environmental protection. It is now exactly 11 years since the Company's incorporation, and there are still a lot of aspects which can be further improved or enhanced. However, the Company believes that our step-by-step and persistent efforts will gradually improve the society and environment on which we depend, so as to benefit the corporate and social development as well as the ultimate interests of shareholders.

Responsibility and Care to the Staff

The announcement and implementation of 《勞動合同法》(Labour Contract Law) pose new challenges to the human resource management of enterprises. Accordingly, the Company released the "Opinions on the Implementation of the Labour Contract Law", strictly complied with the statutory requirements and further improved the management of staff labour contracts. For the staff who are eligible for signing labour contracts with an indefinite term, the Company will handle their applications according to the law to safeguard their rights to work and job stability. For toll collection staff who have been working for over 5 years, the Company has launched the re-employment incentive payment scheme to finance staff to return to the workforce on the basis of acknowledging such staff's contribution to the Company. This provides more opportunities and choices to them in career development and planning. Currently, there are 27 staff who have applied for the re-employment incentive payment and RMB188,700 of incentive payment has been paid.

Historical Dividend Payout Ratio

Dividend payout ratio = Dividend/Profit (under HKFRS)



Corporate Governance Report

Pursuant to statutory requirements, the Group has participated in an employee's retirement schemes which is organised by the local government authorities (social endowment insurance), and has provided basic medical insurance package, industrial injury insurance, unemployment insurance and other insurance scheme to its employees. According to the relevant regulations, the Group should pay contributions equivalent to a certain percentage on the employee's aggregate salary (subject to a maximum cap) to the labour and social security authorities as social insurance contributions for items such as pension and medical insurance. As at 31 December 2007, the Company has two retired staff. The registration procedures in relation to their retirement have been completed through Shenzhen social security authorities. For other details of employee benefits, please refer to note 2.18 to the Financial Statements.

In addition, the Company has voluntarily procured commercial insurance on personal accidents for all staff, thereby providing our staff with additional safeguard. In 2002, the Company's labour union initiated the "Employee Mutual Aid Fund for Severe Illnesses and Personal Accidents", with funds raised through voluntary staff contributions, donations from invested enterprises and the Company's donations and sponsorships. This further enhances our staff's ability to weather the risks of illnesses and injuries and eliminates worries among the staff.

To retain key staff to facilitate stable corporate development, the Company has implemented the new enterprise pension scheme (also known as the supplementary pension insurance scheme) in April 2006, with reference to the spirit of the relevant enterprise pension regulations stipulated by the State Ministry of Labour and Social Security and Shenzhen city. Under this scheme, the Company makes regular enterprise pension contributions on behalf of the management staff and key technical staff besides making the statutory social security contribution. The scheme bases on the particular position salary of the staff and the contribution ratio is 8.3%, with the Company being responsible for the entire contribution. The contributed pension is kept in an individual account of the particular staff, and the Company entrusts qualified banks and investment fund management firms to manage such amounts. The pension will be withdrawn by a staff in a lump sum or in instalments upon his/her retirement. In 2007, the Company contributed a total of RMB1.66 million in enterprise pension on behalf of its staff. The implementation of the scheme allows the staff to further share the fruits of the Company's development, as well as safeguarding the livelihood of the staff upon their retirement and building a long-term trust between the Company and the staff.

During the Reporting Period, the Company added entertainment facilities for its frontline staff to facilitate a glamorous private cultural life. Catering and residential environment was improved, and high-temperature subsidies and cooling measures were provided for the staff during the hot seasons. Accordingly, the satisfaction of the toll collection staff was enhanced. Meanwhile, the Company has been adopting the policy of preferential toll collection staff recruitment for the less developed inland region, as the Company believes that working and living in Shenzhen can improve the economic condition of the staff's families, as well as providing a platform for such regions to absorb new ideas and new concepts, thereby facilitating the development of these regions. In 2007, the Company was also honoured the "3rd session of Excellent Home for Non-domestic Workers in Shenzhen" by Shenzhen Municipal Government.

Cultivated by a sound corporate culture, the Company's staff also made their best effort to care about others and repay the society. When natural disasters occurred in other regions of the country, the Company's staff took initiative to donate money and materials. In normal times, the staff actively participated in various voluntary works. During 2007, an employee of one of our tolling stations received the honour of "Five-star Volunteer" from the Shenzhen Municipality, exemplifying the outstanding morals of the Company's staff.



During the Year, the Company also provided learning and development platforms to the staff through measures such as enhancing the multi-layer training system, organising internal recruitment drives and improving the remuneration and incentive system. For details, please refer to "Human Resources Management" in the section "Management Discussion & Analysis" of this annual report.

Road Safety and Traffic Coordination

The Company is engaged in the construction and management of expressways, providing customers with safe, fast and comfortable traffic. In all circumstances, safety is the top priority of the operation. Meanwhile, the Company also bears the social responsibility of coordinating and channelling traffic to ensure smooth traffic as much as practicable so as to raise the degree of satisfaction among customers.

To ensure safety, the Company strengthened its road patrol effort to facilitate timely handling of potential risks to traffic safety such as road damage or diseases. In addition, we actively study and adopt new materials, techniques and handling approaches to raise the road safety coefficient. Moreover, we strive to enhance the efficiency, effectiveness and responsiveness in handling contingencies such as traffic accidents to alleviate or reduce traffic congestion and casualties caused by accidents, by way of measures such as strengthening traffic monitoring, enhancing road patrol and rescue efforts, conducting surveys and investigations with accident-prone road sections, and carrying out analysis with reference to the technical state of road surface.



In traffic coordination, the Company timely grasps the change characteristics and mode of traffic, on the basis of recording and analysing traffic volume data. In addition, we set contingency proposals and measures in a targeted manner to strive for higher lane and staff utilisation rates. In view of major festivals and other traffic peak periods, the Company enhances the toll collection efficiency by introducing efficient portable toll collection equipment, adopting single-lane multi-vehicle toll collection, dynamic working shifts and assigning contingency staff. Moreover, we take the initiative to enhance the interaction with news media such as TV/radio stations and newspaper to remind vehicles to travel at off periods. Moreover, we print and distribute leaflets about shortcuts to help drivers to timely grasp driving routes and traffic information, as well as

organising inter-regional road network cooperation to jointly divert traffic. The Company thinks in the logic of drivers and share the government's concerns, continuously improving service standard and quality and striving to fulfill the corporate responsibility of raising social transportation efficiency and providing the public with convenient traffic.

With the growth of the Company, the concept of serving vehicle-owners and the society has been strengthening and updating as well. For example, Jihe East Company not only insists on providing rapid and courteous toll service, but also included the five aspects of emergency vehicle repair, vehicle traffic accident emergency handling, first aid for traveller acute sickness, traveller problem aid and community service into its voluntary service system. In 2007, Jihe East Company also employed several social supervisors from vehicle-owners and institutions such as government departments, large transportation vehicle fleets and transportation media. Through media opinion, social supervision and mutual interaction with vehicle-owners, communication with the society was facilitated, thereby further elevating the Company's social image and operation and service standards.

Environmental Protection

The Company always believes that environmental protection is not only a statutory obligation, but also an unshirkable social responsibility for enterprises. In planning and constructing highway projects, the Company reduces the impact of noises through methods such as expanding the roadside greening efforts, improving the quality of road surface materials, adopting rational route arrangement, and so forth. We also relocate inhabitants along the roads who are more severely affected or strengthen other noise-prevention measures; during construction, rational arrangements are made with earth cutting sites, quarries and waste disposal sites to reduce dust pollutants, as well as strengthening environmental monitoring to ensure the construction units thoroughly enforce the water/land conservation measures and to ensure all pollutants are emitted under the set standards, so as to reduce the negative impact on the surrounding ecology caused by construction works.

For the reconstruction of Qinglian Project, the biggest problem is the disposal of over 1 million cu-metres of old concrete road surface dug out. In piles of 10 metre-high each, such construction wastes would occupy almost 150 hectares and cause massive destruction to the surrounding environment. Our construction staff tackled the problem head on with innovation, and after repeated experimentation and testing, adopted a programme that crushed and recycled old road surface. This saved tens of million RMB of material costs, as well as successfully solving the dilemma facing construction and environmental protection.

As for Nanguang Expressway, certain sections pass through the two major reservoirs in western Shenzhen. In order to avoid polluting the reservoirs' water quality, the Company has set up monitoring devices along all sections. Double-layer railings and strengthened wavy railings were installed along the sections close to the source water protection areas, with warning signs erected at the entry spots of the source water protection areas. Moreover, reference was made to advanced foreign experience to install road surface rainwater treatment system at the sections along the source water protection areas, so as to ensure that rainwater and possible pollutants caused by accidents will not enter the source water protection areas. In January 2007, Nanguang Expressway was honoured "2006 Leading Collectivity on Soil and Water Conservation" by the Shenzhen Municipal Water Affairs Bureau.



During the construction of Nanguang Expressway, the area of bare earth resulted from excavation and fillings, interchange construction, earth cutting sites and earth disposal sites totalled over 900,000 square metres. While conducting the greening design, the Company emphasised the resumption of ecological protection. We selected a variety of trees, shrubs and grasses to generate a rational layout, thereby successfully creating a multi-layer highway ecological system resembling a natural forest. On the bare earth, hill and rock dug out during the construction process, we planted shrubs and grasses that adapt with the original vegetation. At interchanges, we primarily use trees which work well on water/soil conservation. For rocky slopes which impose huge difficulty for plantation, we adopted specialised plantation techniques which significantly increased the vegetation survival rate. As for the design of slope protection, we increased the variety and density of shrubs. This enhanced both the protective capability and aesthetics of the plantation.

In future construction work and management, the Company will continue to pay attention to the government's environmental protection policies. Meanwhile, on the basis of ensuring that the actual implemented standards will not fall below those required by the government, the Company will also proactively shoulder the enterprises' share of environmental protection responsibility.

H. Conclusion

From April 2007 onwards, according to the CSRC'S arrangements and plans, the Company commenced the special activities on corporate governance enhancement. The Company timely completed the tasks for the three stages of self-inspection, public assessment and reform and enhancement, making dedicated efforts to discover shortcomings in corporate governance and timely adopted relevant improvement measures. The Company disclosed the "Corporate Governance Self-Inspection Report" and the "Corrective and Remedial Report of Special Activities for Corporate Governance" in June and October 2007 respectively, giving detailed disclosure on the aspects such as self-inspection, reform plans, public assessment, on-site inspection by the Shenzhen Regulatory Bureau of CSRC and the evaluation by the SSE.

Sound corporate governance goes beyond meeting the regulatory authorities' basic requirements for listed companies' operations. More importantly, it calls for meeting the company's internal development needs. A scientific and regulated decision-making system, a supervisory system with check and balance and effective execution capabilities constitute the foundation for the Company's healthy and sustained development. The Company will continue to review and appropriately improve its corporate governance practice and will continuously enhance its management efficiency and standards.