



**Jiangsu Expressway Company Limited**

(Hong Kong Stock Exchange Stock Code: 177)

Entering the Second Venture  
**with Steady Growth**



**2007** Annual Report

## **Corporate Mission**

**Contributing to the harmony and development of the society through dedicated efforts to provide quality expressway services and continuous enhancement of corporate value.**

## **Management Principle**

**A regulated system with integrity; Clear division of labor; Care for staff; Continued improvement.**

## **Staff Spirit**

**To serve with sincerity; To team up with unity; To dedicate with a sense of duty.**

### **IMPORTANT**

*The board of directors (the "Board"), the supervisory committee and the directors, supervisors and senior management of Jiangsu Expressway Company Limited (the "Company") confirm that there are no false representations or misleading statements contained in or material omissions from this report; and jointly and severally accept responsibility for the authenticity, accuracy and completeness of the content of this report. Mr. Shen Chang Quan, chairman of the Company, Mr. Xie Jia Quan, general manager, and Ms. Liu Wei, financial controller of the Company, warrant the authenticity and completeness of the financial statements in this annual report. The audit committee of the Company has reviewed the financial statements for the year.*

# contents

<b>2</b>	Company profile
<b>4</b>	Financial and operating highlights
<b>10</b>	Major events in 2007
<b>12</b>	Report of the directors
<b>22</b>	Management discussion and analysis
<b>42</b>	Corporate governance report
<b>73</b>	Changes in share capital and shareholders
<b>83</b>	Directors, supervisors, senior management and staff
<b>95</b>	Shareholders' general meetings
<b>96</b>	Report of the supervisory committee
<b>98</b>	Significant matters
<b>104</b>	Financial report
<b>147</b>	Company Information
<b>149</b>	Documents available for inspection
<b>150</b>	Appendix
<b>155</b>	Confirmation opinion
<b>156</b>	The Group's highway network



# Company Profile

Jiangsu Expressway Company Limited (the “Company”) was incorporated as a joint stock limited company on 1st August 1992 in Jiangsu Province of the People’s Republic of China (the “PRC ”). The current registered capital amounts to RMB5.038 billion.

The Company is principally engaged in the investment, construction, operation and management of the Jiangsu Section of Shanghai-Nanjing Expressway (“Shanghai-Nanjing Expressway”) and other toll highways within Jiangsu Province owned or invested by the Group. It also develops passenger transport and other ancillary services along these highways (including refueling, catering, retailing, automobile repair and maintenance, advertising and accommodation, and so forth).

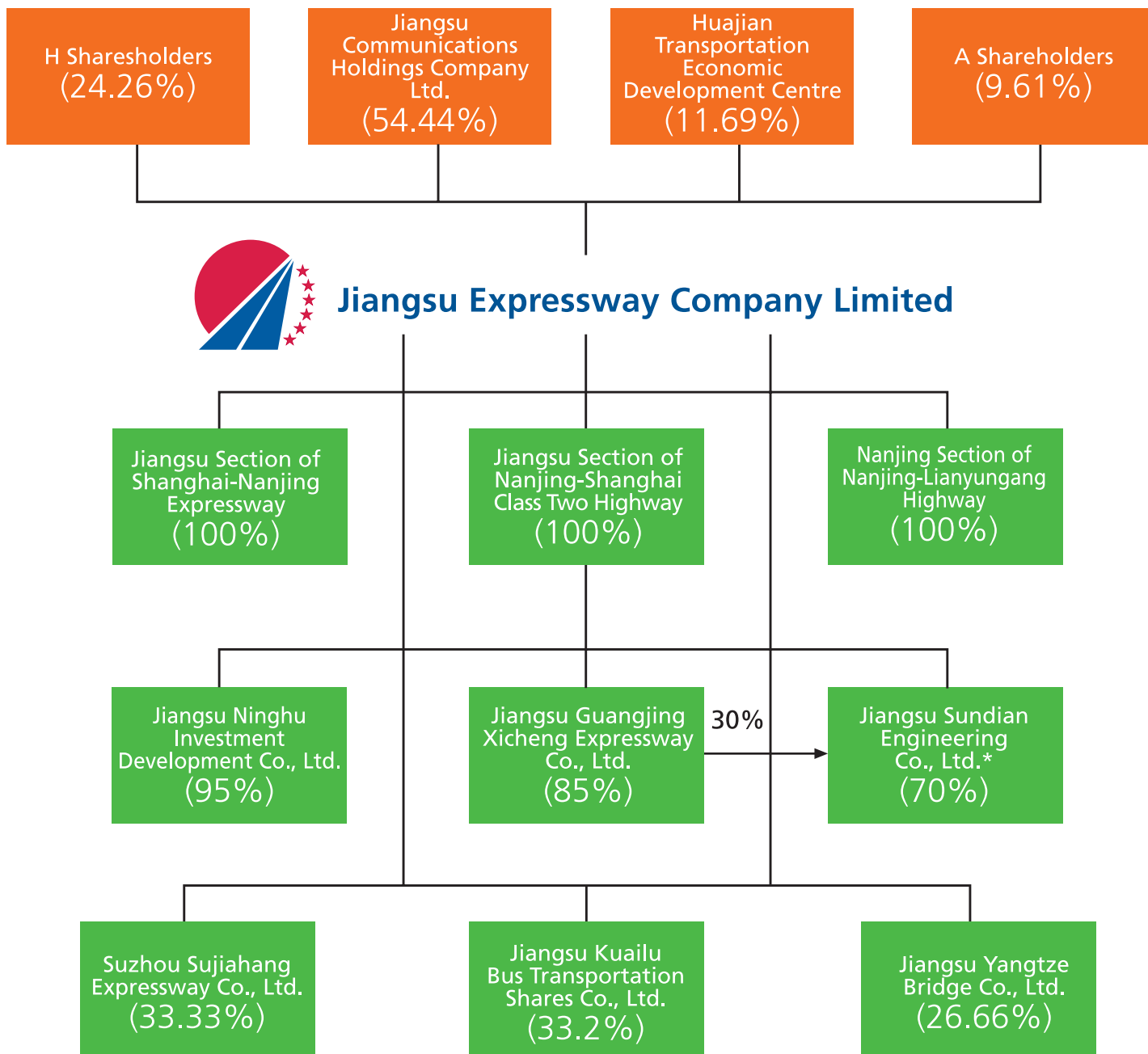
The Company is the only listed company in Jiangsu Province’s transport and infrastructural industry. On 27 June 1997, the Company issued 1,222,000,000 H shares which were listed on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”). On 16 January 2001, the Company issued 150,000,000 A shares which were listed on the Shanghai Stock Exchange (“Shanghai Stock Exchange”). The Company established Sponsored Level I American Depositary Receipt Programme (“ADR”) which came into force on 23 December 2002, trading in the over-the-counter market in the United States of America. As at 31st December 2006, the total share capital of the Company was 5,037,747,500 shares.

The Company is principally engaged in the investment, construction, operation and management of toll roads and bridges. Apart from Shanghai-Nanjing Expressway, the Company also owns the entire or partial interests of other toll roads and bridges located in Jiangsu Province, including the Jiangsu Section of G312, Xicheng Expressway, Guangjing Expressway, the Nanjing Section of Nanjing-Lianyungang Highway, Jiangyin Yangtze Bridge and Sujiahang Expressway. As at 31 December 2007, the highway mileage managed by the Company exceeded 700 km, with total assets amounting to RMB25.9 billion. The Company is one of the PRC’s largest listed companies in the toll road industry in terms of total assets managed.

The Company’s operations are located in one of the most energetic economic regions in the PRC –Yangtze River Delta. The roads and bridges owned or invested by the Company are major road transportation corridors linking east-to-west and south-to-north in Jiangsu Province. The active economy results in busy transportation. The Jiangsu Section of Nanjing-Shanghai Expressway, as the Company’s core asset, connects six major cities, including Shanghai, Suzhou, Wuxi, Changzhou, Zhenjiang and Nanjing, and has become one of the busiest highways in the PRC.

The Company, Jiangsu Guangjing Xicheng Expressway Co., Ltd. (“Guangjing Xicheng”), Jiangsu Ninghu Investment Development Co., Ltd. (“Investment Co.”) and Jiangsu Sundian Engineering Co., Ltd. (“Jiangsu Sundian”) are collectively referred to as the “Group”.

## Asset Structure of the Group



\* During the reporting period, the Company announced the transfer of its interests in Jiangsu Sundian and increased the latter's capital. The relevant share transfer contracts and capital increase contracts took effect from 1 January 2008. Jiangsu Sundian Engineering Co., Ltd. remained as a subsidiary under the Company's scope of consolidation during the year. For details regarding share transfer and capital increase please refer to item(2) "Assets Transaction - Transfer of Interests in a Subsidiary" of "Significant Matters".

# Financial and Operating Highlights

Financial statements for the year 2007 prepared by the Company in accordance with the PRC Accounting Standards for Business Enterprises (the “PRC Accounting Standards”) and Hong Kong Financial Reporting Standards (“HKFRS”) were audited by Deloitte Touche Tohmatsu Certified Public Accountants Limited and Deloitte Touche Tohmatsu, whose audited report expressed an unqualified opinion on the financial statements.

According to the PRC Accounting Standards, the financial data of the Group as at 31 December 2007 are as follows:

Item	RMB'000
Operating profit	2,407,380
Gross profit	2,408,549
Net profit attributable to equity holders of the listed company	1,600,827
Net profit attributable to equity holders of the listed company after non-recurring profit/loss of the listed company	1,592,160
Net cash flow from operating activities	3,157,808

According to the HKFRS, the financial data of the Group as at 31 December 2007 are as follows:

Item	RMB'000
Revenue	5,068,913
Profit before taxation	2,450,053
Profit attributable to equity holders of the Company	1,642,331
Net cash flow from operating activities	2,638,938

## Differences between the PRC Accounting Standards and HKFRS:

The differences between the statutory financial statements of the Group prepared in accordance with the PRC Accounting Standards and the financial statements of the Group prepared in accordance with HKFRS are summarized as follows:

Unit: RMB'000

	Net Profit		Net Asset	
	2007	2006	As at 31 December 2007	As at 31 December 2006
Under PRC Accounting Standards for Business Enterprises	1,638,989	1,178,976	16,137,720	15,492,557
HKFRS adjustments:				
– Valuation and depreciation of fixed assets	41,504	34,302	(1,371,771)	(1,413,275)
As reported in these financial statements prepared in accordance with HKFRS	1,680,493	1,213,278	14,765,949	14,079,283

## Non-recurring profit/loss comprises the following:

Unit: RMB'000

Item	2007
Profit from disposal of non-current asset	6,711
Governments grants	980
Profit form held-for-trading investment	4,195
Change in fair value	5,398
Other non-operating incomes and expenses	(6,522)
Effects of income tax	(1,770)
Effects of minority shareholders profit/(loss)	(325)
Total	8,667

## Principal accounting data of the Group under the PRC Accounting Standards for the past five years:

Unit: RMB'000

Principal accounting data	2007	2006		Increase/Decrease over previous year%	2005		2004 (After adjustment)	2003 (Before adjustment)
		After Adjustment	Before Adjustment		After Adjustment	Before Adjustment		
Operating revenue	5,309,835	4,100,824	4,098,477	29.48	2,232,679	2,232,679	3,104,839	2,810,601
Gross profit	2,408,549	1,728,116	1,716,027	39.37	959,288	944,436	1,402,201	1,459,830
Net profit attributable to equity holders of the company	1,600,827	1,139,809	1,127,781	40.45	719,291	696,456	842,901	962,845
Net profit attributable to equity holders of the company after non-recurring profit/loss	1,592,160	1,143,220	1,132,176	39.27	729,347	706,513	1,109,743	957,052
Net cash flow form operating activities	3,157,808	2,442,479	2,441,451	29.29	1,285,000	1,285,000	1,675,403	1,453,795
Principal accounting data	End of 2007	End of Year 2006 (After adjustment)		Increase/Decrease over end of previous year %	End of 2005 (After adjustment)		End of 2004 (After adjustment)	End of 2003 (Before adjustment)
		After adjustment	Before adjustment		After adjustment	Before adjustment		
Total Assets	25,937,848	26,459,242	26,425,207	-1.97	27,245,981	27,223,147	20,667,191	16,744,672
Shareholders' equity attributable to holders of the parent company	15,708,385	15,064,730	15,029,868	4.27	14,655,395	14,632,560	14,694,575	14,574,639

## Financial and Operating Highlights

Principal accounting data of the Group under the HKFRS for the past five years:

Unit: RMB'000

Item	2007	2006	Increase/ Decrease over previous year %	2005	2004	2003
Revenue, net	5,068,913	3,925,569	29.13	2,104,904	2,951,996	2,675,814
Gross profit	2,450,053	1,762,326	39.02	990,608	1,461,238	1,533,974
Profit attributable to equity holders of the Company	1,642,331	1,174,111	39.88	668,028	979,391	990,281
Net profit attributable to equity holders of the company after non-recurring profit/loss	1,633,664	1,178,505	38.62	678,085	1,256,874	984,488
Net cash flow from operating activities	2,638,938	1,936,501	36.27	868,637	1,502,916	1,449,273
	End of 2007	End of 2006	Increase/ Decrease over previous year %	End of 2005	End of 2004	End of 2003
Total assets	24,566,078	25,046,796	-1.92	25,798,403	19,240,021	15,218,027
Shareholders' equity	14,336,614	13,651,455	5.02	13,207,817	13,267,407	13,018,489



**Principal financial indicators of the Group under the PRC Accounting Standards for the past five years:**

**Unit: RMB**

Principal financial indicator	2007	2006		Increase/ Decrease over previous year%	2005		2004 (After adjustment)	2003 (After adjustment)
		After Adjustment	Before Adjustment		After Adjustment	Before Adjustment		
Basic earnings per share	0.318	0.226	0.224	40.45	0.143	0.138	0.167	0.191
Diluted earnings per share	0.318	0.226	0.224	40.45	0.143	0.138	0.167	0.191
Basic earnings per share after non-recurring profit/loss	0.316	0.227	0.225	39.27	0.145	0.14	0.22	0.19
Fully diluted return on net assets	10.21	7.57	7.50	34.87	4.91	4.76	5.74	6.61
Weighted average return on net assets (%)	10.45	7.67	7.65	36.25	4.90	4.8	5.74	6.68
Fully diluted return on net assets after non-recurring profit/loss	10.15	7.59	7.53	33.73	4.98	4.83	7.55	6.57
Weighted average return on net assets after non-recurring profit/loss(%)	10.39	7.69	7.68	35.11	4.97	4.87	7.55	6.64
Net cash flow per share from operating activities	0.63	0.48	0.48	29.29	0.26	0.26	0.33	0.29
	End of 2007	End of 2006		Increase/ Decrease over previous year %	End of 2005		End of 2004 (After adjustment)	End of 2003 (After adjustment)
		After adjust	Before adjust		After adjustment	Before adjustment		
Net assets per share attributable to equity holders of the Company	3.12	2.99	2.98	4.27	2.91	2.9	2.92	2.89

# Financial and Operating Highlights

Principal financial indicators of the Group under the HKFRS for the past five years:

Unit: RMB

Principal financial indicator	2007	2006	Increase/ Decrease over previous year %	2005	2004	2003
Basic earnings per share	0.326	0.233	39.88	0.133	0.194	0.197
Diluted earnings per share	0.326	0.233	39.88	0.133	0.194	0.197
Basic earnings per share after non-recurring profit/loss	0.324	0.234	38.62	0.135	0.249	0.195
Fully diluted return on net assets(%)	11.46	8.60	33.26	5.06	7.38	7.61
Weighted average return on net assets(%)	11.77	8.81	33.60	5.08	7.50	7.74
Fully diluted return on net assets after non-recurring profit/loss(%)	11.40	8.63	32.10	5.13	9.47	7.56
Weighted average return on net assets after non-recurring profit/loss(%)	11.71	8.84	32.47	5.16	9.63	7.69
Net cash flow per share from operating activities	0.52	0.38	36.27	0.17	0.30	0.29
	End of 2007	End of 2006	Increase/ Decrease over previous year %	End of 2005	End of 2004	End of 2003
Net assets per share attributable to equity holders of the company	2.85	2.71	5.02	2.62	2.63	2.58

Under the PRC Accounting Standards for Business Enterprise, the Group adopted the fair value method for the accounting of the following items:

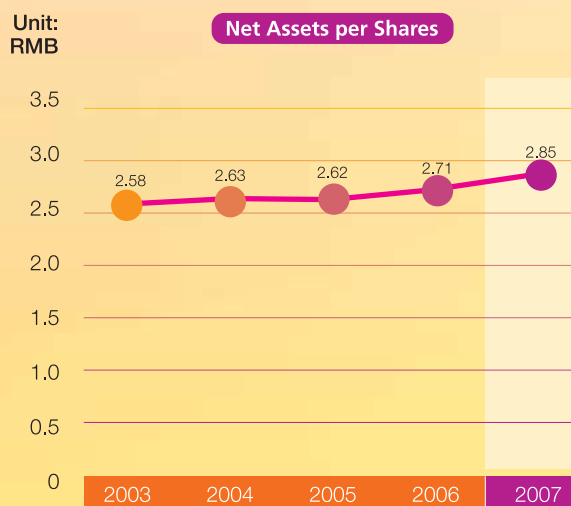
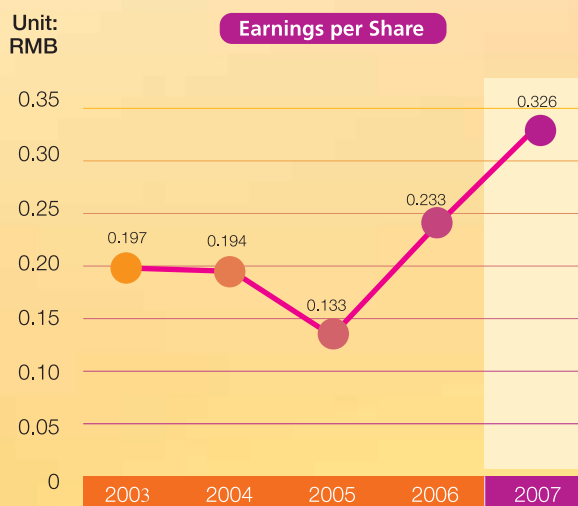
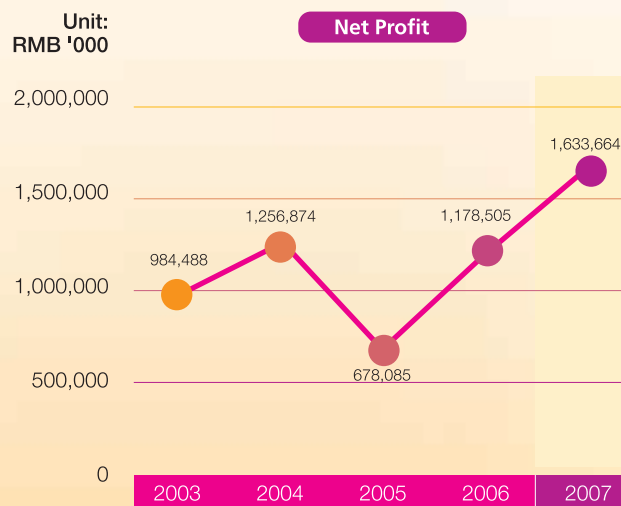
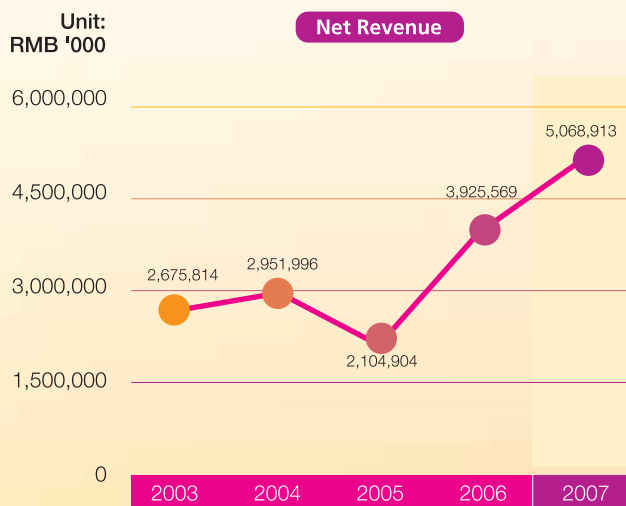
Unit: RMB'000

Name of project	Balance at the beginning	Balance at the end	Current change	Impact on the profit for the reporting period
Equity securities listed in PRC	189	1,538	1,349	639
Gold bullion	37,595	40,807	3,212	4,759
Total	37,784	42,345	4,561	5,398

The market prices for the above mentioned stock investment and gold bullion as at the end of the reporting period come from the prices announced by Shanghai Stock Exchange and Shanghai Gold Exchange.

## Five-Year Financial Highlights of the Group

(in accordance with HKFRS)



# Major Events in 2007

## March

- Implementation of the new “Administrative Rules for Expressways” in Jiangsu Province.
- The seventh meeting of the fifth session of the Board announced the final results of 2006.



- Management of the Company conducted annual results roadshow in Hong Kong.

## April

- The eighth meeting of the fifth session of the Board announced the 2007 first quarterly results.
- The international website of the Company was upgraded and officially opened.



- The second toll collection team of Wuxi East tolling station was awarded the national honor of the “Civilized Female Working Unit” (巾帼文明岗).



## May

- The Company commenced special corporate governance activities for listed companies.
- The first batch of the Company’s restricted circulating shares were listed and circulated after the share reform.

## June

- The Company held the 2006 annual general meeting and distributed the 2006 dividend.
- The second batch of the Company’s restricted circulating shares were listed and circulated.
- The 10th anniversary of the Company’s H share listing.



## July

- The third batch of the Company’s restricted circulating shares were listed and circulated.
- The Company was named among the top 20 in the “2007 Top 100 Corporate Governance Chinese Listed Companies” released by the Corporate Governance Centre of the Chinese Academy of Social Sciences.

## August

- The Company held the tenth meeting of the fifth session of the Board announcing the 2007 interim results. Management of the Company conducted the interim results roadshow in Hong Kong.



- The Company completed the preliminary work on special corporate governance activities for listed companies and published the self-inspection report.
- The Company fully commenced the establishment of the internal control system.

## September

- The Company held the corporate culture forum.



- The Company disposed of its properties in Jiangsu Communications Building to Jiangsu Communications Department.

## October

- Jiangsu Securities Regulatory Bureau conducted on-site inspection regarding the Company's special corporate governance activities.
- The 12th meeting of the fifth session of the Board announced the 2007 third quarterly results.

- The Company undertook the Fourth Annual Meeting of the Expressway Chapter of Association of Ideological and Political Research for Communications Staff of China (「中國交通職工思想政治工作研究會高速公路分會」) .



## November

- The Company completed the special corporate governance activities and published the rectification reform report.
- The Company held the 2007 first extraordinary general meeting and approved the RMB1.5 billion corporate bond issue proposal.
- Changes in the Company's directors and supervisors: Director Mr. Zhang Wen Sheng resigned from his position due to retirement and was replaced by Ms. Zhang Yang; supervisor Ms. Ma Ning resigned from her position due to job rotation and was replaced by Ms. Luo Yi.
- The Company won the Platinum Award in the H-share Companies category of the "2007 Best Corporate Governance Disclosure Awards" organized by the Hong Kong Institute of Certified Public Accountants.



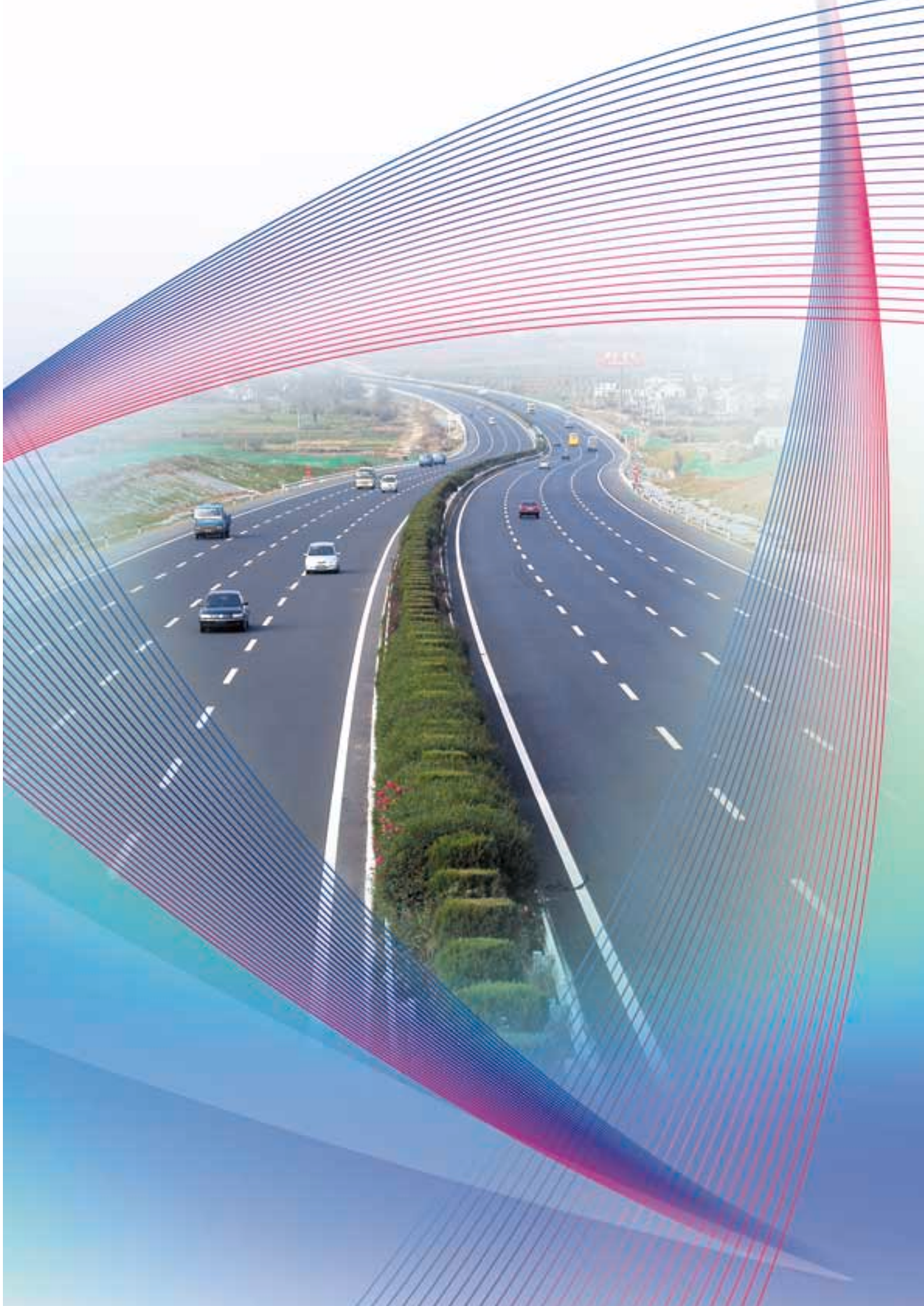
## December

- The Company transferred its interests in Jiangsu Sundian and increased the latter's capital.

Looking ahead, external factors  
facilitating the growth of  
traffic demand  
**remain positive**

## Report of the Directors

The Group's major toll road and bridge projects are still in the growing stage with traffic volume growing further. The Company's long-established positive social and market image, as well as its sound internal management foundation, will provide more opportunities for cooperation and success regarding the Company's business development. The professionalism and sense of duty of the Company management, together with the harmonious and pro-active spirit among staff, will further strengthen the enterprise's competitiveness. The Group's development prospects remain optimistic, with abundant opportunities and potential.



# Report of the Directors



## (1) Chairman's Statement

### To the Shareholders:

I am pleased to present to you the 2007 annual results on behalf of the Board. During the year, the regional transportation environment maintained healthy and stable development, with transportation infrastructures further enhanced. Driven by the regional economy's strong growth, traffic demand remained robust. The Group's major toll roads and bridges maintained a solid state of operations. The Group's core asset, the 8-lane Shanghai-Nanjing Expressway, achieved a stable growth after two years of operation, with its traffic volume and toll revenue setting historic highs and contributing significantly to the Group's rapid results growth. Meanwhile, the operating measures regarding road operation, financing, project control and management enhancement devised by the Company management were effectively implemented, thereby enhancing the Group's operations across the board and laying a solid foundation for long-term development.

### 2007 Results and Dividend

In 2007, the Group realized an operating revenue of RMB5,309,835,000, an increase of 29.48% over the same period of 2006. Under the PRC Accounting Standards, net profit attributable to the parent company was approximately RMB1,600,827,000 and earnings per share was approximately RMB0.318, an increase of approximately 40.45% as compared to the same period of 2006. Under HKFRS, profit attributable to shareholders was approximately RMB1,642,331,000 and earnings per share was approximately RMB0.326, an increase of 39.88% as compared to the same period of 2006.

The Company maintains a stable dividend policy of high payout ratio to deliver satisfactory returns to shareholders. The Board proposes to distribute a 2007 final cash dividend of RMB0.27 per share to all shareholders, representing 95.81% of the profit available for distribution for the year. The proposal will be submitted to the 2007 annual general meeting for consideration and approval.

### Corporate Governance

The Company has always been upholding, and striving to achieve, the strategic objective of ensuring its stable development and enhancing shareholders' value. To achieve this objective, the Board adheres to the corporate mission of integrity and diligence, continuously guiding the Company to comply with the regulatory requirements of different markets. The Board also maintains a solid governance foundation and regulated operation procedures, as well as adhering to sound corporate governance principles. During the year, pursuant to the China Securities Regulatory Commission's requirements on listed companies to conduct special corporate governance activities, the Company made a full-fledged investigation and summarization of its state of governance. The Company explored the deficiencies of its governance effort and undertook rectifications conscientiously, thereby effectively further enhancing the Company's governance standards.



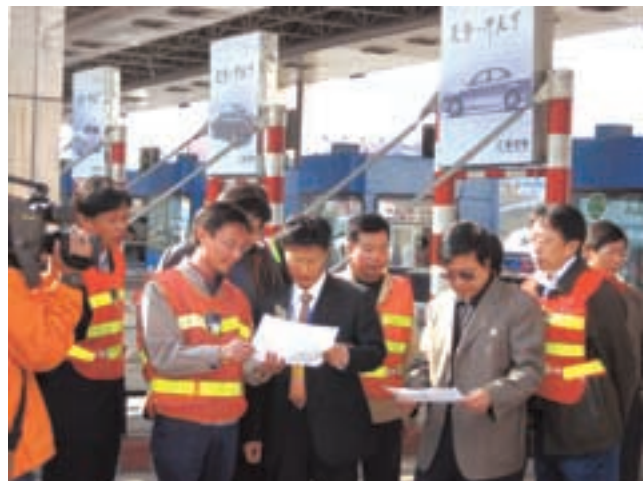
The Company insists on enhancing the transparency of its operations through timely and accurate information disclosure, as well as proactive investor communications. Transparency is the basis of enhancing mutual understanding and trust, which can strengthen investors' confidence and cultivate a positive relationship and a harmonious atmosphere between the Company, the market and the shareholders. This helps the Company to build a market image of integrity and transparency, so as to obtain more opportunities for cooperation and success. In 2007, the Company was again an award winner in "Best Corporate Governance Disclosure Awards", winning the Platinum Award in the H-share Companies Category. Meanwhile, the Company was among the top 20 in the "2007 Top 100 Corporate Governance Reports among Chinese Listed Companies" released by the Corporate Governance Centre of the Chinese Academy of Social Sciences. Such accomplishments highlight the Company's efforts over the years regarding corporate governance.

### Internal Governance

The Company emphasizes the enhancement of internal management quality, continuously exploring and enhancing regulations and procedures which suit the Company's own characteristics. The Company also conducts its daily acts in strict compliance with the various established management systems and constantly reviews its operation and management acts, so as to reinforce the decision execution ability and enhance the risk control ability. In 2007, on top of the existing management system, the Company established a systematic and comprehensive internal control system which covers various aspects, ranging from corporate governance, operations, management, finances, to administration and human resources. The systematic nature, execution procedures and efficiency of the Company's internal control mechanism were thus further enhanced, enabling effective prevention of operation risks. Meanwhile, the Company effectively allocated and utilized its human resources, thereby providing the staff with room for development. In addition, by building a healthy and proactive corporate culture, a sense of duty and a spirit of service are cultivated among the staff, thus turning the corporate culture into an internal impetus pushing the Company's development and leading the enterprise toward healthy development.

### Social Responsibility

The long-term support of the society, customers and shareholders powerfully safeguards the continued development of the Company's operations; in return, the Company honors faithfully its social responsibilities and obligations on the principle of integrity and trust, repaying the society and serving the general public. Through continued quality road maintenance and traffic organization, the Company creates a safe and smooth traffic environment, thereby providing quality infrastructure services to facilitate the region's social and economic development. As we conduct our operations, the Company strictly complies with the local laws and environmental protection regulations and takes an active part in environmental protection. The Company has been increasing its investments in aspects such as sewage treatment, noise treatment and highway greening, in order to meet the relevant environmental protection requirements. Through means such as donation, the Company actively participates in social charity activities to dedicate our share of effort to help the needy. The Company also conducts regular customer satisfaction surveys to keep on improving service quality, so as to provide customers with even better services. While much of our invested efforts will not generate profits, it is our responsibility and obligation





## Report of the Directors

to help and improve the society and environment on which we depend. We firmly believe that the continued development of an enterprise is tightly knitted with a healthy social environment, and that moral corporate acts can enhance comprehensive competitiveness as well.

### Development Environment and Strategies

#### — Development Environment

Looking ahead, the overall trend of the macro-economy is positive and the construction of transportation infrastructures will continue. As a sector highlighted for prioritized development under the Eleventh Five-year Plan, the transportation sector maintains a development edge. The social automobile ownership will maintain rapid growth as driven by economic development, while toll road policies will remain relatively stable. Over a certain period in the future, several external factors facilitating the growth of traffic demand remain positive. Meanwhile, the income tax rate adjustment in 2008 also provides room for profit growth. As for the internal environment, the Group's major toll road and bridge projects are still in the growing stage with traffic volume growing further. The Company's long-established positive social and market image, as well as its sound internal management foundation, will provide more opportunities for cooperation and success regarding the Company's business development. The professionalism and sense of duty of the Company management, together with the harmonious and pro-active spirit among staff, will further strengthen the enterprise's competitiveness. The Group's development prospects remain optimistic, with abundant opportunities and potential.

However, there are also risks and challenges. In our opinion, the market and management challenges we have to face at present include: (1) with the transportation sector closely linked with the national economy and the public's livelihood, the government has to coordinate and consider the balance of social interests while exercising its administrative authority, making stage-based policy adjustments inevitable; (2) the ever-improving road networks will lead to re-allocation of overall traffic volume, making potential diversion and competition inevitable and causing a gradual slowdown in traffic volume growth; (3) with ever-rising social and governmental requirements on road operation and management, new situations and new problems have been emerging which brings pressure to road operation and management in handling various ad hoc issues; (4) after the defect liability stage, the newly-constructed road assets and facilities will enter the normal maintenance stage, such that the relevant maintenance costs will gradually increase starting from 2008; (5) bank loan interest rates are expected to be increasing during the rate increase cycle, and the Company's relatively high gearing will be exposed to market interest rate risks and rising finance costs; (6) the continued losses of G312 will bring a relatively substantial negative impact on the Company's effort to enhance its results; and (7) rising project construction and financing costs will increase the difficulty in selecting future investment projects. Meanwhile, the snowstorm in early 2008 led to significant revenue declines in January and February, thereby causing substantial pressure on the operating results for the current year.

#### — Development Strategies

Based on adequate consideration of the prevalent operating environment and upcoming risks, the Company has devised effective coping measures to facilitate stable development.

While the operating performance of expressways is more closely related to the locality's economic development, factors such as the overall route and functional positioning or changes in neighboring road networks will lead to impacts of varying degrees on the operations of different road sections. Even though the enhancement of road networks brings

more traffic route choices to road users, we look forward to maintaining the impressive road quality and service standards by continuously enhancing the operation and management of roads, thereby raising the position and competitiveness of the Company's roads within their road networks and attracting more vehicles with quality service and a safe, smooth traffic environment, so as to minimize the impact of potential road network diversions.

In the current market environment of interest rate hikes, the Company will proactively try innovative financing products to reasonably adjust the interest rate structure of its liabilities. The proportion of fixed-rate liabilities will be appropriately raised to effectively prevent market interest rate risks and to reduce finance costs, so as to enhance the Company's profitability. Meanwhile, the Company will continue to reinforce the effective management of operating costs and control the rate of increase in maintenance costs. In addition, with no contributions from new projects for the time being, the Company will adequately exploit the growth potential of the existing projects to raise the overall rate of return on the Company's assets.

In terms of project investment strategy, the Company will continue to focus its attention on the investment, construction, operation and management of toll highways, as well as proactively initiating studies on investment projects on the premise of long-term development. The Company will focus on the investment areas which it is likely to be involved in, seeking feasible projects with promising potential from a broader range of industries. Accordingly, the Company will adequately capitalize on the favorable opportunities presented by the industry's development and a booming market to timely enhance the Company's development potential, as well as optimizing resource allocation and discovering new sources of profit growth.

In light of future development, the Board shoulders the expectations of the society and the government, the expectations of shareholders and investors, and the expectations of the Company's entire staff. We will not cease to broaden our operating horizon and enhance the operation mechanism, as well as seeking government support, investors' trust and the staff's recognition through pro-active and effective communication. Accordingly, harmonious and smooth internal and external environments for corporate development will be formed, facilitating the achievement of the Company's long-term strategic development objectives.

**Shen Chang Quan**  
*Chairman*

Nanjing, the PRC  
28 March 2008



## (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
5th Meeting of the Fifth Session of the Board	8 January 2007	www.sse.com.cn	9 January 2007
6th Meeting of the Fifth Session of the Board	29 January 2007	www.hkex.com.hk	—
7th Meeting of the Fifth Session of the Board	23 March 2007	www.jsexpressway.com	26 March 2007
8th Meeting of the Fifth Session of the Board	26 April 2007	China Securities Journal	27 April 2007
9th Meeting of the Fifth Session of the Board	13 June 2007	Shanghai Securities News	14 June 2007
10th Meeting of the Fifth Session of the Board	17 August 2007		20 August 2007
11th Meeting of the Fifth Session of the Board	27 September 2007		28 September 2007
12th Meeting of the Fifth Session of the Board	26 October 2007		29 October 2007
13th Meeting of the Fifth Session of the Board	8 November 2007		9 November 2007

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

### 2006 Profit Distribution Scheme

At the annual general meeting held on 13 June 2007, the following profit distribution scheme for 2006 was considered and approved: a cash dividend of RMB1.90 (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 2006. 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 29 June 2007, and the ex-dividend date was 2 July 2007. Dividends for H-share holders are denominated in RMB and payable in HK dollar, and a cash dividend of HK\$0.194 was paid for every 10 shares held. The deadline for registering transfer of H shares for dividends was 13 May 2007. The dividends were declared on 14 June 2007 and were paid on 6 July 2007. The profit distribution scheme for 2006 has been completed.



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

According to the audited results reported by auditors, the Group realized a net profit attributable to the parent company of RMB1,600,827,000 in 2007 under the PRC Accounting Standards. Earnings per share was RMB0.318. Under HKFRS, the net profit was RMB1,642,331,000, and earnings per share was RMB0.326. 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.

For 2007, 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 RMB0.27 (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 2007 annual general meeting. The exact date and procedures for the payment of final dividends will be announced separately.

#### **(5) Reports of the Specialized Committees of the Board**

The Board of the Company has established three specialized committees, including the Strategy Committee, the Audit Committee and the Nomination, Remuneration and Appraisal Committee. Each committee has devised respective Detailed Rules for Operation which defines the terms of reference and the work procedures. Such rules have been approved by the Board. The committees compiled their respective 2007 report on the performance of duties and submitted the reports to the Board.

##### **1. 2007 Report on Discharge of Duties by the Audit Committee**

The Audit Committee is principally responsible for reviewing and monitoring the quality and procedures of the Company's financial reporting and supervising the establishment and implementation of the Company's internal audit system; examining the financial information and information disclosure of the Company and its subsidiaries; checking the establishment of the Company's internal control system and supervising its implementation, including financial control and risk management; auditing material connected transactions; and communicating, supervising and reviewing the internal and external audits of the Company.

The Audit Committee held four meetings in 2007 at which the management and the financial controller reported on the financial position of the Company and major matters related to internal control. The attendance of all members at the meetings was satisfactory. Major matters examined by the Audit Committee during the year include:

The 2006 financial report and the first quarterly, interim and third quarterly financial reports for 2007 were reviewed and recommended to the Board for approval; the Company's 2007 staff welfare expenses plan was considered; recommendations were made to the Board on the external appointment of the Company's domestic and overseas auditors; the effectiveness of the Group's internal control system was inspected; and the internal audits of the Company were supervised and appraised.



## Report of the Directors

While discharging the relevant duties, the Audit Committee had sufficient communication with the Company's external auditors. Before commencing the annual and interim audits, meetings were held with the Company management and the Company's external auditors to discuss and communicate on various financial and auditing issues such as the accounting policies to be adopted for audits, substantial accounting treatment matters and the impact of the New PRC Accounting Standards adopted from 1 January 2007 onwards, so as to understand the preparation procedures and principles of the auditors' reports and adopt such as references of appraisal.

According to the aforementioned reviews and the review on the auditors' report prepared by the domestic and overseas auditors under the PRC and Hong Kong Accounting Standards, the Audit Committee is of the view that the Company's financial reports are completely truthful and recommends the Board to approve the 2007 consolidated financial report and the relevant auditors' report.

Meanwhile, the Audit Committee also regularly inspects the commencement of internal audits and the execution of the internal control system, making reasonable recommendations to the management on the enhancement of internal control and corporate governance standards. The committee also examines all connected transactions of the Company and supervises the transaction procedures such that the requirements of domestic and overseas listing rules are complied with. In addition, the committee studies financing proposals jointly with the Company's finance departments, providing expert opinion to the Company management or reminding them with the relevant risks.

In 2007, the Company has established a systematic and comprehensive internal control management system in accordance with the relevant regulations. The Audit Committee will enhance the inspection and supervision on the effective implementation of the internal control system and will submit fair and objective appraisal reports to the Board.

Audit Committee members:

**YANG Xiong Sheng, FAN Cong Lai, FAN Yu Shu**

28 March 2008


### 2. 2007 Report on Discharge of Duties by the Strategy Committee

The Strategic Committee is principally responsible for examining and reviewing the strategic development direction of the Company, studying and making recommendations on substantial capital operations, asset operation projects and investment and financing proposals, determining the Company's strategic planning, supervising the execution of strategies and enhancing the investment decision-making procedures, so as to strengthen scientific decision-making and improve the efficiency of making substantial investment decisions and the quality of such decisions.

The Strategy Committee held three meetings in 2007 and the attendance of all members at the meetings was satisfactory. Major matters determined by the Strategy Committee during the year include:

Reviewing the proposed amendments to the Company's articles of association and the self-inspection and the reform report on specific corporate governance matters for listed companies, giving guiding opinions for enhancing the Company's governance system.

Conducting strategic planning on the Company's capital structure and fundraising, which involved examining the Company's 2007 debt capital raising plan and limiting the Company's 2007 overall gearing ratio at a maximum of 45% to control the relevant risks.



To effectively reduce finance costs and enhance profitability, the committee conducted a study on the Company's financing methods and considered the necessity and feasibility of the Company's plan to issue RMB2 billion of short-term commercial papers and RMB1.5 billion of corporate bonds, with recommendation for approval made to the Board.

In 2007, with its members diligently and dutifully discharging their duties, the Strategy Committee made positive contributions to the scientific decision-making and risk control in relation to the Company's strategic measures.

Strategy Committee members:

**SHENG Chang Quan, CHEN Xiang Hui, XIE Jia Quan, CUI Xiao Long, FAN Cong Lai**

28 March 2008

### 3. 2007 Report on Discharge of Duties by the Nomination, Remuneration and Appraisal Committee

The Nomination, Remuneration and Appraisal Committee is principally responsible for making recommendations on appointments, re-appointments, discharges and office-taking procedures of directorship candidates; regularly reviewing the structure, membership and composition of the Board; examining the independence of the independent non-executive directors; and making recommendations on determining remunerations for directors and supervisors and on the Company's remuneration policy.

The Nomination, Remuneration and Appraisal Committee held three meetings in 2007 and the attendance of all members at the meetings was satisfactory. Major tasks include:

The committee examined the director changes and senior management appointment of the Company and confirmed the continued independence of the independent directors. In the process of staff selection, criteria considered by the committee include the relevant individual's integrity, his/her achievement and experience in the relevant sector, his/her professional and educational background and his/her dedication, which includes the time available for the job and his/her attention to the relevant matters.

The committee studied the determination of the Company's total staff salary for 2007, as well as fixing the annual remuneration standard for the independent directors pursuant to the relevant regulations and with reference to the market level and the Company's actual situation. The committee is of the view that the Company management has further enhanced the remuneration management system and made the existing remuneration system fairer and more reasonable. The committee has examined the remuneration information of directors, supervisors and senior management disclosed in this annual report and is of the view that the data disclosed are truthful and accurate. Besides, none of the Company's directors, supervisors or senior management holds any shares, share options or restricted shares of the Company granted to them, and the Company has not adopted any share option incentive schemes as at present.

The committee has appraised the discharge of duties by the directors and the senior management during 2007 and is of the view that all directors have loyally fulfilled their obligation of integrity and diligence and have dutifully fulfilled discharged their duties under their respective service contracts, while the senior management were professional and loyal to their duty and dedicated the necessary efforts to achieve the Company's various operation and management objectives for the year.

Nomination, Remuneration and Appraisal Committee members:

**CHANG Yung Tsung, YANG Xiong Sheng, ZHANG Yang, SUN Hong Ning**

28 March 2008

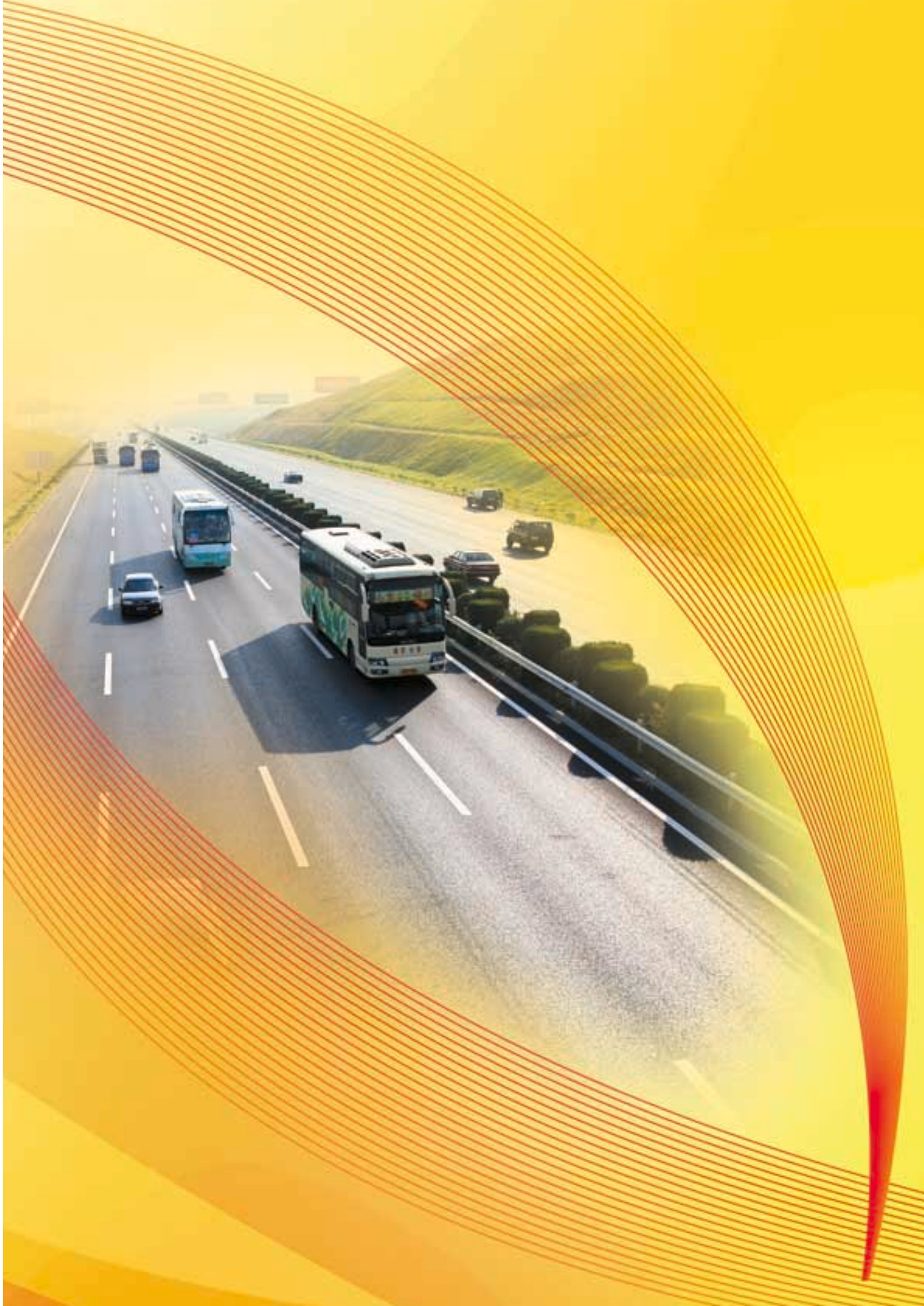


The operating results and  
profitability of the Group were  
**further improved**

## **Management discussion and analysis**

In 2007, the principal operations of the Company maintained the growth momentum of 2006. The operation and management models of the 8-lane Shanghai-Nanjing Expressway have stabilized as a result of two years' in-service testing and enhancement after its opening. The service quality, operation capability, operation order, and emergency response speed and handling ability have improved substantially and have maintained a leadership position among our industry peers.





# Management discussion and analysis



## (1) Regional Economic and Traffic Environment in 2007

- Continued economic growth

Economic growth is a determinant of a rising demand for transportation. Currently, the toll road and bridge projects operated by the Group are mainly located south of Yangtze River in Jiangsu Province. Such projects constitute major land transport passages linking up the east and west and the north and south of Jiangsu Province, covering five medium/large cities in southern Jiangsu including Nanjing, Zhenjiang, Changzhou, Wuxi and Suzhou, and connecting with Shanghai and Zhejiang. The Group's operating region is part of the Yangtze River Delta region, the most economically vibrant region of China. With the rapid progress of economic integration in the Yangtze River Delta, the region's increasingly significant economic position and rapid economic growth rate have brought about massive potential in traffic volume growth for the Group's

toll road and bridge projects. Meanwhile, the traffic volume coming from northern and mid-western China into the Yangtze River Delta is channeled towards here, thus leading to busy traffic on various roads.

In 2007, China's GDP recorded an increase of approximately 11.4% over the previous year, maintaining the rapid and steady growth momentum which has been sustained for years. The GDP of Jiangsu Province remained at a high level, recording an increase of approximately 14.8% year-on-year. The GDP generated by the five southern Jiangsu cities, where the Group's operating region is located, accounted for approximately 62.31% of the provincial total and the growth rate thereof exceeded the provincial average. The prosperous economy has stimulated the exchange of individuals and goods, thereby leading to robust transportation demand.

	Nanjing	Zhenjiang	Changzhou	Wuxi	Suzhou
GDP growth	15.6%	15.5%	15.6%	15.3%	16%
Automobile ownership ('000 vehicles)	462	104	251	432	698

- Significant increase in automobile ownership

Economic growth has further accelerated urbanization and raised the income and consumption levels of residents, thereby leading to the growth in social automobile ownership. According to the Traffic Administration Bureau of the Jiangsu Provincial Public Securities Department, by the end of 2007, Jiangsu Province's automobile ownership, private vehicle ownership and private sedan ownership were approximately 3,301,000 vehicles, 2,269,000 vehicles and 1,248,000 vehicles respectively, representing increases of approximately 18.91%, 23.05% and 38.53% respectively over the end of 2006.

- **Rapid development of the transportation sector**

In 2007, the transportation sector of Jiangsu Province witnessed fast growth, with the yearly volumes of passenger and cargo transportation increasing by approximately 16.0% and 14.9% respectively year-on-year. Of such increases, passenger transportation and cargo transportation by means of highways totaled approximately 1,792,000,000 passengers and 975,000,000 tonnes respectively, representing increases of approximately 16.5% and 15.6% respectively year-on-year. Passenger transportation and cargo transportation by means of highways accounted for approximately 95.7% and 67.8% of the respective total transportation volumes of all means.

- **Improving expressway network**

In 2007, expressway construction in Jiangsu Province continued to progress speedily, with newly opened expressway mileage totaling 203 kilometres and the province's total mileage of expressways open to traffic reaching 3,558 kilometres. The first stage of the planned "4 Verticals, 4 Horizontals and 4 Connections" expressway network was basically completed, and the main trunks of national roads of "5 Verticals and 7 Horizontals" have their portions in Jiangsu Province all run by expressways. The improvement in road network and facilities have in turn further boosted the public's choices of, and demand for, highway transportation. Ningchang Expressway (Nanjing-Changzhou) and Zhenli Expressway (Zhenjiang-Liyang), which were newly completed and opened to traffic in September 2007, are located within the Group's operating region. However, judging from their geographical locations, routes and functional positioning, These expressways will not exert any negative impact on the highway projects currently operated by the Group.

- **Toll road policies remained stable**

In 2007, toll highway policies remained stable, with no changes witnessed in expressway tolling standards. The State's new "Measures for Transfer of Interests in Toll Roads" is still being further discussed and is not yet announced or implemented. On 1 March 2007, the "Administrative Rules for Expressways" was promulgated for Jiangsu Province, setting higher management standards and service requirements for expressway operations in the province. The Company has timely added staff and equipment to its toll stations to ensure sufficient toll booths being in operation and orderly and smooth traffic during peak periods, as required by the new Rules. Since the implementation of the Rules, there has been no impact on the operation of the Group's highway projects in general.



## Management discussion and analysis

- **Further tightening of monetary policy**

In 2007, the central bank adopted a contractionary monetary policy and announced six consecutive interest rate hikes during the year. By the end of 2007, the 1 year lending rate was 7.47%, an increase of 135 basis points over the year's beginning; the 1-3 year lending rate was 7.56%, an increase of 126 basis points over the year's beginning; the 3-5 year lending rate was 7.74%, an increase of 126 basis points over the year's beginning; the over-5-year lending rate was 7.83%, an increase of 99 basis points over the year's beginning. The rises in lending rates increased the finance costs of the Company.

### (2) Review of Operational Management

In 2007, the principal operations of the Company maintained the growth momentum of 2006. The operation and management models of the 8-lane Shanghai-Nanjing Expressway have stabilized as a result of two years' in-service testing and enhancement after its opening. The service quality, operation capability, operation order, and emergency response speed and handling ability have improved substantially and have maintained a leadership position among our industry peers. Under the leadership of the Board, the Company management adopted effective measures on various aspects such as road operations, financial and financing, project control and management enhancement with reference to the operation management objectives set at the year's beginning. Accordingly, the operating results and profitability of the Group were further improved.



During the reporting period, the key tasks of the Company include:

- **Road operation management**

- Finishing the completion settlement report of the Shanghai-Nanjing Expressway expansion project; moving forward with the defect inspection and repair and environmental impact assessment and rectification, thereby making adequate preparation for the project's completion and delivery in 2008;
- Proactively coping with the implementation of the "Administrative Rules for Expressways" to ensure a timely introduction of staff, equipment and measures;
- Enhancing service quality and improving the operation tolling system, as well as ensuring the safety of the tolling system;
- Stepping up coordination among road networks and traffic volume analysis thereof; innovating the on-site management mechanisms so as to maintain a solid operation order;
- Conducting regular inspections on road condition and checking for road defects and potential safety risks, thereby enhancing daily maintenance management.

- **Financial and financing management**

- Monitoring the whole process of implementation of budgets to facilitate thorough tracking of the state of budget indicators such as operating revenues, costs and profits;

- Strengthening controls on operational costs, thereby achieving an effective control of various costs and expenses such as operating costs, management costs and maintenance costs;
  - Rationalizing the arrangement of loan structures, loan terms and interest rate structures, thereby preventing interests rate risks and liquidity risks;
  - Exploring and adopting different financing products and expanding financing channels through the issuance of the short-term trust and initiating the corporate bond issue application, with a view to lowering finance costs and enhancing profitability.
- **Project investment management**
    - Enhancing tender/bidding management and contract management, as well as establishing a supplier management system, thereby effectively controlling costs and raising the efficiency of projects implementation;
    - Rationalizing the Company's assets structure by completing the disposal of properties and the transfer of equity interests in subsidiaries.
- **Internal integrated management**
    - Conducting a full-scale review on the management measures and procedures of the Company's various business aspects to establish a systematic and comprehensive internal control system;
    - Carrying out in an indepth manner special activities on corporate governance for listed companies, un-earthing corporate governance deficiencies and making effective rectification, thereby pushing ahead an improvement in corporate governance standards;
    - Strengthening effective communication with investors and enhancing the quality and transparency of information disclosure;
    - Enhancing the remuneration management system and improving performance appraisal work, as well as strengthening staff training and talents retention;
    - Continuing the practice of QC groups and the 6S management methods to cultivate good work habits among staff;
    - Initiating studies and exchanges on corporate culture and spreading the core values of the Company, thereby building a harmonious, healthy and progressive corporate environment.

### 3. Annual Operating Results

In 2007, the Group witnessed further growth in its operations and realized an operating revenue of approximately RMB5,309,835,000, an increase of approximately 29.48% as compared to the corresponding period of 2006. Under the PRC Accounting Standards, net profit attributable to shareholders of the Company was approximately RMB1,600,827,000 and earnings per share was approximately RMB0.318, an increase of approximately 40.45% as compared to the corresponding period of 2006. Under HKFRS, profit attributable to shareholders was approximately RMB1,642,331,000 and earnings per share was approximately RMB0.326, an increase of approximately 39.88% as compared with the corresponding period of 2006.

## Management discussion and analysis

### (3) Analysis of Business Operations

In 2007, the Group's operating revenues aggregated at about RMB5,309,835,000, an increase of approximately 29.48% over the corresponding period of 2006. Operating costs aggregated at about RMB 2,223,416,000, an increase of approximately of 29.68% over the corresponding period of 2006. The composition of revenues and costs are indicated in the table below:

Item	Operating revenue (RMB'000)	Increase/ decrease over corresponding period of the previous year(%)	Operating costs (RMB'000)	Increase/ decrease over corresponding period of the previous year(%)	Gross margin(%)	Increase/ decrease over corresponding period of the previous year
Jiangsu Section of Shanghai-Nanjing Expressway	3,412,152	33.05	740,267	26.71%	78.30	Up 1.08 percentage points
Shanghai-Nanjing Section of G312	177,467	-12.74	251,896	-14.19%	-41.94	—
Nanjing Section of Nanjing-Lianyungang Highway	62,617	-39.24	27,658	-28.07%	55.83	Down 6.86 percentage points
Guangjing Xicheng Expressway	571,896	1.88	179,960	22.20%	68.53	Down 5.24 percentage points
Revenue from ancillary services	999,279	62.80	958,056	59.30%	4.13	Up 2.11 percentage points
Revenue from other operations	86,424	58.38	65,579	32.02%	24.12	Up 15.15 percentage points
Total	5,309,835	29.48	2,223,416	29.68%	58.13	Down 0.06 percentage point

— **Explanation on revenue changes:**

During the reporting period, changes in the revenue from the Group's operating roads and ancillary services were mainly due to the impact of traffic volume changes. Detailed analysis on various projects will be made in the following content of this annual report.

During the reporting period, the growth in revenue from other operations mainly came from outdoor advertising revenue and hindrance prevention and maintenance revenue. In 2007, the Company recorded outdoor advertising revenue of approximately RMB30,580,000, an increase of approximately RMB14,436,000 over the corresponding period of the previous year. Hindrance prevention and maintenance revenue amounted to approximately RMB55,844,000, an increase of approximately RMB17,420,000 over the corresponding period of the previous year.

— **Explanation on cost changes:**

During the reporting period, changes in the operating costs of Shanghai-Nanjing Expressway were primarily due to depreciation charges for fixed assets, as depreciation charges for road and bridge assets would increase commensurately with traffic volume increase. In 2007, the operating costs of Shanghai-Nanjing Expressway included approximately RMB478,745,000 of depreciation charges for fixed assets, an increase of approximately RMB93,010,000 as compared with approximately RMB385,735,000 for the corresponding period of the previous year and accounting for approximately 59.60% of the asset's total increase in operating costs.

During the reporting period, the increase in Guangjing Xicheng's operating costs was mainly a result of year-on-year changes in repair expenses. The reinforcement expenses for Jiangyin Viaduct during the year amounted to approximately RMB42,212,000, representing approximately 129.10% of Guangjing Xicheng's total increase in operating costs.

During the reporting period, the reason for the increase in costs of ancillary service and other operations was in line with its business growth.



# Management discussion and analysis

## 2. Toll Road Operations

During 2007, the Group's toll road and bridge operations reported substantial growth, mainly attributable to the rapid growth on the core asset Shanghai-Nanjing Expressway. A total toll revenue from roads and bridges amounting to approximately RMB4,224,132,000 was realized, an increase of approximately 23.06% over the corresponding period of 2006 and representing 79.55% of the Group's total operating revenue.

Comparisons of average daily traffic volumes and toll revenues

Road/Bridge	Average daily traffic volume (vehicle/day)			Average daily toll revenue (RMB '000/day)		
	2007	2006	Change %	2007	2006	Change %
Shanghai-Nanjing Expressway	48,374	39,468	22.57	9,348.4	7,026.4	33.05
Shanghai-Nanjing Section of G312	29,184	31,665	-7.84	486.2	557.2	-12.74
Nanjing Section of Nanjing-Lianyungang Highway	7,361	13,951	-47.24	171.5	282.4	-39.24
Guangjing Expressway	34,705	35,240	-1.52	578.1	624.8	-7.47
Xicheng Expressway	35,231	31,441	12.06	988.7	913.2	8.27
Jiangyin Yangtze Bridge	38,165	37,180	2.65	1,919.3	2,061.8	-6.91
Sujiahang Expressway	21,387	18,621	14.86	1,628.8	1,480.6	10.01

### Road and Bridge Operation

#### — Shanghai-Nanjing Expressway

2007 was the second year since the 8-lane Shanghai-Nanjing Expressway's full opening. After a full year of recovery, the road was further stabilized in terms of operation order and vehicle structure. Meanwhile, the rapid growth of the regional economy provided adequate assurance on traffic demand, thereby allowing the project to continue to enjoy outstanding performance during the year. The project realized a total toll revenue of approximately RMB3,412,152,000, representing approximately 80.78% of the Group's total toll revenue and approximately 64.26% of the Group's total operating revenue. Its average daily traffic volume and average daily toll revenue reported substantial increases of approximately 22.57% and 33.05% respectively over the corresponding period of the previous year. Apart from the organic growth brought about by economic development, other major factors causing a substantial growth of the expressway's operation include: a lower comparison basis during the recovery period in 2006, a further increase in the proportion of trucks in vehicle structure, and the assumption of certain traffic diverted from Jiangyin Yangtze Bridge during August and September.



## Traffic Volume and Toll Revenue Structures of Shanghai-Nanjing Expressway

	Traffic Volume			Toll Revenue			Average Daily Full-trip Revenue per Vehicle (RMB/Vehicle)
	Average Daily Traffic Volume (Vehicle/Day)	Passenger Vehicles %	Trucks %	Average Daily Toll Revenue (RMB/Day)	Passenger Vehicles %	Trucks %	
2007	48,374	66.3	33.7	9,348.4	46.07	52.93	193
2006	39,468	70.85	29.15	7,026.4	52.93	47.07	178

During the reporting period, the vehicle structure of Shanghai-Nanjing Expressway has stabilized. The proportions of trucks in traffic volume and toll revenue were basically close to the normal levels before the expansion project, and subsequent traffic diversions, took place. The average daily truck traffic accounted for approximately 33.7% of the average daily traffic volume, an increase of approximately 4.55 percentage points over the corresponding period of the previous year. The average daily toll revenue from trucks accounted for approximately 52.93% of the average daily total, an increase of 5.86 percentage points over the corresponding period of the previous year. The increased proportion of truck traffic also drove up the per vehicle revenue. In 2007, the average daily full-trip revenue per vehicle was RMB193, an increase of RMB15 over 2006, of which the average daily full-trip revenue per vehicle for passenger vehicles and trucks were RMB134 and RMB309 respectively.

### — Shanghai-Nanjing Section of G312

As certain truck traffic continued to divert to Shanghai-Nanjing Expressway and that the problem of vehicle evasion did not see any significant improvement, the toll revenue generated on the Shanghai-Nanjing Section of G312 decreased further during the reporting period. The average daily tolled traffic volume was 29,184 vehicles, representing a decrease of approximately 7.84% over the corresponding period of the previous year. The average daily toll revenue was approximately RMB486,200, representing a decrease of approximately 12.74% over the corresponding period of the previous year.

### — Nanjing Section of Nanjing-Lianyungang Highway

During the reporting period, the impact of traffic diversions on the Nanjing Section of Nanjing-Lianyungang Highway caused by Nanjing-Lianyungang Expressway, which was opened to traffic in December 2006, was at its full extent during the year. The section's average daily traffic volume and average daily toll revenue decreased by approximately 47.24% and 39.24% respectively over the corresponding period of the previous year. As Nanjing-Lianyungang Expressway caused diversions of primarily passenger vehicles, the rate of decrease in revenue was lower than that of traffic volume. As the toll revenue from Nanjing-Lianyungang Highway accounted for only approximately 1.18% of the Group's total revenue, the traffic diversions would not hinder the future growth of the Group's results.

# Management discussion and analysis

## — Guangjing Expressway, Xicheng Expressway and Jiangyin Yangtze Bridge

The traffic distributions and structures of Guangjing Expressway, Xicheng Expressway and Jiangyin Yangtze Bridge are highly correlated, as they combine to form a single transport system. During the reporting period, due to the maintenance works at Jiangyin Yangtze Bridge and at Jiangyin South Viaduct of Xicheng Expressway, truck traffic was prohibited on Guangjing Expressway, Xicheng Expressway and Jiangyin Yangtze Bridge from 6 August 2007 to 26 September 2007. Such traffic control incurred substantial impact on the three projects. Especially for Guangjing Expressway and Jiangyin Yangtze Bridge, since they have no exits in between, a total prohibition of truck traffic had a particularly significant impact. The two roads recorded decreases of approximately 1.52% and 2.65% respectively in average daily traffic volumes during 2007, while their average daily toll revenues decreased by approximately 7.47% and 6.91% respectively. Certain sections of Xicheng Expressway were affected as well, but its average daily traffic volume and average daily toll revenue still increased by approximately 12.06% and 8.27% respectively over the corresponding period of the previous year.

During the traffic control period, certain cross-river truck traffic that would originally pass through Jiangyin Yangtze Bridge was diverted to Runyang Bridge. Accordingly, the trucks originally traveling from Jiangyin Yangtze Bridge to Shanghai-Nanjing Expressway's section to the east of Wuxi have now increased their travel distance on Shanghai-Nanjing Expressway by approximately 100 kilometres. This has caused a growth in truck traffic proportion and toll revenue for Shanghai-Nanjing Expressway during August and September, thereby offsetting the toll revenue losses for the 3 projects during the traffic control period.

## — Sujiahang Expressway

During the reporting period, the operating performance of Sujiahang Expressway was encouraging. The average daily full-trip traffic volume was 21,387 vehicles, an increase of approximately 14.86% over 2006. The average daily toll revenue was approximately RMB1,628,800, an increase of approximately 10.01% over 2006. Due to the increasing proportions of small-sized passenger vehicles and small-sized trucks, the rate of increase in revenue was lower than that of traffic volume. In April 2008, Sutong Bridge which connects with the northern section of Sujiahang Expressway will be open to traffic and the entire coastal passage will be fully opened. This is expected to facilitate traffic volume growth for Sujiahang Expressway.

### 3. Ancillary Services

Ancillary services include petroleum product sales, food and beverage, retail sales of goods and other related operations at the six service areas along Shanghai-Nanjing Expressway. The growth in ancillary services revenue was mainly attributable to the customer growth of the service areas and this is closely related to the changes in Shanghai-Nanjing Expressway's traffic volume. The Company also further improved the service functions and enhanced service quality, in order to increase customer volume. In 2007, the rapid growth in Shanghai-Nanjing Expressway's traffic volume has brought substantial



growth in the operations of the service areas along the expressway. Ancillary services realized a revenue of approximately RMB999,279,000 in 2007, an increase of approximately 62.80% over the corresponding period of the previous year. The increase in revenue from ancillary services mainly came from petroleum product sales. In 2007, the Company realized a revenue of approximately RMB857,142,000 from petroleum product sales, an increase of approximately RMB353,995,000 over the corresponding period of the previous year and accounting for approximately 91.84% of the total increase in ancillary services revenue.

#### 4. Operations and Results of Subsidiaries

Name of company	Scope of business	Investment cost (RMB'000)	Equity interests (%)	Total assets (RMB'000)	Attributable interests (RMB'000)	Net profit (RMB'000)
Jiangsu Sundian Engineering Co., Ltd	Project repairs and maintenance of roads and bridges (including expressways), works on road surfaces and traffic safety facilities, and so forth	35,000	95.5	96,300	51,286	-462
Jiangsu Ninghu Investment Development Co., Ltd.	Investments in various infrastructures, industrial concerns and industries	95,000	95	224,086	120,161	13,228
Jiangsu Guangjing Xicheng Expressway Co., Ltd	Construction, management, maintenance and repair and toll collection of Guangjing Xicheng Expressway	2,125,000	85	2,898,431	2,822,165	249,893

# Management discussion and analysis

## 5. Operations and Results of Companies in which the Company had Equity Investments

Name of company	Scope of business	Investment cost (RMB'000)	Equity interests (%)	Interests in associates (RMB'000)	Share of profits of associates (RMB'000)	Proportion of net profit (%)
Suzhou Sujiahang Expressway Co., Ltd	Management and operation of the Jiangsu Section of Sujiahang Expressway	526,091	33.33	592,435	23,422	1.46
Jiangsu Kuailu Bus Transportation Stock Co., Ltd.	Road transportation, automobile repair and sales of automobiles and spare parts	49,900	33.2	70,361	5,147	0.32
Jiangsu Yangtze Bridge Co., Ltd	Mainly engaged in the management and operation of Jiangyin Yangtze Bridge	631,159	26.66	818,327	91,942	5.74

## (4) Analysis of Operating Results and Financial Status

### 1. Analysis of Operating Results

#### — Under the PRC Accounting Standards

Item	2007 (RMB'000)	2006 (RMB'000)	Change (%)
Operating revenue	5,309,835	4,100,824	29.48
Finance costs	504,369	445,138	13.31
Operating profit	2,407,380	1,736,196	38.66
Investment gains	133,923	129,978	3.04
Total profit	2,408,549	1,728,116	39.37
Income tax	769,560	549,140	40.14
Minority interests	38,162	39,167	-2.57
Net profit	1,600,827	1,139,809	40.45
Earnings per share (RMB)	0.318	0.226	40.45
Dividend per share (RMB)	0.270	0.190	42.11

## — Under the HKFRS

Item	2007 (RMB'000)	2006 (RMB'000)	Change (%)
Operating revenue	5,068,913	3,925,569	29.13
Other income	59,024	39,981	47.63
Share of profits of associates	129,527	128,265	0.98
Finance costs	(512,400)	(455,278)	12.55
Income tax	(769,560)	(549,048)	40.16
Profit attributable to minority interests	38,162	39,167	-2.57
Profit attributable to equity holders of the Company	1,642,331	1,174,111	39.88
Reserves	9,298,866	8,613,707	7.95
Earnings per share (RMB)	0.326	0.233	39.91
Dividend per share (RMB)	0.270	0.190	42.11

During the reporting period, operating results indicators such as operating revenue, operating profit, profit before tax and profit after tax increased substantially. This is mainly attributable to the toll revenue increase from the core asset Shanghai-Nanjing Expressway. Shanghai-Nanjing Expressway recorded a toll revenue of approximately RMB3,412,152,000, an increase of approximately RMB847,510,000 or 33.05% year-on-year. The toll revenue increase for Shanghai-Nanjing Expressway accounted for approximately 70.10% of the total increase in operating revenue.

## 2. Analysis of Financial Status

### — The Group's capital structure

Under the PRC Accounting Standards, the capital structure of the Group as at 31 December 2007 and the comparative figures for 2006 are as follows:

Item	As at 31 December 2007		As at 31 December 2006	
	RMB'000	%	RMB'000	%
Current liabilities	6,514,393	25.11	6,529,926	24.68
Non-current liabilities	3,285,736	12.67	4,436,759	16.77
Liabilities at fixed interest rates	4,753,930	18.33	4,510,000	17.05
Liabilities at variable interest rates	3,486,196	13.44	4,438,694	16.77
Interest-free liabilities	1,560,003	6.01	2,017,991	7.63
Shareholders' equity	15,708,385	60.56	15,064,730	56.93
Minority interests	429,334	1.66	427,827	1.62
Total assets	25,937,848	100.00	26,459,242	100.00
Gearing ratio		37.78	—	41.45

## Management discussion and analysis

Under the HKFRS, the capital structure of the Group as at 31 December 2007 and the comparative figures for 2006 are as follows:

Item	As at 31 December 2007		As at 31 December 2006	
	RMB'000	%	RMB'000	%
Current liabilities	6,514,393	26.52	6,530,754	26.08
Non-current liabilities	3,285,736	13.37	4,436,759	17.71
Liabilities at fixed interest rates	4,753,930	19.35	4,510,000	18.01
Liabilities at variable interest rates	3,486,196	14.19	4,438,694	17.72
Interest-free liabilities	1,560,003	6.35	2,018,819	8.06
Shareholders' equity	14,336,614	58.36	13,651,455	54.50
Minority Interests	429,335	1.75	427,828	1.71
Total Assets	24,566,078	100.00	25,046,796	100.00
Gearing ratio	—	33.54	—	35.73

Gearing ratio: Liabilities at fixed interest rates/total assets

### — Asset liquidity and financial resources

The Group is principally engaged in the operation of toll roads and bridges. Operating activities relating to the day-to-day toll business provide a substantial amount of steady cash inflow, with which the Group has a strong payment capacity. In 2007, cash inflow from the Group's operating activities amounted to approximately RMB5,517,795,000; net cash inflow from operating activities amounted to approximately RMB3,157,808,000. The gearing ratio is at a reasonable level of 37.78%. Monetary capital at book value amounted to approximately RMB1,128,947,000. Accordingly, the management believes that the Group does not have any cash liquidity problem in spite of the current contractionary monetary policy.

Cash and cash equivalents and loans are indicated in the table below:

Item	As at 31 December 2007 The Group (RMB'000)	As at 31 December 2006 The Group (RMB'000) (Restated)
Cash and cash equivalents		
Cash on hands	613	266
Bank deposits	1,128,334	798,612
Total:	1,128,947	798,878
Loans		
Short-term bank loans	4,753,930	4,510,000
Long-term loans due within one year	201,810	1,935
Long-term bank loans	3,284,386	4,436,759
Total	8,240,126	8,948,694

## — Major sources and applications of cash

	Unit: RMB'000	
	2007	2006
Net cash flow from operating activities	3,157,808	2,442,479
Net cash flow from investment activities	(641,651)	(1,125,380)
Net cash flow from fundraising activities	(2,186,088)	(1,593,420)
Net increase in cash and cash equivalents	330,069	(276,321)

During the reporting period, net cash flow from operating activities increased by approximately 715,329,000, thanks to the toll revenue increase of the core asset Shanghai-Nanjing Expressway. Shanghai-Nanjing Expressway recorded a toll revenue of approximately RMB3,412,152,000, an increase of approximately RMB847,510,000 year-on-year.

During the reporting period, the net cash outflow from investment activities witnessed a substantial change due to the payment of approximately RMB742,078,000 for the expansion works of Shanghai-Nanjing Expressway in 2007, while the amount paid in 2006 was approximately RMB1,151,632,000.

During the reporting period, the net cash outflow from fundraising activities witnessed a substantial change, due to a year-on-year increase of approximately RMB356,211,000 in cash paid for profit distribution, profits and interest payments.

## — Capital expenditures

In 2007, the Group's planned capital expenditures amounted to approximately RMB837,218,000, an decrease of 35.04% from the 2006 figure of approximately RMB1,288,723,000. The main composition of capital expenditures is as follows:

Capital Expenditure	RMB'000
Expansion of Shanghai-Nanjing Expressway	742,078
Others	95,140
Total	837,218

## — Financing activities and financial costs

With steady cash flows, sound credit track records and a good reputation in the industry, the Company is entitled to the prime rates under the interest rate policy of the People's Bank of China. At the same time, the Company has adjusted its liability structure through fund-raising methods such as issuance of trust products and short-term commercial papers, thereby reducing finance costs and interest risks simultaneously and facilitating the improvement of operating results. As at the end of the reporting period, the balance of the Company's short-term loans amounted to approximately RMB4,753,930,000 and the balance of long-term loans amounted to approximately RMB3,486,196,000. The aggregate costs of the Company's short-term and long-term interest-bearing liabilities are both more than 10% below the bank's borrowing rates of the same terms. During the reporting period, accrued interest expenses amounted to approximately RMB512,400,000.

## Management discussion and analysis

### — Taxation policy

Enterprise income tax was paid in full by the Company at the statutory tax rate of 33%. In 2007, accrued income tax expenses amounted to approximately RMB769,560,000, an increase of approximately 40.14% over 2006. Business tax for toll revenue from expressways was charged at the rate of 3%.

### — Foreign exchange risks

The Group operates its businesses principally in China. No major foreign exchange risks are involved as the Company's revenues from operations and capital expenditures are all settled in Renminbi, except for dividend payments for H shares. A loan of US\$9,800,000 was secured from the Spanish Government in 1998 and will be due on 18 July 2027. As at 31 December 2007, the balance of the loan was approximately RMB36,196,000 after conversion from US dollars, against which no foreign exchange hedge was made. Fluctuations in exchange rates will not have any material impact on the Company's results.

### — Reserves

Unit: RMB'000

	Share capital	Capital reserve fund	Statutory surplus reserve fund	Undistributed profit	Total
1 January 2006	5,037,747	7,488,687	1,037,828	1,091,132	14,655,394
Profit for the year	0	0	0	1,139,809	1,139,809
Profit appropriation	0	0	131,048	-131,048	0
Dividends	0	0	0	-730,473	-730,473
31 December 2006	5,037,747	7,488,687	1,168,876	1,369,420	15,064,730
1 January 2007	5,037,747	7,488,687	1,168,876	1,369,420	15,064,730
Profit for the year	0	0	0	1,600,827	1,600,827
Profit appropriation	0	0	181,131	-181,131	0
Dividends	0	0	0	-957,172	-957,172
31 December 2007	5,037,747	7,488,687	1,350,007	1,831,944	15,708,385

Note: The above capital items belong to those companies forming the Group.

The above statutory reserves may not be used for purposes other than their intended purposes nor for distribution as cash dividends.





— **Contingent liabilities**

As at 31 December 2007, the Company did not have any contingent liabilities.

— **Trust deposits**

As at 31 December 2007, the Company did not have any trust deposits with any financial institutions in China or any fixed term deposits which were irrecoverable upon their maturity.

— **Trust loans**

In 2006, the Company secured a loan of RMB300,000,000 from its subsidiary Jiangsu Guangjing Xicheng Expressway Co., Ltd. by way of a trust loan. Of this amount, RMB200,000,000 had a term from 15 July 2006 to 14 January 2007 at a monthly interest rate of 3.915‰, while the other RMB100,000,000 had a term from 27 December 2006 to 26 June 2007 at a monthly interest rate of 4.185‰. The principal and interests of the loan were settled at the maturity dates.

The Company had also secured two separate loans of RMB200,000,000 and RMB250,000,000 from Jiangsu Guangjing Xicheng Expressway Co., Ltd. on 15 January 2007 and 27 June 2007 respectively. Both loans have a term of one year and carry an annual interest rate of 5.022%. The RMB200,000,000 loan borrowed on 15 January 2007 had been repaid ahead of schedule.

**3. Reasons and Impact of Changes in Accounting Standards or Accounting Estimates or Adjustments to Major Accounting Errors**

As from 1 January 2007, the Company has adopted the New Accounting Standards promulgated by the Ministry of Finance in the PRC on 15 February 2006 and the Company's transactions and events were recognized, calculated and reported according to the regulations stipulated by the New Accounting Standards effective from the same date. Regarding accounting policy changes resulting from the initial adoption of the New Accounting Standards promulgated by the Ministry of Finance in the PRC, retroactive adjustments and re-statements have been made to the data in the financial statements for the corresponding period of the previous year.

Due to the RMB26,848,762 retroactive adjustment for undistributed profit at the beginning of the reporting period resulting from the difference in long-term equity investments, the consolidated equity attributable to equity holders was adjusted by RMB26,848,762. Due to RMB8,013,476 of deferred income tax assets recognized as a result of adopting the balance sheet liability method, the undistributed profit at the beginning of the reporting period was adjusted by RMB8,013,476. Meanwhile, RMB427,827,147 of minority interests were listed as shareholders' equity. In aggregate, shareholders' equity at the beginning of the reporting period was adjusted by RMB62,689,385.

# Management discussion and analysis

## (5) Business Development Initiatives

### 1. Strategic Development Objectives

On the basis of scientific and harmonious corporate development, the Company will continue to focus on the investment, construction and operational management of toll highways, ensuring good road quality and service standards. It will push forward a regulated and refined corporate management to achieve thorough enhancement of management quality. In addition, the Company will continue to optimize resource allocation to enhance its development potential in a timely manner and to raise profitability, with a view to cultivating an internal and external environment of a harmonious and healthy nature.

### 2. Key Tasks for 2008

#### • Yearly objectives:

- Business operation objective: Maintaining stable revenue growth to ensure stable returns to shareholders.
- Road operation objective: Maintaining good road quality and service standards to ensure safe and smooth traffic on the roads.
- Financial management objective: Reducing finance costs and expenses and preventing market interest rate risks.
- Management enhancement objective: Improving the internal management system and procedures to raise the standards of regulated and refined management.
- Business development objective: Actively seeking market opportunities to timely enhance the Company's development potential.





- **Major measures:**

- On business operation: adopting effective measures and strengthening the effort on toll collection management to assure revenue from principal operations; strengthening the brand-building and characteristic operation of service areas to induce consumption and increase operating revenue of service areas; exercising cost control by strengthening the enforcement of budgets and adopting scientific and effective asset and project management measures, so as to reduce management costs and enhance profitability.
- On road operation: completing the various late-stage tasks of the expansion project to pass the inspection and delivery process upon completion; reinforcing the maintenance of road operation order and toll station order, so as to enhance the ability to handle emergencies or extraordinary events; striving to complete the post-snowstorm road maintenance and various daily maintenance work to ensure road and bridge safety; providing good traffic conditions and attracting the community's vehicles with quality services and a smooth traffic environment, so as to facilitate rapid growth in traffic volume.
- On financial management: actively moving forward the application and issue of corporate bonds and short-term commercial papers to reasonably adjust the interest rate structure of liabilities, as well as arranging a considerable proportion of fixed rate liabilities, so as to effectively prevent interest rate risks and reduce finance costs and expenses during the interest rate upswing cycle.
- On management enhancement: improving and enhancing various management systems and procedures by fully implementing the internal control management system and strengthening the inspection and supervision of its implementation, so as to achieve effective control over the operation process of various business activities and to enhance the standards of regulated and refined management.
- On business development: on the premise of long-term development, proactively initiating studies on investment projects and focusing on the investment areas that the Company is likely to be involved in, in order to seek feasible projects with promising potential from a broader range of industries. Accordingly, the Company will adequately capitalize on the favorable opportunities presented by the industry's development and a booming market, enhancing the Company's development potential and searching for new sources of profit growth.

**Xie Jia Quan**

*General Manager*

Nanjing, the PRC

28 March 2008

Persisting with a sound principle of corporate governance that enhances  
**transparency and independence**

## Corporate Governance Report

The Company has also directed its daily activities in strict compliance with various established corporate governance systems and reviewed from time to time its operations and management behaviors. Adhering to the corporate values of integrity and diligence and persisting with a sound principle of corporate governance that enhances transparency and independence of the Company's operations, the Company is committed to enhancing its corporate governance standards on a continuous basis, ensuring a stable development of the Company and striving for the enhancement of shareholder value.





# Corporate Governance Report

## (I) Corporate Governance

The Company has complied with the Company Law, Securities Law, the relevant laws and regulations of the CSRC and the requirements of the listing rules of the Hong Kong Stock Exchange and the Shanghai Stock Exchange. It has faithfully performed obligations under the Standard on the Governance of Listed Companies of the CSRC and the Code on Corporate Governance Practices (the “Code”) of the Hong Kong Stock Exchange and has adhered to the regulatory requirements of different markets. The Company has also directed its daily activities in strict compliance with various established corporate governance systems and reviewed from time to time its operations and management behaviors. Adhering to the corporate values of integrity and diligence and persisting with a sound principle of corporate governance that enhances transparency and independence of the Company’s operations, the Company is committed to enhancing its corporate governance standards on a continuous basis, ensuring a stable development of the Company and striving for the enhancement of shareholder value.

During the reporting period, no discrepancies were identified between the Company’s actual state of governance and the requirements stipulated by the relevant laws and regulations of the CSRC. None of the Company, the Board of the Company, the Supervisory Committee and the directors, supervisors and senior management were subject to any administrative penalties, written criticisms or public censures by regulatory authorities.

### 1. Amendment and Enhancement of the Corporate Governance System

During the reporting period, the Company conducted an extensive amendment of the Articles of Association pursuant to the State’s newly amended Company Law, Securities Law and the adjustment requirements of the Listing Rules of Shanghai Stock Exchange. The amendment involved 21 chapters and 105 articles and the relevant approval and reporting procedures were completed according to the statutory requirements. Meanwhile, the corporate governance system was further supplemented with the “Administrative Rules for Information Disclosure” and the “Administrative System for Fundraising Proceeds” devised to govern the Company’s information disclosure procedures and the use and management of fundraising proceeds in the future.

### 2. Information on Specific Corporate Governance Matters

Pursuant to the requirements of CSRC’s “Notice on Specific Activities to Enhance Corporate Governance of Listed Companies”, the Company initiated efforts on specific corporate governance activities in mid-May 2007 to thoroughly investigate and summarize the Company’s current state of governance according to the CSRC’s requirements on specific governance activities. The Company explored in-depth the defects in governance and made objective, comprehensive evaluation. The initial draft of the self-inspection report was published on the websites of the exchanges for public comment after approved by the Board in August. On 9 October, Jiangsu Securities Regulatory Bureau conducted on-site inspection on the Company’s specific corporate governance activities. On 19 October, the Shanghai Stock Exchange issued the “Evaluation on the Governance of Jiangsu Expressway Company Limited” to the Company. On 31 October, Jiangsu Securities Regulatory Bureau issued “Regulatory Opinion Letter on Inspection of the Specific Corporate Governance Activities of Jiangsu Expressway Company Limited” to the Company.



Through self-inspection and according to Jiangsu Securities Regulatory Bureau's on-site inspection opinion and the Shanghai Stock Exchange's evaluation opinion, the following aspects of the Company's corporate governance should be further improved: 1. certain systems should be further enhanced and established, including amendments required for certain articles in the Articles of Association, update of the financial and accounting system according to the new Accounting Standards for Business Enterprises, and the establishment of "Administrative System for Fundraising Proceeds"; 2. the Company's internal control mechanism should be further enhanced to form a systematic and complete internal control system; 3. the filing and storage of meeting minutes of the "Three Meetings" should be improved; and 4. the Company's independence should be further strengthened and the selection process of senior management should be enhanced.

Targeting the problems discovered in the specific corporate governance activities, the Company carried out effective reforms to supplement and enhance the relevant governance systems. A systematic and complete internal control system was established, regulating the operation of the shareholders' general meeting, the Board and its specialized committees and the Supervisory Committee and strengthening the sense of duty of the directors, in particular the independent directors. The selection process of senior management was enhanced and the management of relations with domestic and foreign investors, in particular domestic investors, was further strengthened. Accordingly, the Company has actively pushed forward the improvement of its corporate governance standards.

### **3. Establishment and Enforcement of Internal Control System**

During the reporting period, pursuant to the requirements of the Ministry of Finance's "Regulations on Corporate Internal Control – Basic Regulations", the Shanghai Stock Exchange's "Guidelines on Internal Control of Listed Companies" and the Hong Kong Stock Exchange's "Code on Corporate Governance Practices", and taking into account the Company's internal governance needs, the Company conducted a systematic and comprehensive investigation and integration of the internal control system, and established the "Administrative System of Internal Control" which complies with the regulatory requirements. Accordingly, the Company's internal control system was further enhanced in terms of systematization, operation procedures and efficiency.

The Company's internal control system was built around five key internal control elements: the control environment, risk assessments, control activities, information and communication, and supervision and inspection. Six sub-systems were formed ultimately, namely the internal control environment system, the risk assessment system, the financial control system, the operation control system, the internal control support system and the control system for branches, subsidiaries and invested entities. Such systems encompass 39 administrative rules and 130 detailed rules on enforcement or operation procedures.

The establishment and enhancement of the internal control system aim at further enhancing the Company's governance structure in the direction of comprehensive risk management. Accordingly, a scientific operation management system and a clear responsibility supervision system will be established, thereby achieving the control objectives of having a healthy management system, clearly defined responsibilities at various levels, comprehensive supervision and appraisal, effective internal control, regulated operation and production and truthful data and statistics. Operation management risks will be effectively prevented accordingly, thereby ensuring the value protection and growth of the Company's assets and facilitating a continued, healthy, and stable development of the Company.

The Board is responsible for establishing and continuously enhancing the Company's internal control system, checking on the effective enforcement of all important supervision procedures regarding corporate governance, operation management, financial security, risk control and the compliance of execution and operation procedures, so as to safeguard the Group's assets and shareholders' interests. The "Administrative System of Internal Control" established by the Company has comprehensively summarized and elaborated on the objectives, content, responsibilities, methods and procedures of the Company's internal control, thereby helping the Board to conduct continued inspection and assessment of the effectiveness of internal control.

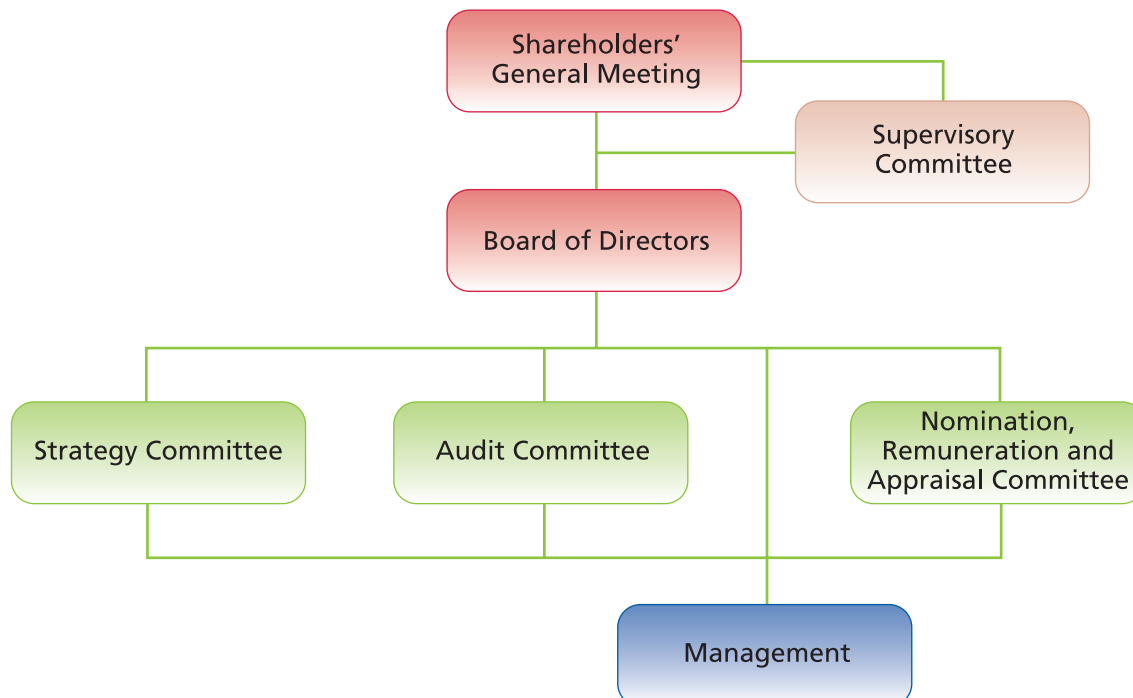
# Corporate Governance Report

The Board authorizes the management to implement and enforce the aforementioned internal control system. In the Company's operation, the management shall execute all business aspects in strict compliance with the business regulations and operation procedures required by the internal control system, thereby achieving effective control over all business activities in the entire course of operation. Meanwhile, the Company's internal audit function was performed in a satisfactory manner, having conducted regular inspections, supervision and assessment over the Company's financial position, operations and internal compliance control activities, thereby minimizing risks. The Company management also regularly report the enforcement of internal control to the Audit Committee and the Board, with the entire Board giving assessments.

According to the Board's inspection on the effectiveness of the Company's internal control system for the year, the Board is of the view that the Company has a well-constructed structure and a healthy system, with a systematic and complete internal control system established according to the requirements of the securities regulatory authorities, covering various aspects such as corporate governance, operation, management, financial and administrative and personnel matters. The system is effectively complied with, which has ensured the normal conduct of the Company's production, operation and management and has effectively controlled operation risks.

The Company's internal control system possesses a supervision and inspection system. Once a defect is identified, the Company will make corresponding corrections immediately. The Board will supervise the Company management to continuously improve the internal control system to keep it in line with the Company's needs of continued, healthy and stable development.

## (II) Corporate Governance Structure







## 1. Shareholders and General meetings

The Company treats all shareholders equally and ensures that all shareholders have the right to be informed of, and to make decisions on, material matters relating to the Company. The Company ensures that all shareholders, in particular medium and small shareholders, are treated equally and may fully exercise their rights. The notification, authorization and deliberation of general meetings complied with the relevant procedures.

### — Substantial Shareholders

Jiangsu Communications Holding Company Limited and Huajian Transportation Economic Development Center are the substantial shareholders of the Company, holding approximately 54.44% and 11.69% of the Company's shares, respectively. These two companies have not intervened the decision making process and the operation of the Company directly or indirectly bypassing the general meetings.

The Company's businesses, assets, staff, organization and finance are separated from those of the controlling shareholder, allowing the Company to have integral independence of its business as well as autonomy over its operations. The Company and the controlling shareholder have separate scopes of operation and have no supervisor-subordinate relationship. In terms of assets, the Company is strictly separated from the controlling shareholder and possesses entire ownership over the operating assets, and operates such assets in total independence. In terms of personnel, there is no dual office-holding and the Company possesses the autonomy of appointment, removal and decision-making regarding work, personnel and salary management, while the controlling shareholder's nominations of director and supervisor candidates to the Company are conducted under lawful procedures. In terms of institution, there are no "same staff with two hats", mixed operation or joint offices, and offices and operating locations are separate. In terms of finances, the Company has an independent financial department and independent accounts, with the autonomy in decision-making regarding the Company's finances. The use of funds is not interfered by the controlling shareholder.

### — Shareholders' General Meeting

The convening, holding and procedures of the shareholders' general meeting are set out in section (III) "Compliance with the Code on Corporate Governance Practices and Other Information".

# Corporate Governance Report

## 2. Directors and the Board

The current session of the Board is the fifth session of the Board and has a term of three years ending at the date of the 2008 annual general meeting. The composition, members and operational procedures of the Board are set out in section (III) "Compliance with the Code on Corporate Governance Practices and Other Information".

### — Independent Directors

The four independent directors of the Company are Chang Yung Tsung, Fang Hung, Kenneth, Yang Xiong Sheng and Fan Cong Lai, accounting for more than one-third of the members of the Board and including an independent director with professional qualification and financial management experience. The independent directors possess rich professional knowledge and management experience on various aspects, such as corporate management, finance and securities, financial management and human resources, and they are responsible for important duties in the various Board committees. Independent directors account for a majority in the Audit Committee and the Nomination, Remuneration and Appraisal Committee, and an independent director holds the chairmanship in each of these committees. The Company has received the confirmation letters in respect of their independence from each of the independent directors and it is of the view that the relevant independent directors have complied with the relevant guidelines under Rule 3.13 of the Rules Governing the Listing of The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") and are independent parties.

Discharge of duties by independent directors:

Name of independent director	Board meeting required to be attended during the year	Attendance in person	Attendance by proxy	Absence
Chang Yung Tsung	9	6	3	0
Fang Hung, Kenneth	9	5	3	1
Yang Xiong Sheng	9	7	2	0
Fan Cong Lai	9	6	2	1

The independent directors have been able to attend Board meetings and specialized committee meetings in a prudent, responsible, active and conscientious manner in compliance with the relevant laws, regulations and the "Detailed Rules for the Operation of Independent Directors", giving their opinions on the decision-making on significant matters by making use of their professional knowledge and experience. During 2007, through their participation in the Board and the specialized committees, the independent directors have examined substantial matters such as the Company's investment and financing decisions, connected transactions, nominations of senior management, financial auditing and internal control, thereby carrying out a good monitoring and balancing sole in terms of protecting the interests of the Company and the shareholders as a whole.

During the reporting period, the independent directors of the Company expressed no disagreement on all matters regarding the Company.

### 3. Supervisors and Supervisory Committee

The current session of the Supervisory Committee is the fifth session of the Supervisory Committee and has a term of three years ending at the date of the 2008 annual general meeting. The Company's Supervisory Committee comprises five supervisors, of whom three are representatives of the shareholders and the other two are staff representatives of the Company. The number of members and composition of the Company's Supervisory Committee is in compliance with the requirements of the relevant laws and regulations.

The Supervisory Committee is accountable to all the shareholders and exercises supervisory duty independently in accordance with the laws. Financial monitoring is the core responsibility among all of its specific duties. Besides, it is also responsible for supervising the performance of fiduciary duties of the directors, managers and other senior management members of the Company. They also safeguard the Company's assets, lower the Company's financial and operational risks and protect the legitimate interests of the Company and the shareholders.

The Secretary of the Board also takes up the duties of the secretary of the Supervisory Committee, responsible for the daily operation of the Supervisory Committee while facilitating communications between the Supervisory Committee and the Board and the management of the Company. In 2007, the Supervisory Committee held five meetings, and all supervisors were present at each Board meeting. The Supervisory Committee supervised the Company's financial matters and the lawful and regulatory performance of duties by the Directors and senior management members, conscientiously discharging the duties of the Supervisory Committee. For details of the work of the Supervisory Committee and the Supervisors, please refer to "Report of the Supervisory Committee" of this annual report.

### 4. The Management

The operational procedures of the Management are set out in section (III) "Compliance with the Code on Corporate Governance Practices and Other Information".



## (III) Compliance with the Code on Corporate Governance Practices and Other Information

During the reporting period, the Board reviewed the daily governance of the Company in accordance with the relevant provisions of the Code as set out in Appendix 14 of the Listing Rules during the reporting period and considered that, from 1 January 2007 to the date of this report, the Company regulated its operation and carried out strict governance in accordance with the relevant code provisions, striving to achieve the various recommended best practices. The Board has actively implemented measures to improve and comply with the provisions of the Code.

The Board and the management undertake to adhere to high standards of corporate governance. In addition to its compliance with the Code, the Company has formulated various governance systems which have exceeded the existing and proposed requirements of the Hong Kong Stock Exchange (details of which are included in this report) which include “Rules of Proceedings for General Meetings”, “Rules of Proceedings for Board of Directors Meetings”, “Rules of Proceedings for Supervisory Committee Meetings”, “Detailed Rules for the Operation of Specialized Committees”, “Detailed Rules for the Operation of Independent Directors”, “Detailed Rules for the Operation of General Manager”, the “Model Code for Securities Transactions by Directors, Supervisors, Senior Management and the Relevant Employees”, “Administrative Rules for Information Disclosure”, “Work System on Investor Relations Management”, and so forth. Each of the systems was strictly followed in order to enhance the level and transparency of the Company’s corporate governance.

Detailed explanations on the Company’s compliance with the Code are set out below.

### A. Directors

#### A1. The Board

<b>Code Principle</b>	<ul style="list-style-type: none"><li>The Board should assume responsibility for leadership and control of the issuer and be collectively responsible for directing and supervising the issuer’s affairs. Directors should make decision objectively in the interests of the issuer.</li></ul>
<b>The best corporate governance status</b>	<ul style="list-style-type: none"><li>The Board of the Company reports to shareholders’ general meetings and fully represents the interests of shareholders and formulates the Company’s development strategies in strict compliance with the “Rules of Proceedings for Board of Directors Meetings” within its terms of reference as stipulated by the Articles of Associations. The Board also monitors the implementation of the Group’s operation management and its financial performance, with the primary mission of achieving operating results that generate the best stable long-term returns.</li></ul>

Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures																																																
<ul style="list-style-type: none"> <li>Regular Board meetings to be held at least four times a year approximately once every quarter. A regular Board meeting does not include the practice of obtaining Board approval through circulation of written resolutions</li> </ul>	Yes	<ul style="list-style-type: none"> <li>In 2007, the Company held nine Board meetings, including four regular meetings and five extraordinary meetings, approximately once every quarter.</li> <li>Each of the Board meetings was actively participated by the majority of directors who were entitled to attend, either voting in person or by proxy or through other means of participation. Details of attendance of 2007 Board meetings: <table data-bbox="774 761 1436 1525"> <thead> <tr> <th></th> <th style="text-align: center;">Attendance /Number of meetings</th> <th style="text-align: center;">Attendance Rate</th> </tr> </thead> <tbody> <tr> <td colspan="3"><b>Chairman</b></td> </tr> <tr> <td>Shen Chang Quan</td> <td style="text-align: center;">9/9</td> <td style="text-align: center;">100%</td> </tr> <tr> <td colspan="3"><b>Executive director</b></td> </tr> <tr> <td>Xie Jia Quan</td> <td style="text-align: center;">9/9</td> <td style="text-align: center;">100%</td> </tr> <tr> <td colspan="3"><b>Non-executive director</b></td> </tr> <tr> <td>Sun Hong Ning</td> <td style="text-align: center;">9/9</td> <td style="text-align: center;">100%</td> </tr> <tr> <td>Chen Xiang Hui</td> <td style="text-align: center;">8/9</td> <td style="text-align: center;">89%</td> </tr> <tr> <td>Zhang Wen Sheng</td> <td style="text-align: center;">8/9</td> <td style="text-align: center;">89%</td> </tr> <tr> <td>Fan Yu Shu</td> <td style="text-align: center;">9/9</td> <td style="text-align: center;">100%</td> </tr> <tr> <td>Cui Xiao Long</td> <td style="text-align: center;">9/9</td> <td style="text-align: center;">100%</td> </tr> <tr> <td colspan="3"><b>Independent non-executive director</b></td> </tr> <tr> <td>Chang Yung Tsung</td> <td style="text-align: center;">9/9</td> <td style="text-align: center;">100%</td> </tr> <tr> <td>Fang Hung, Kenneth</td> <td style="text-align: center;">8/9</td> <td style="text-align: center;">89%</td> </tr> <tr> <td>Yang Xiong Sheng</td> <td style="text-align: center;">9/9</td> <td style="text-align: center;">100%</td> </tr> <tr> <td>Fan Cong Lai</td> <td style="text-align: center;">8/9</td> <td style="text-align: center;">89%</td> </tr> </tbody> </table> </li> </ul>		Attendance /Number of meetings	Attendance Rate	<b>Chairman</b>			Shen Chang Quan	9/9	100%	<b>Executive director</b>			Xie Jia Quan	9/9	100%	<b>Non-executive director</b>			Sun Hong Ning	9/9	100%	Chen Xiang Hui	8/9	89%	Zhang Wen Sheng	8/9	89%	Fan Yu Shu	9/9	100%	Cui Xiao Long	9/9	100%	<b>Independent non-executive director</b>			Chang Yung Tsung	9/9	100%	Fang Hung, Kenneth	8/9	89%	Yang Xiong Sheng	9/9	100%	Fan Cong Lai	8/9	89%
	Attendance /Number of meetings	Attendance Rate																																																
<b>Chairman</b>																																																		
Shen Chang Quan	9/9	100%																																																
<b>Executive director</b>																																																		
Xie Jia Quan	9/9	100%																																																
<b>Non-executive director</b>																																																		
Sun Hong Ning	9/9	100%																																																
Chen Xiang Hui	8/9	89%																																																
Zhang Wen Sheng	8/9	89%																																																
Fan Yu Shu	9/9	100%																																																
Cui Xiao Long	9/9	100%																																																
<b>Independent non-executive director</b>																																																		
Chang Yung Tsung	9/9	100%																																																
Fang Hung, Kenneth	8/9	89%																																																
Yang Xiong Sheng	9/9	100%																																																
Fan Cong Lai	8/9	89%																																																
<ul style="list-style-type: none"> <li>All directors are given an opportunity to include matters in the agenda for regular Board meetings</li> </ul>	Yes	<ul style="list-style-type: none"> <li>All directors were given an opportunity to include matters in the agenda for regular Board meetings but such right was not exercised during the year.</li> </ul>																																																

# Corporate Governance Report

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>Notice of at least 14 days shall be given of a regular Board meeting</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Notice, agenda and the relevant information of each regular Board meeting were given 14 days prior to such meeting. Notice of extraordinary Board meeting was also given within a reasonable time before the meeting to ensure that all directors were given an opportunity to attend.</li> </ul>
<ul style="list-style-type: none"> <li>All directors shall have access to the advice and services of the company secretary</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Secretary of the Board maintained close communications with all directors and provided timely material information of the Company and the relevant updated rules, as well as contributed advice to the directors on matters arising from corporate governance and rules compliance, ensuring that the Board operation was in compliance with the procedures.</li> </ul>
<ul style="list-style-type: none"> <li>Minutes of meetings shall be kept by the Secretary of the Board and open for inspection by any director at any reasonable time</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Secretary of the Board has been responsible for preparing and maintaining all minutes and the relevant meeting materials of the Board and Board committees which were available for inspection by any director at any reasonable time.</li> </ul>
<ul style="list-style-type: none"> <li>Minutes of meetings shall record in sufficient detail the matters considered by the directors and decision reached at meetings</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The minutes of meetings reflected objectively the consideration, voting and opinions given by the directors in detail and were duly signed by directors attending the meetings.</li> </ul>
<ul style="list-style-type: none"> <li>Directors could seek independent advice under an agreed procedure at the Company's expense</li> </ul>	Yes	<ul style="list-style-type: none"> <li>In respect of matters that require advice to be sought from professional institutions, the Company will appoint professional institutions including accountants, lawyers, valuation firms, and so forth to issue written reports for the perusal of Directors at the Company's expense. During the year, no director has individually requested the Company to seek professional independent opinion on any relevant matter.</li> </ul>
<ul style="list-style-type: none"> <li>If a substantial shareholder or a director has a conflict of interest in respect of a material matter, the Company shall convene a Board meeting in due course and the relevant connected director must abstain from voting</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company has stated that, if a substantial shareholder or a director has a conflict of interest in respect of any material matter, the connected director must abstain from voting when a Board meeting is held. The relevant matter shall not be dealt with by way of circulation of written resolutions or by a Board committee. During the reporting period, when the relevant matters of share transfer and capital increase of Jiangsu Sundian Engineering were considered at the 12th meeting of the fifth session of the Board, all connected directors of the controlling shareholder abstained from voting.</li> <li>The voting and quorum as stipulated in the articles of association conform with the provisions of the Code.</li> </ul>

## Recommended best practices:

Various Board committees of the Company have adopted principles and procedures of broadly the same as stated above.

## A2. Chairman and Chief Executive Officer

<b>Code principle</b>	<ul style="list-style-type: none"> <li>There should be a clear division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.</li> </ul>
<b>The best corporate governance status</b>	<ul style="list-style-type: none"> <li>The Company has clearly defined the responsibilities of the Chairman and the General Manager. The responsibilities of the Board and the management are separated and are set out in detail in the Company's Articles of Association, the "Rules of Proceedings for Board of Directors Meetings" and "Detailed Rules for the Operation of General Manager", ensuring a balance of power and authority as well as guaranteeing the independence of the Board in decision-making and the independence of the management in day-to-day operation management activities.</li> </ul>

### Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>Roles of the Chairman and the Chief Executive Officer should be separate and clearly established and set out in writing</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Shen Chang Quan assumes the position of Chairman and Xie Jia Quan was appointed by the Board as the General Manager. The Chairman concentrates his work on the Group's development strategies and matters of the board and the General Manager is in charge of the management and development of the operations specifically. The General Manager assumes the duties of the Chief Executive Officer. The separation of the roles is explained in detail in the Company's Articles of Association, the "Rules of Proceedings for Board of Directors Meetings" and "Detailed Rules for the Operation of General Manager".</li> <li>There was no relationship existing between the Chairman and the Chief Executive Officer, including financial, operational, family or other relevant relations.</li> </ul>
<ul style="list-style-type: none"> <li>The Chairman should ensure all directors be briefed on issues arising at Board meetings</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Board has established a reporting system in which at each regular meeting, the General Manager reports to each director the most updated status of the Company, at least four times per year. The Chairman also tabled the decision making on any material matters of the Group to the Board for collective discussion by the directors at the meeting.</li> </ul>
<ul style="list-style-type: none"> <li>The Chairman should ensure that Directors receive adequate information in a timely manner</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Chairman has appointed the Secretary of the Board to timely provide all the information regarding the performance of the Board's obligations and has been committed to improving continuously the quality and timeliness of the information.</li> </ul>

# Corporate Governance Report

## Recommended best practices:

- Agenda of the Board meetings have been discussed by the Chairman, Executive Directors and Secretary of the Board and were determined after considering all the matters motioned by the Non-executive Directors.
- The Chairman played a significant role in the development of the Company's corporate governance system. The Chairman assigned the Secretary of the Board to formulate a sound corporate governance system and procedures and supervised the management to faithfully perform the various systems, ensuring the Company's standardized operation.
- The Chairman encouraged all the directors to devote their efforts to the matters of the Board and promoted effective contribution made by the directors to the Board. The Chairman acted as a role model and made sure that the Board acted in the best interests of the Company.
- The Chairman attached great importance to the effective communication between the Company and its shareholders and enhanced investor relations continuously so as to realize maximum returns for shareholders. The Chairman also valued the contributions made by the directors to the Board and strived to ensure that there were constructive relations between Executive Directors and Non-executive Directors.

## A3. Board Composition

### Code principle

- The Board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The Board should also include a balanced composition of executive and non-executive directors (including independent non-executive directors) to ensure that independent judgment can be made effectively. Non-executive directors should comprise sufficient members and possess sufficient competence so that their opinions will have an impact.

### The best corporate governance status

- The Board of the Company comprises a total of 11 directors, including 1 executive directors, 6 non-executive directors and 4 independent non-executive directors, where the independent non-executive directors represent over one-third of the Board members. In 2006, the election of all members of the new session of the Board was held and the fifth session of the Board was formed. The term of the directors commenced from June 2006 and will end at the 2008 Annual General Meeting.
- The Directors are elected or replaced by Shareholders' General Meetings. The Company adopts cumulative voting in the election process for directors. The term of a director is three years. The appointment of all directors is determined by Shareholders' General Meeting. Directors can be re-elected when their terms expire.
- Members of the Board have different industry background. They diversify in experience, competence and judgment, which makes the Board more prudent and considerate when making decisions.
- There exists no relationship among Board members, including financial, operational, family or other relevant relations.



## Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>Identify the Independent Non-executive Directors in all corporate communications</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Board members are disclosed in all corporate communications according to the types of directorship (including Chairman, Executive directors, Non-executive Directors and Independent Non-executive Directors).</li> </ul>

### Recommended best practices:

- The four Independent Directors, namely Chang Yung Tsung, Fang Hung, Kenneth, Yang Xiong Sheng and Fan Chong Lai, account for over one-third of the members of the Board with one independent director possessing professional qualifications and financial management experience. The Company has received from each of its Independent Non-executive Directors confirmation letter of his/her independence, and it is of the view that the relevant independent directors complied with the relevant guidelines under Rule 3.13 of the Hong Kong Listing Rules and were independent parties. The Company considers that the Independent Non-executive Directors are independent parties.
- The Company has provided on its website the list and profiles of current Board members, together with their roles, responsibilities and independence.

### A4. Appointment, Re-election and Removal

<b>Code principle</b>	<ul style="list-style-type: none"> <li>There should be a formal, considered and transparent procedure for the appointment of new directors and plans in place for orderly succession for appointments to the Board. All directors should be subject to re-election at regular intervals. The issuer should provide reasons for the resignation or dismissal of any director.</li> </ul>
<b>The best corporate governance status</b>	<ul style="list-style-type: none"> <li>The Board of the Company has established the Nomination, Remuneration and Appraisal Committee which makes recommendations on the procedures for the appointment, re-election, removal and performance of director candidates for consideration by the Board. Their appointment will ultimately be determined at a shareholders' general meeting. During the process of selection, the criteria considered by the Nomination Committee include the relevant candidate's integrity, his/her achievement and experience in the relevant industry, his/her professional and educational background and his/her level of devotion, including the amount of time that he/she can devote and his/her concern about relevant affairs, and so forth.</li> <li>In 2007, the Nomination, Remuneration and Appraisal Committee met three times to assess the performance of fiduciary duties of the directors in the previous year and considered that all directors had conscientiously performed their service contracts. Meanwhile, the nominations of senior management of the Company and changes in directors were reviewed and submitted to the Board for consideration.</li> <li>In 2007, the Company has explained the reasons of director resignations to the shareholders through announcements.</li> <li>For the work of the Nomination, Remuneration and Appraisal Committee during the year, please refer to "(5) Reports of the Specialized Committees of the Board - 3. 2007 Report on Discharge of Duties by the Nomination, Remuneration and Appraisal Committee" in "Report of the Directors" of this annual report.</li> </ul>

# Corporate Governance Report

## Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>Non-executive directors should be appointed for a specific term, subject to re-election</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Directors are appointed for a term of three years. All directors are appointed at a general meeting and can be re-appointed upon expiry of the term.</li> </ul>
<ul style="list-style-type: none"> <li>Directors appointed to fill casual vacancies should be subject to election by shareholders at the first general meeting after their appointment</li> </ul>	Yes	<ul style="list-style-type: none"> <li>All directors are elected or replaced by Shareholders' General Meetings. The Company has introduced the cumulative voting system for the election of directors.</li> </ul>
<ul style="list-style-type: none"> <li>Each director should be subject to retirement by rotation at least once every three years</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company Law and the articles of association of the Company stipulate that each director is appointed for a term of three years and should retire upon the expiry of the three-year term. Any re-appointment is subject to re-election at a Shareholders' General Meeting.</li> <li>During the reporting period, Mr. Zhang Wen Sheng, a director, retired and was replaced by Ms. Zhang Yang.</li> </ul>

### Recommended best practices:

- The Board of the Company has established the Nomination, Remuneration and Appraisal Committee. Chang Yung Tsung, Fang Hung, Kenneth, Yang Xiong Sheng, Zhang Yang and Sun Hong Ning are members of the committee, of whom three are Independent Non-executive Directors. The Chairman of the committee is Chang Yung Tsung.
- The Company has formulated the "Articles for the Nomination, Remuneration and Appraisal Committee" to specify the terms of reference and responsibilities of the committee and has published its terms of reference on web sites. The Company provides sufficient resources for the committee to perform its duties. The major responsibilities of the committee are:
  - to regularly review the structure, number of members and composition (including skills, knowledge and experience) of the Board and to make recommendations to the Board on any intended changes;
  - to identify suitably qualified people for directorships and select and nominate relevant persons for directorships or to give advice to the Board in this respect;
  - to assess the independence of independent non-executive directors; and
  - to make recommendations to the Board on matters related to the appointment or re-appointment of directors and the director (particularly chairman and managing director) succession plan.
- As far as the election of an independent non-executive director is concerned, the Company will include the reasons for appointing the person and the independence statement in the notice of the general meeting and the shareholders' circular.

## A5. Responsibilities of Directors

<b>Code principle</b>	<ul style="list-style-type: none"> <li>Each director is required to keep abreast of responsibilities as a Director of the issuer and of the conduct, business activities and development of the issuer.</li> </ul>
<b>The best corporate governance status</b>	<ul style="list-style-type: none"> <li>The Company has formulated the “Rules of Proceedings of Board of Directors Meetings”, “Detailed Rules for the Operation of Committees” and “Detailed Rules for the Operation of Independent Directors” to specify the responsibilities of all directors so as to ensure that all directors understand their roles and duties thoroughly.</li> <li>The Secretary of the Board is responsible for ensuring that all directors obtain updated statutory information on the Company’s latest business development.</li> </ul>

### Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>Each new director should receive an induction on the first occasion of his/her appointment to ensure that he/she has a proper understanding of his/her responsibilities under legal requirements and the regulatory policy</li> </ul>	Yes	<ul style="list-style-type: none"> <li>A comprehensive information package and relevant training which comprises an introduction to the Group’s operations, a brief introduction to directors’ responsibilities and duties and other statutory requirements will be provided to new directors upon their appointment.</li> <li>All non-executive directors will be provided with reports on business progress, financial objectives, development plans and strategic plans regularly by the management.</li> <li>The Secretary of the Board is responsible for ensuring that all directors obtain the latest information on the Listing Rules and other statutory requirements.</li> </ul>
<ul style="list-style-type: none"> <li>Responsibilities of Non-executive directors</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Non-executive directors have actively participated in board meetings and served as committee members, reviewed the achievement of the Company’s business objectives and provided independent opinions on the Board’s decision making.</li> <li>Responsibilities of Non-executive directors include:               <ul style="list-style-type: none"> <li>Independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct at board meetings of the issuer;</li> <li>Take a leading and guiding role on potential conflicts of interests;</li> <li>Serve on the audit, remuneration, nomination and other governance committees, if invited, and;</li> <li>Scrutinize the Company’s performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.</li> </ul> </li> </ul>

# Corporate Governance Report

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>Each director should ensure that he/she can give sufficient time to the affairs of the Company</li> </ul>	Yes	<ul style="list-style-type: none"> <li>All directors have worked hard and faithfully performed their duties. There was satisfactory attendance at board meetings and meetings of the various committees in 2007.</li> </ul>
<ul style="list-style-type: none"> <li>Directors must comply with the Model Code as set out in Appendix 10</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The directors of the Company have complied with the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 of the Hong Kong Listing Rules in 2007. The Board has formulated the “Model Code for Securities Transactions by Directors, Supervisors, Senior Management and the Relevant Employees” as a written guideline for the trading of securities of the Company by the relevant employees. The model code’s standards on securities transactions by directors are not lower than the requirements of the “Model Code for Securities Transactions by Director of Listed Issuers”.</li> </ul>

## Recommended best practices:

- All directors will have opportunities to receive professional training arranged by the Company for them during their terms of office.
- Each director regularly provides information to the Company on and after his/her appointment as to his/her employment with other companies (including employment as directors or supervisors in listed companies in the previous three years) and other major commitments.
- All non-executive directors have attended board meetings and meetings of various committees regularly and contributed their skills and expertise to the Company’s decision making. Most non-executive directors have attended the Shareholders’ General Meetings of the Company.

## A6. Supply of and Access to Information

<b>Code principle</b>	<ul style="list-style-type: none"> <li>Directors should be provided in a timely manner with appropriate information to enable them to make an informed decision and to discharge their duties and responsibilities.</li> </ul>
<b>The best corporate governance status</b>	<ul style="list-style-type: none"> <li>The Secretary of the Board is responsible for providing all information to directors, including documents of all meetings of the Board and specialized committees; providing reports on business progress, financial objectives, development plans and strategic plans regularly and the latest information on the Listing Rules and other statutory requirements; and improving the quality and timeliness of information on a continued basis.</li> </ul>

## Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>Meeting documents should be sent to directors at least three days before the date of a Board or committee meeting</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Meeting materials were sent to directors at least three days before the date of each Board or committee meeting.</li> </ul>
<ul style="list-style-type: none"> <li>The management has the responsibility to provide sufficient information to the Board and its committees in a timely manner so that the Board can make informed decisions. Each director could have separate and independent access to the Company's senior management for making further enquiries</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The management provided sufficient information to the Board and its committees in a timely manner. Directors could have separate and independent access to the Company's senior management for obtaining necessary information. The Board and the committees would make arrangements for relevant members of the senior management to attend their meetings and report the latest situation about operations, including the background or explanatory information on matters to be submitted to the Board for consideration, disclosure documents, budgets, forecasts and monthly financial statements and other relevant internal financial statements.</li> </ul>
<ul style="list-style-type: none"> <li>All directors are entitled to have access to Board papers and related materials. Steps must be taken by the Issuer to respond as promptly and fully as possible to queries raised by directors</li> </ul>	Yes	<ul style="list-style-type: none"> <li>All Board papers and related materials have been kept by the Secretary of the Board for inspection by directors at any time. The Board and the committees have also made arrangements for relevant members of the senior management to attend their meetings and report the latest situation about operations and respond to queries.</li> </ul>

## B. Remuneration of Directors and Senior Management

### B1. The Level and Make-up of Remuneration and Disclosure

<b>Code principle</b>	<ul style="list-style-type: none"> <li>The Company should establish a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration package for all directors. No director should be involved in deciding his/her own remuneration.</li> </ul>
<b>The best corporate governance status</b>	<ul style="list-style-type: none"> <li>The Company has established the Nomination, Remuneration and Appraisal Committee, with its scope of duties including formulating and reviewing the remuneration policy and plan for the Company's directors and managers. Other than four independent non-executive directors, the remaining directors have not received any directors' remuneration from the Company. The remuneration for independent non-executive directors is determined with reference to the average market level and the Company's current status. Executive directors have received management remuneration from the Company. During the year, no director participated in determining his/her own remuneration.</li> <li>During the year, the remuneration paid by the Company to two non-domestic independent directors amounted to HK\$200,000 each person per year. The remuneration paid to two domestic independent directors amounted to RMB50,000 each person per year. Other than remuneration, independent directors have not received other compensation from the Company.</li> <li>For the work of the Nomination, Remuneration and Appraisal Committee during the year, please refer to "(5) Reports of the Specialized Committees of the Board – 3. 2007 Report on Discharge of Duties by the Report on Discharge of Duties by the Nomination, Remuneration and Appraisal Committee" in "Report of the Directors" of this annual report.</li> </ul>

# Corporate Governance Report

## Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>The Issuer should establish the Remuneration Committee with a majority of members of the committee are independent non-executive directors</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Board of the Company has established the Nomination, Remuneration and Appraisal Committee. For details please refer to the section A4 “Appointment, Re-election and Removal” in this Chapter.</li> </ul>
<ul style="list-style-type: none"> <li>The Remuneration Committee should consult the Chairman or the Chief Executive Officer about their proposals relating to the remuneration of other executive directors</li> </ul>	No	<ul style="list-style-type: none"> <li>Other than the General Manager who serves as executive director, the Company does not have other executive directors. The General Manager receives management remuneration but not directors’ remuneration.</li> </ul>
<ul style="list-style-type: none"> <li>The responsibilities of the Remuneration Committee</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company has formulated the “Articles for the Nomination, Remuneration and Appraisal Committee” to specify the terms of reference and responsibilities of the Committee.</li> </ul>
<ul style="list-style-type: none"> <li>The Remuneration Committee should make available its terms of reference and be provided with sufficient resources to discharge its duties</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The terms of reference have been published on the Company web site. The Company will provide sufficient resources for the Committee to discharge its duties.</li> </ul>

### Recommended best practices:

- The remuneration of executive directors and senior management has been generally linked with corporate and individual performance.
- The Company has disclosed the remuneration of each director, supervisor and member of senior management with their names in the annual report and accounts. For details please refer to “Directors, Supervisors, Senior Management and Staff” of this annual report.

## C. Accountability and Audit

### C1. Financial Reporting

<b>Code principle</b>	<ul style="list-style-type: none"> <li>The Board should present a clear, comprehensive assessment of the Company's performance, position and prospects.</li> </ul>
<b>The best corporate governance status</b>	<ul style="list-style-type: none"> <li>The Board has strived to provide comprehensive information in all regular financial reports issued to shareholders so as to comply with the regulatory requirements of the stock exchanges in both Hong Kong and Shanghai and continues to improve the "Management Discussion and Analysis" section, thereby disclosing comprehensive information on the Company's production and operation, finance and project development. Meanwhile, it will also take the initiative to increase the amount of information, including information on the Company's operating environment, development strategies and corporate culture, and to enhance the corporate governance report, so as to give a comprehensive, objective, fair and clear presentation of the Group's operating management conditions and prospects.</li> </ul>

#### Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>The management will provide such explanation and information to enable the Board to make assessment of the relevant matters</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The management of the Company has provided comprehensive reports on the Company's business progress, financial objectives, development plans and strategic plans to the Board at all Board meetings to enable all directors to make assessment with merits on the financial and other information submitted to them for approval.</li> </ul>
<ul style="list-style-type: none"> <li>Directors should acknowledge their responsibilities for preparing the accounts; there should be a statement by the auditors about their reporting responsibilities in the report</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Directors have been responsible for overseeing the preparation of annual accounts so that the accounts could give a true and fair view of the Group's results and cash flow in the relevant year.</li> <li>The auditors' report stated the reporting responsibilities.</li> </ul>
<ul style="list-style-type: none"> <li>The board should present a balanced, clear and comprehensible assessment of the Company's performance in regular reports, announcements on share price-sensitive information and other financial information required to be disclosed</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Board gave an objective, fair and clear presentation of the Group's position and prospects in all circulars issued to shareholders.</li> </ul>

#### Recommended best practices:

- Apart from issuing annual results and interim results reports, the Company has prepared and issued the results and reports for the first and third quarters pursuant to the requirements of the Shanghai Stock Exchange. The Company announced and issued quarterly financial results within 30 days after the end of the relevant quarter. The information disclosed would be sufficient for shareholders to assess the performance, financial position and prospects of the Company.

# Corporate Governance Report

## C2. Internal Control

<b>Code principle</b>	<ul style="list-style-type: none"> <li>The board should ensure that the issuer maintains sound and effective internal control to safeguard the shareholders' investment and the issuer's assets.</li> </ul>
<b>The best corporate governance status</b>	<ul style="list-style-type: none"> <li>The Board has authorized the management of the Company to establish and implement the internal control system and conduct reviews on the financial, operating and regulatory procedures from time to time to safeguard the Group's assets and shareholders' interests. For details, please refer to the section "Establishment and Enforcement of Internal Control System" in this Chapter.</li> <li>The Company has established the internal audit department in the organizational structure to examine, supervise and evaluate the Company's financial position, operating and internal control activities regularly pursuant to different businesses and flows. Besides, it has appointed external audit institutions to audit the financial reports of the Company regularly pursuant to the PRC and Hong Kong accounting standards and provide independent and objective evaluations and recommendations in the form of an audit report.</li> <li>The Company has appointed accountants with qualifications of the Hong Kong Institute of Certified Public Accountants pursuant to the requirements of the Hong Kong Stock Exchange to assist the accountants of the Company, and cooperated with the Audit Committee to audit the Company's financial reports and relevant accounts regularly and reported to the Board.</li> </ul>

### Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>Directors should conduct at least once a year a review of the effectiveness of the internal control system (including financial control, operating control, compliance control and risk management functions)</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Currently, the Company has established the internal control system. For details, please refer to the section "Establishment and Enforcement of Internal Control System" in this Chapter.</li> </ul>

#### Recommended best practices:

- The Company has ensured that the information disclosed in all circulars issued to shareholders are meaningful information and that the information do not contain misrepresentations, misleading statements or major omissions and is jointly and severally responsible for the truth, accuracy and integrity of the statements contained therein.





### C3. Audit Committee

#### Code principle

- The Audit Committee should have clear terms of reference, including the establishment of arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

#### The best corporate governance status

- The Company has established the Audit Committee and Yang Xiong Sheng, Fan Cong Lai and Fan Yu Shu are members of the committee. All of them have expertise and experience in financial management. All members are non-executive directors, of whom two are independent non-executive directors and one independent director possesses professional qualifications and professional experience in financial management. Mr. Yang Xiong Sheng is appointed Chairman of the Committee.
- The Audit Committee is principally responsible for supervising and implementing the internal audit system of the Company and its subsidiaries; examining the financial information and information disclosure of the Company and its subsidiaries; supervising the internal control system of the Company and its subsidiaries, including financial control and risk management; auditing material connected transactions; and communicating, supervising and reviewing the internal and external audits of the Company. The scope of responsibility is specified clearly in "Detailed Rules for the Operation of the Audit Committee".
- The Audit Committee held four meetings in 2007 at which the management and the financial controller reported on the financial position of the Company and major matters related to internal control.
- During the year, the Audit Committee made two direct contacts with external auditors of the Company, before the preparation of the annual auditor's report and the interim review report, to understand the procedures and principles for the preparation of the auditors' report and to discuss the relevant issues with the auditors, so as to serve as a basis for evaluation.

# Corporate Governance Report

## Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>Full minutes of the Audit Committee meetings should be kept by a duly appointed secretary of the meeting and should be confirmed by all members of the Committee</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Secretary of the Board has been responsible for compiling and keeping the minutes and relevant meeting materials of the Committee. The minutes reflected the consideration and voting situations of the meetings in an objective and detailed way and were signed by all directors attending the meetings for confirmation.</li> </ul>
<ul style="list-style-type: none"> <li>A former partner of the existing auditors should not sit on the Audit Committee</li> </ul>	Yes	<ul style="list-style-type: none"> <li>None of the Audit Committee members is a former partner of the external auditors.</li> </ul>
<ul style="list-style-type: none"> <li>The terms of reference of the Audit Committee should be made available in a timely manner</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company has formulated the “Detailed Rules for the Operation of the Audit Committee” to specify the terms of reference, the work procedures for the Committee and the authorities granted by the Board so as to meet the Code’s requirements. This has been published on the Company’s web site. The Audit Committee is principally responsible for supervising and managing the appointment of external auditors and their duties; supervising and implementing the internal audit system of the Company and its subsidiaries; examining the financial information and information disclosure of the Company and its subsidiaries; supervising the internal control systems of the Company and its subsidiaries, including financial control and risk management; auditing material connected transactions; and communicating, supervising and reviewing the internal and external audits of the Company.</li> </ul>
<ul style="list-style-type: none"> <li>The Board should obtain opinions from the Audit Committee on the selection or removal of external auditors</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Audit Committee makes recommendations on the selection or removal of external auditors to the Board, subject to approval at the general meeting after consideration by the Board.</li> </ul>
<ul style="list-style-type: none"> <li>The Audit Committee should be provided with sufficient resources to discharge its duties</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Audit Committee may seek necessary independent professional advices pursuant to the established procedures at the costs of the Company. No such event took place during the year.</li> </ul>

### Recommended best practices:

- There are members of the Audit Committee who act as main representatives between the Company and external auditors and are responsible for monitoring and coordinating the relationship between the parties.

## D. Delegation by the Board

### D1. Management Functions

<b>Code principle</b>	<ul style="list-style-type: none"> <li>The issuer should specify matters reserved to the Board for its decision and those delegated to the management and should give directions to the management as to the matters that must be approved by the Board.</li> </ul>
<b>The best corporate governance status</b>	<ul style="list-style-type: none"> <li>The main functions and duties of the Board include convening the shareholders' general meetings; making decisions on the Company's operational plans, investment proposals and establishment of the internal management organization; preparing the Company's annual budget, final accounts and profit distribution scheme; formulating corporate merger, demerger, dissolution proposals and significant acquisition or sale proposals; and implementing the resolutions passed at the shareholders' general meetings.</li> <li>The Board may delegate part of its functions and duties to specialized committees, directors' working groups and the management and specify matters requiring approval by the Board.</li> </ul>

### Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>When the Board delegates aspects of its management and administration functions to the management, it must at the same time give clear directions as to the authorities of the management</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The management is accountable to the Board. Its main functions and duties include being in charge of the Company's production and operation management, organization and implementation of the annual operational plans and investment proposals approved by the Board, and implementation of the resolutions passed by the Board. When exercising its power, the management cannot surpass its terms of reference and resolutions of Board meetings. The Board has issued clear guidelines on the rights and responsibilities of the management.</li> </ul>
<ul style="list-style-type: none"> <li>The issuer should separately identify functions reserved to the Board and those delegated to the management and conduct reviews on a regular basis</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company has specified the matters that required to be resolved at Board meetings in the "Detailed Rules for the Operation of General Manager".</li> </ul>

#### Recommended best practices:

- The Company has specified the separate functions and duties between the Board and the management in the "Articles of Association", the "Rules of Proceedings for Board of Directors Meetings" and the "Detailed Rules for the Operation of General Manager", which have been published on the Company's website.
- Each newly appointed director will receive a formal appointment letter specifying the major terms and conditions of the appointment.

# Corporate Governance Report

## D2. Board Committees

### Code principle

- Board committees should be formed with specific written terms of reference which deal clearly with the committees' authorities and duties.

### The best corporate governance status

- The Board of the Company has established three specialized committees, including the Strategy Committee, the Audit Committee and the Nomination, Remuneration and Appraisal Committee. The Board selects and appoints members of each committee by taking into account the expertise and experience of each director so that each committee can commence its work with high efficiency. Most members of the Audit Committee and the Nomination, Remuneration and Appraisal Committee are independent non-executive directors.
- Each committee has defined rules for operation which deal clearly with the committee's authority and duties as well as the procedures for handling matters.
- Meetings of all committees will be convened regularly to report their working progress and discussion results to the Board. Most members have actively participated in committee affairs. The Secretary of the Board offers comprehensive assistance to facilitate commencement of the work of all committees.

Records of Attendance of Meetings of Specialized Committees in 2007 (Attendance/ Number of Meetings)

Name	Position	Nomination, Remuneration and Appraisal		
		Strategy Committee	Audit Committee	Appraisal Committee
Sheng Chang Quan	Chairman and Non-executive Director	3/3	—	—
Xie Jia Quan	Executive Director	3/3	—	—
Sun Hong Ning	Non-executive Director	—	—	3/3
Chen Xian Hui	Non-executive Director	3/3	—	—
Zhang Wen Sheng	Non-executive Director	—	—	3/3
Fan Yu Shu	Non-executive Director	—	4/4	—
Cui Xiao Long	Non-executive Director	3/3	—	—
Chang Yung Tsung	Independent Non-executive Director	—	—	3/3
Fang Hung, Kenneth	Independent Non-executive Director	—	—	3/3
Yang Xiong Sheng	Independent Non-executive Director	—	4/4	2/3
Fan Cong Lai	Independent Non-executive Director	2/3	4/4	—

For the 2007 work reports of the respective committee, please refer to "Report of the Directors" of this annual report.

## Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>The Board should specify clearly the terms of reference of the committees so that the committees can perform their duties properly</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The three committees established by the Board have adopted their respective Detailed Rules of Operation to provide guidance on their decision-making procedures and performance of duties. For the terms of reference of the committees, please see “A4. Appointment, Re-election and Removal”, “B1. The Level and Make-up of Remuneration and Disclosure” and “C3. Audit Committee”.</li> </ul>
<ul style="list-style-type: none"> <li>The terms of reference of the committees should require them to report to the Board their decisions and recommendations</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The committees have reported their decisions and recommendations to the Board after each meeting and submitted to the Board for consideration the matters that required to be decided by the Board.</li> </ul>

## E. Communication with Shareholders

### E1. Effective Communications

<b>Code principle</b>	<ul style="list-style-type: none"> <li>The Board should endeavour to maintain on-going dialogues with shareholders and in particular, by means of annual general meetings or other general meetings to communicate with shareholders and encourage their participation.</li> </ul>
<b>The best corporate governance status</b>	<ul style="list-style-type: none"> <li>The Board endeavored to maintain on-going communications with shareholders and regarded the annual general meeting as a major opportunity to contact individual shareholders. All shareholders holding shares of the Company are entitled to attend the annual general meeting.</li> <li>The Company issues shareholders’ circular at least 21 days before a general meeting. The Company issues the notice and the attached annual report, which contain the matters for consideration at the meeting and the voting procedures in detail, at least 45 days before the annual general meeting.</li> </ul>

## Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Separate resolutions were proposed at the general meeting on each substantially separate issue, including the election of individual directors.</li> </ul>
<ul style="list-style-type: none"> <li>The chairman of the Board should attend the annual general meeting and arrange for chairmen or members of the committees to be available to answer questions at the meeting</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The chairman of the Board has attended and presided over the annual general meeting and has arranged for representatives of all committees and the management of the Company to be available to answer questions raised by shareholders at the meeting.</li> </ul>
<ul style="list-style-type: none"> <li>The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholder approval.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>During the year, no connected transaction or transaction requiring independent approval were submitted to the general meeting for approval.</li> </ul>

# Corporate Governance Report

## E2. Voting by Poll

<b>Code principle</b>	<ul style="list-style-type: none"> <li>The issuer should regularly inform shareholders of the procedures for voting by poll and ensure compliance with the requirements contained in the “Listing Rules” and the “Articles of Association”.</li> </ul>
<b>The best corporate governance status</b>	<ul style="list-style-type: none"> <li>The Company has formulated the “Rules of Proceedings for General Meetings” specifying the voting format and the voting procedures of shareholders’ general meetings and ensured that the procedures comply with the requirements contained in the “Listing Rules” and the “Articles of Association”.</li> <li>The Company confirmed the validity of all the voting shares present at the meeting and appointed external auditors and shareholders as scrutineers and appointed lawyers to issue letters of legal opinions on the final voting results. The voting results have been published in designated newspapers and websites.</li> </ul>

### Compliance procedures of the Code – Code provisions and recommended best practices

Code provision	Compliance	Corporate governance procedures
<ul style="list-style-type: none"> <li>The procedures for voting by poll and the right of shareholders demanding voting by poll should be disclosed in the circular of the general meeting. The chairman of a meeting and/or directors who individually or collectively hold proxies should disclose the votes represented by all proxies held by directors at the meeting</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The notice of a general meeting and the attached circular contained the details of the matters for consideration at the meeting and the voting procedures. The relevant procedures were also explained at the meeting. The chairman of the meeting disclosed the voting rights represented by proxies during voting.</li> </ul>
<ul style="list-style-type: none"> <li>Ensure the votes cast are properly counted and recorded</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company appointed external auditors and shareholder representatives as scrutineers to properly count and record the valid votes. The Company appointed lawyers to issue letters of legal opinions on the final voting results.</li> </ul>
<ul style="list-style-type: none"> <li>The chairman of a meeting should explain the procedures for voting by poll and for raising questions by shareholders before the commencement of the meeting</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The chairman of the meeting took care of the meeting procedures and questions raised by shareholders, and conducted a poll after all shareholders had gained a full understanding of the resolutions.</li> </ul>

## (IV) Information Disclosure

The Company performs its statutory obligation of disclosing information faithfully and strictly in compliance with the reporting regulations and procedures for disclosing such information. In order to ensure that all shareholders be informed in an equal and comprehensive manner, the Company truthfully, accurately and completely discloses such information that may materially affect the decision-making of the public investors. The Secretary of the Board is responsible for performing information disclosure.

The Company has promulgated the “Administrative Rules for Information Disclosure” in 2007 to systematically coordinate and summarize the procedures and methods of the Company’s information disclosure, thereby devising a clear operation code and disclosure procedure for the Company’s information disclosure work in the future. Presently the system has been effectively enforced.

During the reporting period, the Company published four periodic reports and 30 ad hoc announcements to disclose details on important corporate information and the progress on major matters in accordance with the requirements of the listing rules of the Shanghai and Hong Kong stock exchanges. Announcements of the Company were published in China Securities Journal and Shanghai Securities News. For details of the announcements, please refer to the publications on the said dates or visit [www.sse.com.cn](http://www.sse.com.cn), [www.hkex.com.hk](http://www.hkex.com.hk) or [www.jsexpressway.com](http://www.jsexpressway.com).

No.	Publication Date	Item
1	9 January 2007	Announcement of the Fifth Meeting of the Fifth Session of the Board of Directors Regarding the Plan to Obtain Trust Loan from the Controlling Shareholder
2	26 March 2007	Announcement of 2006 Annual Results and Explanation of Funds Appropriated by the Controlling Shareholder and Other Connected Parties of the Company
3	26 March 2007	Announcement of the Seventh Meeting of the Fifth Session of the Board of Directors and Announcement of the Fourth Meeting of the Fifth Session of the Supervisory Committee
4	13 April 2007	Announcement in Respect of Expected Increase in Profit for the First Quarter of the Year
5	27 April 2007	2007 First Quarterly Report and Announcement of the Eighth Meeting of the Fifth Session of the Board of Directors
6	27 April 2007	Announcement of 2006 Annual Results
7	27 April 2007	Announcement of the Connected Transaction of 2007 Road Maintenance Service Contract with Jiangsu Sundian Engineering Co., Ltd.
8	27 April 2007	Announcement of the Connected Transaction of Technological Service Agreement with Jiangsu Expressway Toll-network Technology Service Co., Ltd.
9	27 April 2007	Notice of 2006 Annual General Meeting and Announcement of Amendments of Articles of Association
10	11 May 2007	Announcement of Listing of the First Batch of Circulating Shares with Selling Restrictions
11	8 June 2007	Announcement of Listing of the Second Batch of Circulating Shares with Selling Restrictions
12	14 June 2007	Announcement of the Resolutions of the 2006 Annual General Meeting and Legal Opinion

## Corporate Governance Report

No.	Publication Date	Item
13	14 June 2007	Announcement of the Ninth Meeting of the Fifth Session of the Board of Directors Regarding the Company's Issue of RMB1.5 Billion of Trust Loan
14	14 June 2007	Online Publication of the Company's Administrative System for Information Disclosure
15	25 June 2007	Announcement of the Implementation of 2006 Profit Distribution Scheme
16	25 July 2007	Announcement of Listing of the Third Batch of Circulating Shares with Selling Restrictions
17	8 August 2007	Notice of Board Meeting
18	20 August 2007	Self-inspection Report and Reform Plan of Specific Corporate Governance Matters
19	20 August 2007	2007 Interim Results Announcement and Announcement of the Tenth Meeting of the Fifth Session of the Board of Directors
20	28 September 2007	Announcement of the Seventh Meeting of the 11th Session of the Board of Directors and Announcement of the Seventh Meeting of the Fifth Session of the Supervisory Committee
21	28 September 2007	Announcement of Disposal of Properties in Jiangsu Communications Building
22	16 October 2007	Announcement of Change of Address of Registered Office
23	16 October 2007	Announcement of Change of Director and Supervisor
24	16 October 2007	Notification of Board Meeting
25	16 October 2007	Notice of the 2007 First Extraordinary General Meeting and the Relevant Circular to Shareholders
26	29 October 2007	2007 Third Quarterly Report and Announcement of the 12th Meeting of the Fifth Session of the Board of Directors
27	29 October 2007	Online Publication of the Company's Administrative System for Fundraising Proceeds
28	9 November 2007	Announcement of the Resolutions of the 13th Meeting of the Fifth Session of the Board of Directors
29	9 November 2007	Reform Report on Specific Corporate Governance Matters Published by the Company
30	12 November 2007	Announcement on the Company's Proposed Issue of RMB1.5 Billion of Corporate Bonds
31	14 November 2007	Notice of the 2007 Second Extraordinary General Meeting and the Relevant Circular to Shareholders
32	29 November 2007	Announcement of the Resolutions of the 2007 First Extraordinary General Meeting and Legal Opinion
33	19 December 2007	Announcement of Disposal of Interests in the Subsidiary Jiangsu Sundian Engineering Co., Ltd. and the Latter's Capital Increase
34	19 December 2007	Announcement on the Postponement of the 2007 Second Extraordinary General Meeting
35	20 December 2007	Supplemental Announcement on the Postponement of the 2007 Second Extraordinary General Meeting



## (V) Investor Relations and Communication

Investor relations is a pro-active way for a listed company to maximize its value. The management of the Company attaches great importance to investor relations. The Company has formulated the “Work System of Investor Relations Management” which sets out a move-forward approach, content and scope of work and corresponding work procedures for investor relations management.

During the reporting period, the Company has, in strict compliance with relevant requirements, adequately disclosed its information to investors. The Company disclosed important information and matters which may affect investors’ interests by issuing periodic and ad hoc announcements, aiming at raising its standards on information disclosure. The Company’s website is another important platform to develop investor relations. Through the website, the Company regularly publishes its operation updates and information which may interest investors, thereby allowing investors to timely and clearly understand the Company’s most updated development and increasing the Company’s transparency. During the year, the Company upgraded its website and information has become more updated and comprehensive, thereby satisfying the need of investors for a general analysis of the Company. We also answered questions raised by investors through the web exchange platform and carried out some basic communication.

The core of investor relations is effective communication. Through two-way and interactive communications with investors, a win-win situation is achieved for both parties. During the year, the Company also kept close contact with domestic and foreign media and investors through various means such as results announcement presentations, press conferences, domestic and overseas roadshows, regular meetings with investors and analysts, teleconferences and on-line roadshows. During the year, 11 large-scale roadshows and presentation events were held, as well as over 70 regular investor meetings and teleconferences, having discussions and presentations with over 200 investment fund managers and analysts. Details of the activities are as follows:



<b>January</b>	<ul style="list-style-type: none"><li>• Participated in the “Greater China Conference” organized by UBS Warburg in Shanghai</li><li>• Participated in the “Access China Conference” organized by Deutsche Bank AG in Beijing</li></ul>
<b>March</b>	<ul style="list-style-type: none"><li>• Held 2006 annual results presentation and roadshows in Hong Kong</li></ul>
<b>May</b>	<ul style="list-style-type: none"><li>• Participated in the fifth investment forum organized by BOC International in Xiamen</li><li>• Participated in the 12th “China Forum” organized by Credit Lyonnais Securities in Shanghai</li><li>• Visited major domestic institutional investors in Shanghai</li></ul>
<b>June</b>	<ul style="list-style-type: none"><li>• Participated in the China A share seminar organized by UBS Warburg in Kunming</li></ul>
<b>August</b>	<ul style="list-style-type: none"><li>• Held 2007 interim results presentation and roadshows in Hong Kong</li><li>• Participated in the communications and transportation sector exchange conference organized by Ping An Securities in Shenzhen</li></ul>
<b>September</b>	<ul style="list-style-type: none"><li>• Participated in the listed companies seminar organized by Changjiang Securities in Nanjing</li><li>• Organized on-site visits with domestic funds</li></ul>



## Corporate Governance Report

The Company, through active investor relations programs, aims at increasing its transparency, enhancing communications, and increasing investors' understanding of and trust in our businesses. It also aims at building investors' confidence in its future developments and promoting market recognition and support to the Company, so that the Company's business development potential and actual value will be fully reflected in the market.

### **(VI) Shareholder Return**

Since its listing, the Company has been maintaining high return for the shareholders. The Company has been paying cash dividends for 10 consecutive years, with an aggregate of approximately RMB6.205 billion cash dividend distributed. For 2007, the Board recommended the distribution of a cash dividend of RMB0.27 per share, equivalent to approximately 95.81% of the distributable profit of the year.

In order to achieve the objective of sustained development and ultimately to create long-term and stable return for shareholders, the Company has never halted its project investment strategy of acquiring quality projects to expand the scope of its operations. While the Company's gearing and financing costs have risen due to a substantial increase in capital expenditures in recent years, ensuring a long-term and stable return for shareholders remains the top priority of the Company. In the coming years, the Company will maintain the policy of high dividend payout ratio. The Board has made the undertaking that from 2005 to 2008, the Company will continue to distribute cash dividends each year with the dividend payout level not lower than 85% of the distributable profit of the year concerned.

### **(VII) Auditors' Remuneration**

Please refer to (11) "Appointment of Auditors" in "Significant Matters" of this annual report.

# Changes in Share Capital and Shareholders

## (1) Changes in Share Capital

During the reporting period, there has been no change in the total number of shares of the Company. As the selling restriction period of the first batch of circulating shareholders with selling restrictions has expired and the shares were listed after the completion of the Share Segregation Reform, the Company's shareholding structure has been changed.

Unit: Shares

	Prior to current movement		Current movement (+,-)	After current movement	
	Number of shares	%	Repayment of share consideration and circulated after selling restriction expired	Number of shares	%
I. Shares subject to selling restrictions					
1. State-owned shares	2,739,296,706	54.37%	—	2,739,296,706	54.37%
2. State-owned legal person shares	592,051,690	11.75%	+289,506	592,341,196	11.76%
3. Other domestic shares	286,399,104	5.69%	-151,443,386	134,955,718	2.68%
Including: Domestic legal person shares	286,399,104	5.69%	-151,443,386	134,955,718	2.68%
Total shares subject to selling restrictions	3,617,747,500	71.81%	-151,153,880	3,466,593,620	68.81%
II. Circulating shares not subject to selling restrictions					
1. RMB-denominated ordinary shares	198,000,000	3.93%	+151,153,880	349,153,880	6.93%
2. Foreign listed foreign shares	1,222,000,000	24.26%	—	1,222,000,000	24.26%
Total circulating shares not subject to selling restrictions	1,420,000,000	28.19%	+151,153,880	1,571,153,880	31.19%
III. Shares in total	5,037,747,500	100%	0	5,037,747,500	100%

## Changes in Share Capital and Shareholders

### 1. Approval status of changes in shares

On 16 May 2007, the selling restriction period of the Company's circulating shares with selling restrictions totalling 28,699,104 shares expired. Pursuant to the conditions for circulation, such shares become eligible for listing and circulation only after the consideration of such shares pre-paid by the major shareholder of the Company has been repaid. The repayment of consideration can take place in the form of the shares pre-paid for or an equivalent cash amount for such shares calculated at the average of the closing prices for the five trading days after the date of implementation of the Share Segregation Reform of Jiangsu Expressway. As of the end of the reporting period, the Company completed the listing and circulation procedures for 151,153,880 shares which have satisfied the conditions for circulation including the first batch totalling 103,260,554 shares, the second batch totalling 36,073,799 shares and the third batch totalling 11,819,527 shares. Upon the Company's submission of the relevant circulation applications to the State-owned Assets Supervision and Administration Commission of Jiangsu Province, the Shanghai Stock Exchange and the Shanghai Branch of China Securities Depository & Clearing Corporation Limited and obtaining the relevant approvals, the three batches were listed and circulated on 16 May 2007, 14 June 2007 and 27 July 2007, respectively.

### 2. Transfer of changes in shares

During the reporting period, shareholders of circulating shares with selling restrictions repaid 289,506 shares as consideration to the major shareholders and the relevant share transfer procedures were completed.

### 3. Changes in shares with selling restriction

Unit: Shares

Name of shareholder	Number of shares with selling restriction at the beginning of the year	Number of shares with released selling restriction of the year	Increased number of shares with selling restriction of the year	Balance of shares with selling restriction at the end of the year	Reason of selling restriction	Date of releasing selling restriction
Jiangsu Communication Holdings Company Limited	2,742,340,507	0	238,318	2,742,578,825	Selling restriction not expired	2011-5-16
Huajian Transportation Economic Development Centre	589,007,889	0	51,188	589,059,077	Selling restriction not expired	2011-5-16
Domestic legal person shareholder	286,399,104	151,443,386	0	134,955,718	The procedures of listing and circulation incomplete	2007-5-16
Total	3,617,747,500	151,443,386	289,506	3,466,593,620	—	—

#### 4. Reminder of circulation of shares with selling restriction

The Company's first batch of 28,699,104 domestic legal person shares in aggregate with selling restriction were listed for circulation on 16 May 2007 upon expiry of the selling restriction period. As of the date of this year's annual report announcement, the Company completed the listing and circulation procedures for 208,798,380 shares which have satisfied the conditions for circulation in four batches. The circulation date of the most recent batch was 27 February 2008. At present, the relevant listing and circulation procedures have not been completed for 77,311,218 domestic legal person shares. Pursuant to the conditions for circulation, such shares become eligible for listing and circulation only after the completion of share re-registration and the considerations of such shares pre-paid by the major shareholder of the Company have been repaid. The Company will make listing application for shareholders who have fulfilled the above-mentioned procedures every six months in accordance with the requirement of the Shanghai Stock Exchange.

The Company would like to remind the legal person shareholders who have not completed the relevant listing and circulation procedures to liaise with the Company as soon as possible in order to obtain the circulation rights earlier.

## (2) Share Issues and Listings

1. The Company issued 1,222 million H shares at HK\$3.11 (equivalent to RMB3.33) per share which were listed on the Hong Kong Stock Exchange on 27 June 1997.
2. The Company issued 150 million domestic public shares (A shares) to domestic investors at the issue price of RMB4.20 per share. The issue of shares was launched from 22 December to 23 December 2000 by means of online pricing issue and placing to investors from the secondary market. The shares were listed on the Shanghai Stock Exchange on 16 January 2001.
3. The Company's Sponsored Level I ADR was effective on 23 December 2002 and the shares have been traded in the over-the-counter market in the United States.
4. The Company implemented the Share Segregation reform on 16 May 2006. The non-circulating shareholders transferred consolidation of 48,000,000 shares to the circulating A shareholders at no price. As such, the number of circulating A shares was increased from 150,000,000 shares to 198,000,000 shares, representing 3.93% of the Company's total share capital. The total number of the share capital has not been changed as a result of the Share Segregation Reform.
5. During the reporting period, 151,153,880 shares with released selling restriction were listed and circulated. The first batch of 103,260,554 shares, the second batch of 36,073,799 shares and the third batch of 11,819,527 shares were circulated on 16 May 2007, 14 June 2007 and 27 July 2007, respectively. As at the end of the reporting period, the number of circulating A shares was increased from 198,000,000 shares to 349,153,880 shares, representing 6.93% of the Company's total share capital. The total number of share capital has not been changed as a result of the circulation of shares.

## (3) Major Shareholders

### 1. Number of Shareholders at the End of the Reporting Period

As of 31 December 2007, there was a total of 47,323 shareholders whose names appeared on the register of shareholders of the Company, of whom 46,775 were domestic shareholders and 548 were foreign shareholders.

## Changes in Share Capital and Shareholders

### 2. Shareholdings of Major Shareholders of the Company

(i) As of 31 December 2007, shareholdings of the top ten shareholders of the Company were as follows:

Name of shareholder	Change during the reporting period (+, -)	Number of shares held at the end of the reporting period (shares)	Shareholding percentage (%)	Number of shares held subject to selling restrictions	Number of shares pledged or frozen	Type of shareholder
Jiangsu Communication Holdings Company Ltd.	238,318	2,742,578,825	54.44	2,742,578,825	0	State-owned shareholder
Huajian Transportation Economic Development Centre	51,188	589,059,077	11.69	589,059,077	0	State-owned shareholder
Fidelity International Limited	134,421,987	134,421,987	2.67	0	Unknown	Foreign shareholder
JPMorgan Chase & Co.	-60,895,342	85,966,358	1.71	0	Unknown	Foreign shareholder
Bank of America Corporation	85,600,000	85,600,000	1.70	0	Unknown	Foreign shareholder
Halbis Capital Management (Hong Kong) Limited	84,658,000	84,658,000	1.68	0	Unknown	Foreign shareholder
Sumitomo Mitsui Asset Management Limited	-12,000	73,168,000	1.45	0	Unknown	Foreign shareholder
博時主題行業股票證券投資基金	26,562,697	26,562,697	0.53	0	Unknown	A shareholder
Huaxia Securities Co., Ltd. (華夏證券有限公司)	0	20,060,000	0.40	20,060,000	Unknown	A shareholder
博時價值增長證券投資基金	18,999,834	18,999,834	0.38	0	Unknown	A shareholder

Note: About shareholdings of the top ten shareholders:

- The Company is not aware of the top ten shareholders who are connected to each other or acting in concert:
- During the reporting period, there were no connected persons, strategic investors or general legal persons becoming one of the top ten shareholders of the Company as a result of the placement of new shares;
- The numbers of shares held by H-share holders were the register required to be maintained under the Securities and Futures Ordinance of Hong Kong.

(ii) As at 31 December 2007, the shareholdings of the top ten shareholders not subject to selling restrictions were as follows:

Name of shareholder	Number of shares held at the end of the reporting period (shares)	Category of shares held
Fidelity International Limited	134,421,987	Overseas listed foreign shares
JPMorgan Chase & Co.	85,966,358	Overseas listed foreign shares
Bank of America Corporation	85,600,000	Overseas listed foreign shares
Halbis Capital Management (Hong Kong) Limited	84,658,000	Overseas listed foreign shares
Sumitomo Mitsui Asset Management Company, Limited	73,168,000	Overseas listed foreign shares
博時主題行業股票證券投資基金	26,562,697	RMB-denominated ordinary shares
博時價值增長證券投資基金	18,999,834	RMB-denominated ordinary shares
博時新興成長股票型證券投資基金	17,019,742	RMB-denominated ordinary shares
交銀施羅德藍籌股票證券投資基金	12,242,650	RMB-denominated ordinary shares
Winner Glory Development Ltd	12,000,000	Overseas listed foreign shares

## Changes in Share Capital and Shareholders

(iii) As at 31 December 2007, the shareholdings of the top ten A shareholders not subject to selling restrictions were as follows:

Name of shareholder	Number of shares held at the end of the reporting period (shares)	Category of the shares held
博時主題行業股票證券投資基金	26,562,697	RMB-denominated ordinary shares
博時價值增長證券投資基金	18,999,834	RMB-denominated ordinary shares
博時新興成長股票型證券投資基金	17,019,742	RMB-denominated ordinary shares
交銀施羅德藍籌股票證券投資基金	12,242,650	RMB-denominated ordinary shares
江蘇高科技投資集團有限公司	11,700,000	RMB-denominated ordinary shares
滙添富均衡增長股票型證券投資基金	10,293,793	RMB-denominated ordinary shares
江蘇省電力公司	6,534,627	RMB-denominated ordinary shares
江門市天創置業有限公司	6,525,463	RMB-denominated ordinary shares
全國社保基金一零三組合	5,000,000	RMB-denominated ordinary shares
GEAM 信托基金中國A股基金	4,766,969	RMB-denominated ordinary shares



(iv) As at 31 December 2007, the shareholdings of the top ten shareholders subject to selling restrictions and their selling restrictions were as follows:

No.	Name of shareholder subject to selling restrictions	Number of shares held subject to selling restrictions	Listing and trading of shares subject to selling restrictions		Selling restrictions
			Listing and trading date	Number of additional listed and tradeable shares	
1	Jiangsu Communications Holdings Company Ltd.	2,742,578,825	16 May 2011	0	Note 1
2	Huajian Transportation Economic Development Centre	589,059,077	16 May 2011	0	Note 1
3	Huaxia Securities Co., Ltd.	20,060,000	16 May 2007	20,060,000	Note 2
4	Shenyin Wanguo Securities Co., Ltd. (申銀萬國證券股份有限公司)	14,450,000	16 May 2007	14,450,000	Note 2
5	Shanghai Haiji Investment Development Co., Ltd. (上海海基投資發展有限公司)	14,150,000	16 May 2007	14,150,000	Note 2
6	Rundi Zhi Ye Co., Ltd. (潤地置業股份有限公司)	3,000,000	16 May 2007	3,000,000	Note 2
7	中國交通建設股份有限公司	3,000,000	16 May 2007	3,000,000	Note 2
8	Wujin Investment Company (武進市投資公司)	2,288,800	16 May 2007	2,288,800	Note 2
9	江蘇銀行股份有限公司	2,240,000	16 May 2007	2,240,000	Note 2
10	Zhenjiang Communication Investment Construction Development Company (鎮江市交通投資建設發展公司)	2,100,000	16 May 2007	2,100,000	Note 2

## Changes in Share Capital and Shareholders

Note 1: Undertaking not to reduce the holding of the Company's shares before 16 May 2011.

Note 2: Prior consent shall be obtained from the Non-circulating Shareholders who have advanced the consideration on behalf of the relevant shareholders and that the consideration so advanced shall be repaid by the relevant non-circulating shareholder. For repayment, the relevant (advantee) shareholders may opt to transfer the amount of shares being advanced or to pay in cash in an amount calculated in accordance with the average closing price of the five trading days following the implementation date of the Company's Share Segregation Reform for the consideration shares. Application for the listing status of such shares shall then be submitted by the Company to the stock exchange.

(v) As at 31 December 2007, as far as the Company is aware, the following individuals held 5% or more of the interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be maintained under the Securities and Futures Ordinance of Hong Kong:

Name	Capacity	Direct interests	Number of H shares	Percentage of H shares (total shares) (%)
Jiangsu Communications Holdings Company Ltd.	Others	Yes	2,742,578,825(L)	(54.44%)
China Merchants Group Limited (招商局集團有限公司 / Huajian Transportation Economic Development Centre (華建交通經濟開發中心) (1)	Others	Yes	589,059,077(L)	(11.69%)
Fidelity International Limited	Investment manager	Yes	134,421,987(L)	11.00% (2.67%)
JP Morgan Chase & Co. (2)	Interests in controlled corporation	No	85,966,358(L) 11,872,000(S) 76,155,052(P)	7.03% (1.71%) 0.97% (0.24%) 6.23% (1.51%)
Bank of America Corporation/ Columbia Wanger Asset Management, L.P. (3)	Interests in controlled corporation	No	85,600,000(L)	7.00% (1.70%)
Halbis Capital Management (Hong Kong) Limited (4)	Investment manager	Yes	84,658,000(L)	6.93% (1.68%)
Sumitomo Mitsui Asset Management Company Limited/ Sumitomo Life Insurance Company, Limited (5)	Interests in controlled corporation	No	73,168,000(L)	5.99% (1.45%)

(L) Long position; (S) Short position; (P) Lending Pool

Notes:

(1) China Merchants Group Limited was deemed to hold interests by virtue of its control of Huajian Transportation Economic Development Centre's interest in the shares.

- (2) JP Morgan Chase & Co. was deemed to hold interests by virtue of its controlling interests in the following corporations:
- (i) 76,155,052 shares (reported also as lending pool) shares held by JP Morgan Chase Bank, N.A. a 100% directly controlled corporation;
  - (ii) 4,739,306 shares held by JP Morgan Whitefriars Inc., a 100% directly controlled corporation. Also, there were short selling shares amounted of 6,800,000.
  - (iii) 5,072,000 shares held by JP Morgan Securities Ltd., a 100% directly controlled corporation. (There were also short position shares of the same amount).
- (3) Bank of America Corporation was deemed to hold interest by virtue of its 100% indirect control of Columbia Wanger Asset Management, L.P. It is stated in the Form 2 submitted by Columbia Wanger Asset management, L.P., to the Hong Kong Stock Exchange on 20 July 2007 that it was deemed to hold interests in the shares in its capacity as the investment manager.
- (4) HSBC Halbis Partners (Hong Kong) Limited stated in Form 2 submitted by HSBC Halbis Partners (Hong Kong) Limited to the Hong Kong Stock Exchange that its parent company is HSBC Holdings plc.
- (5) Sumitomo Life Insurance Company was the controlling shareholder of Sumitomo Mitsui Asset Management Company, Limited, which was deemed to hold interests in the shares. Sumitomo Mitsui Asset Management Company, Limited was deemed to hold interests in the shares in its capacity as the investment manager.

Save as disclosed above, to the Company's best knowledge, as at 31 December 2007, there was no person who was required to make disclosure under the Securities and Futures Ordinance of Hong Kong.

### 3. Controlling shareholder of the Company

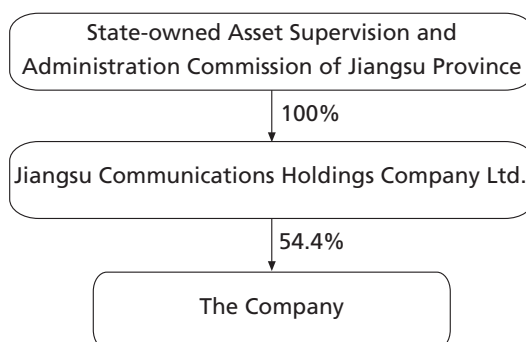
Name	Legal representative	Registered capital	Date of establishment	Principal business
Jiangsu Communications Holdings Company Ltd.	Shen Chang Quan	16.8 billion	15 September 2000	To such extent as authorized by the provincial government, the company is engaged in the operation and management of State-owned assets; investment, construction, operation and management of transport infrastructure, transportation and other related sectors, collection of tolls from vehicles according to the relevant rules; and industrial investment and domestic trading within the scopes of authorization of the provincial government.

During the reporting period, the number of the Company's shares held by the controlling shareholder of the Company has changed. As at 31 December 2007, such company held 2,742,578,825 shares of the Company or 54.44% of the Company's total shares, representing an increase of 238,318 shares as compared to the end of 2006. The reason of change was due to the fact that some of the social legal shareholders have repaid the consideration shares by way of shares. As there are social legal shareholders who have not completed the procedures of repaying the consideration, the number of the Company's shares held by the controlling shareholder will have slight change.

## Changes in Share Capital and Shareholders

### 4. The De Facto Controller of the Company

Diagram of the ownership and controlling relationship between the Company and the de facto controller



### 5. Legal person shareholders holding more than 10% of the Company's legal person shares

Name of the legal person shareholder	Legal representative	Registered capital	Date of establishment	Principal business
Huajian Transportation Economic Development Centre	Fu Yu Ning	500 million	18 December 1993	Its principal businesses are investment and management of roads, docks, ports and ocean passages; research and development of new technologies, new products and new materials related to transport infrastructure; the sale of products, and so forth.

### (4) Purchase, Sale and Redemption of Shares of the Company

As at 31 December 2007, there was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries.

### (5) Pre-emption Rights

In accordance with the laws of the People's Republic of China and the Company's articles of association, the Company did not grant any pre-emption rights pursuant to which the Company was required to offer new shares to existing shareholders in proportion to their shareholdings.

### (6) Public Float

According to public information and as far as the Directors are aware, as at 31 December 2007 and 28 March 2008 (the latest practicable date of this disclosure statement), the Company complied with the 25% public float requirement under the Hong Kong Listing Rules.

# Directors, Supervisors, Senior Management and Staff

## (1) General Information

Names	Gender	Age	Position with the Company	Term of office
Shen Chang Quan	M	60	Chairman	From June 2006 to 2009
Xie Jia Quan	M	57	Executive Director, General Manager	From June 2006 to 2009
Zhang Yang	F	44	Non-executive Director	From November 2007 to 2009
Sun Hong Ning	M	47	Non-executive Director	From June 2006 to 2009
Chen Xiang Hui	M	45	Non-executive Director	From June 2006 to 2009
Fan Yu Shu	F	56	Non-executive Director	From June 2006 to 2009
Cui Xiao Long	M	47	Non-executive Director	From June 2006 to 2009
Chang Yung Tsung	F	76	Independent Non-executive Director	From June 2006 to 2009
Fang Hung, Kenneth	M	70	Independent Non-executive Director	From June 2006 to 2009
Yang Xiong Sheng	M	48	Independent Non-executive Director	From June 2006 to 2009
Fan Cong Lai	M	46	Independent Non-executive Director	From June 2006 to 2009
Zhou Jian Qiang	M	55	Chairman of the Supervisory Committee	From June 2006 to 2009
Zhang Cheng Yu	M	57	Supervisor	From June 2006 to 2009
Luo Yi	F	36	Supervisor	From November 2007 to 2009
Shang Hong	F	45	Supervisor representing staff	From June 2006 to 2009
Zhou Hao Xiang	M	60	Supervisor representing staff	From June 2006 to 2009
Qian Yong Xiang	M	44	Deputy General Manager	From January 2007 to December 2009
Liu Wei	F	52	Deputy General Manager, Financial Controller	From January 2007 to December 2009
Zhao Jia Jun	M	41	Deputy General Manager	From January 2007 to December 2009
Yao Yong Jia	M	44	Secretary to the Board of Directors	From January 2007 to December 2009
Lee Wai Fun, Betty	F	47	Company Secretary (Hong Kong)	From June 2007 to May 2007

## Directors, Supervisors, Senior Management and Staff

### Notes:

1. During the reporting period, the directors, supervisors and senior management did not hold any shares, shares futures options and restricted shares of the Company, including their spouses or children or their controlled entities or trusts with 30% equity interests or above.
2. The directors and the senior management of the Company are not connected.

### (2) Information of Directors and Supervisors Employed in Shareholders' Companies

Name	Employer	Title	Term of Office	Emoluments Received (Yes or No)
Shen Chang Quan	Jiangsu Communications Holdings Company Ltd.	Chairman	From January 2001 up to now	Yes
Zhou Jian Qiang	Jiangsu Communications Holdings Company Ltd.	General Manager	From November 2000 up to now	Yes
Sun Hong Ning	Jiangsu Communications Holdings Company Ltd.	Deputy General Manager	From May 2003 up to now	Yes
Chen Xiang Hui	Jiangsu Communications Holdings Company Ltd.	Deputy General Manager	From May 2003 up to now	Yes
Fan Yu Shu	Jiangsu Communications Holdings Company Ltd.	Director of Finance and Auditing	From December 2002 up to now	Yes
Cui Xiao Long	Jiangsu Communications Holdings Company Ltd.	Director of operation	From February 2002 up to now	Yes
Zhang Cheng Yu	Jiangsu Communications Holdings Company Ltd.	Director of Human Resources	From January 2002 up to now	Yes
Zhang Yang	Huajian Transportation Economic Development Center	Deputy General Manager	From December 2007 up to now	Yes
Luo Yi	Huajian Transportation Economic Development Center	Manager of Finance Department	From February 2005 up to now	Yes

### (3) Information of Directors and Shareholders Employed in other's companies

Name	Employer	Title	Emoluments Received (Yes or No)
Shen Chang Quan	Jiangsu Yanjiang Expressway Co., Ltd.	Chairman	No
	Jiangsu Sutong Bridge	Chairman	No
Xie Jia Quan	Jiangsu Yangtze Bridge Co., Ltd.	Director	No
	Jiangsu Sundian Engineering Co., Ltd.	Director	No
	Jiangsu Expressway Toll-network Technology Service Co., Ltd.	Director	No
Zhang Yang	Xia Man Port Development., Ltd.	Director	No
	Shenzhen Expressway Co., Ltd.	Director	No
	Zhejiang Expressway Co., Ltd.	Director	No
	Sichuan Expressway Co., Ltd.	Vice Chairman	Yes
Sun Hong Ning	Jiangsu Kuailu Bus Transportation Stock Co., Ltd.	Chairman	No
	Huatai Securities Co., Ltd.	Director	No
	Jinling Hotel Co., Ltd.	Director	No
Chen Xiang Hui	Jiangsu Ning Hang Expressway Co., Ltd	Chairman	No
	Jiangsu Xiyi Expressway Co., Ltd	Chairman	No
	Suzhou Sujiahang Expressway Co., Ltd	Vice President	No
Fan Yu Shu	Jiangsu Yangtze Bridge Co., Ltd.	Director	No
	Jiangsu Yanjiang Expressway Co., Ltd.	Director	No
	Jiangsu Finance Leasing Co., Ltd.	Director	No
Cui Xiao Long	Jiangsu Guangjing Xicheng Expressway Co., Ltd.	Director	No
	Jiangsu Expressway Toll-network Technology Service Co., Ltd.	Director	No
Chang Yung Tsung	Taching Petroleum Co. Ltd.,	Managing Director	Yes
	Yung Shing Enterprise Co.	President	Yes
	Nanjing Ericsson Panda	Director	Yes
Fang Hung, Kenneth	Times Limited	Chairman	Yes
	Yeebo International Holdings Limited	Chairman	Yes
	USI Holdings Limited	Independent Director	Yes
	Fang Brothers Knitting Ltd.	Director	Yes
Yang Xiong Sheng	Accounting Department of Nanjing University	Director	Yes
	Xuzhou Construction Machinery Science & Technology Co., Ltd.	Independent Director	Yes
	Jiangsu Hongtu High Technology Co., Ltd.	Independent Director	Yes
Fan Cong Lai	Business School at Nanjing University	Professor	Yes
	Nanjing Xingang High-tech Co., Ltd.	Independent Director	Yes
	Wuxi Taiji Industry Co., Ltd.	Independent Director	Yes
	Nanjing Port Co., Ltd.	Independent Director	Yes
	Huatai Securities Co., Ltd.	Independent Director	Yes

## Directors, Supervisors, Senior Management and Staff

Name	Employer	Title	Emoluments
Zhou Jian Qiang	Jiangsu Yangtze Bridge Co., Ltd.	Chairman	No
	Jiangsu Jinghu Expressway Co.	Chairman	No
	Jiangsu Expressway Toll-network Technology Service Co., Ltd.	Chairman	No
	Nantong Tian Sheng Gang Shipbuilding Co., Ltd.	Chairman	No
Zhang Cheng Yu	Jiangsu Far East Shipping Co., Ltd.	Chairman	Yes
Luo Yi	Shandong Expressway Co., Ltd.	Director	Yes
	Guangxi Wuzhou Communications Co., Ltd.	Supervisor	Yes
Shang Hong	Jiangsu Ninghu Investment Development Co., Ltd.	Director	No

### (4) Emoluments for the Year

The emoluments for directors, supervisors and other senior management are recommended by the Board, determined by Remuneration and Appraisal Committee under the Board in accordance with the relevant requirements, market levels and the Company's actual circumstances, considered and approved at the general meeting of the Company and finalized with their salary agreements entered into with the Company. The Company's four independent directors received emoluments for independent directors for year 2007. The rest of the directors and supervisors (including those employed in the Company) did not receive emoluments for directors or supervisors. The directors and supervisors holding positions with the Company received management remunerations based on their specific management positions.

1. The annual emoluments paid to each of the two overseas independent directors and each of the two domestic independent directors by the Company were equivalent to HK200,000 (approximately RMB187,280) and RMB50,000, respectively during 2007. Apart from the above-mentioned allowances, the independent directors did not receive any other remuneration from the Company. Other directors and supervisors did not receive emoluments and allowances from the Company.
2. The remuneration of the Company's senior management (including deputy general managers, financial controller and secretary to the Board) comprised salaries of the position held, performance bonus and fringe benefits. Fringe benefits comprised pension scheme contribution and various social insurance schemes.



Details of remunerations received by the directors, supervisors and senior management during 2007

RMB

Personnel	Remuneration of directors or supervisors	Management remuneration	Total	Received remuneration in shareholders' entities or other connected entities
<b>Directors</b>				
Shen Chang Quan	—	—	—	Yes
Xie Jia Quan	—	392,587	392,587	No
Zhang Yang	—	—	—	Yes
Sun Hong Ning	—	—	—	Yes
Chen Xiang Hui	—	—	—	Yes
Fan Yu Shu	—	—	—	Yes
Cui Xiao Long	—	—	—	Yes
<b>Independent Directors</b>				
Chang Yung Tsung	187,280	—	187,280	No
Fang Hung, Kenneth	187,280	—	187,280	No
Yang Xiong Sheng	50,000	—	50,000	No
Fan Cong Lai	50,000	—	50,000	No
<b>Supervisors</b>				
Zhou Jian Qiang	—	—	—	Yes
Zhang Cheng Yu	—	—	—	Yes
Luo Yi	—	—	—	Yes
Shang Hong	—	270,587	270,587	No
Zhou Hao Xiang	—	258,587	258,587	No
<b>Senior Management</b>				
Qian Yong Xiang	—	305,087	305,087	No
Lui Wei	—	287,587	287,587	No
Zhao Jia Jun	—	287,587	287,587	No
Yao Yong Jia	—	270,587	270,587	No
Lee Wai Fun, Betty	—	—	—	No
<b>Total</b>	<b>474,560</b>	<b>2,072,609</b>	<b>2,547,169</b>	<b>—</b>

## (5) Changes in Directors, Supervisors and Senior Management

During the reporting period, at the seventh meeting of the fifth session of the Board, Ms. Liu Wei and Mr. Zhou Jia Jun were respectively elected as the Deputy General Manager of the Company with a term of office of three years.

During the reporting period, Mr. Zhang Wen Cheng, the Director of the Company, resigned from the management position of the Company due to his retirement. The Company's eleventh meeting of the fifth session of the Board nominated Ms. Zhang Yang as director. Ms. Ma Ning, the supervisor of the Company, resigned from the position of the Company due to job change, the Company's seventh meeting of the fifth session of the Supervisory Committee nominated Ms. Luo Yi as a supervisor. The nomination of new director and supervisor were considered and approved at the first extraordinary general meeting of 2007.

## **(6) Other Information of Directors, Supervisors and Senior Management**

### **Directors' and Supervisors' contracts**

Apart from the employment contract between the Company and Mr. Xie Jia Quan, each of the directors and supervisors has entered into a service contract with the Company. The content of these contracts was primarily the same in all material respects. The term of these contracts commenced from the date of the 2006 annual general meeting (or the appointment date) until the date of the annual general meeting to be held in 2009. The Company, the directors or the supervisors can terminate the contracts by giving not less than three months prior notice in writing to the other party. Save as the above-mentioned, none of the directors or supervisors have entered into or have proposed to enter into any service contracts with the Company expiring or determinable by the employer within one year with payment of compensation (other than statutory compensation). The Company was not required to pay compensation to any director for the reason that the directors intended to be re-elected in the next annual general meeting but their service contracts have not expired.

### **Interests of Directors and Supervisors in Contracts**

The Company was not aware of any material contracts in which any directors or supervisors held direct or indirect interests or had significant direct or indirect conflict of interests.

### **Representation and Undertaking of Directors, Supervisors and Senior Management**

During the reporting period, the directors, supervisors and senior management of the Company have signed the letter of representation and undertaking in accordance with the listing requirements of the Shanghai Stock Exchange.

### **Model Code for Securities Transactions by Directors**

Having made some specific enquiries from all the directors and supervisors of the Company, the directors of the Company have complied with the provisions on securities transactions under the Model Code for Securities Transactions by Directors of Listed Companies under Appendix 10 of the Hong Kong Listing Rules (the "Model Code"). The Company has also formulated the "Model Code for Securities Transactions by Directors, Supervisors, Senior Management and Relevant Employees" to ensure the relevant personnel's compliance with the code in carrying out securities transactions.

### **Dealings in Securities by Directors, Supervisors and Senior Management**

During the reporting period, there was no record showing that any directors, supervisors or senior management or any of their associates held any interests in the registered capital of the Company and its subsidiaries or associates being disclosable under the SFO or the Model Code for Securities Transactions by Directors of Listed Companies.

During the year, none of the directors, supervisors, senior management or any of their respective associates (including their spouses and children under 18 years of age) were granted any interests under any arrangement to subscribe for the equity or debenture of the Company, its subsidiaries or its associates.



## Training of Directors, Supervisors and Senior Management

To enhance the governance missions of directors, supervisors and senior management, the Secretary to the Board of the Company continued to pay attention to the governance requirements of securities regulatory authorities and timely relayed such requirements to the directors, supervisors and senior management. Meanwhile, the Secretary to the Board also arranged the relevant directors, supervisors and senior management to participate in seminars and training programmes, including telephone conferences held by the CSRC and specific training programmes held by the local securities regulatory bureau, so as to facilitate their continuous professional development.

## (7) Biography of Directors, Supervisors and Senior Management

### Directors

Mr. Shen Chang Quan, Chairman, Chairman of the Strategy Committee, born in 1948, economist. Mr. Shen had been the head and the party secretary of Wu County in 1981, and a deputy mayor of Suzhou City since 1992. He was in charge of urban and communications developments of Suzhou City for a long time and was responsible for the development of the Suzhou City New Technology Development Zone from 1992 to 1997. He has extensive experience in engineering and management. He has been the chairman of the board of Jiangsu Communications Holdings Company Limited (“Communications Holdings”) since January 2001.

Mr. Xie Jia Quan, Director, General Manager, Member of the Strategy Committee, born in 1951, is a university graduate and a post-graduate grade senior engineer. Mr. Xie was a technical staff and an assistant at Jiangsu Communications Planning and Design Institute in 1978, and deputy head of the Planning Department of Jiangsu Communications Bureau in 1985. He was deputy head of the Engineering Department of Jiangsu Expressway Construction Command Office in 1992, head of its Planning Department, deputy chief engineer and then the site commander and deputy chief commander. He has been the deputy commander of the expansion project command office of the Company since August 2003. He has assumed the position of general manager of the Company since December 2003. Mr. Xie has long been engaged in the management of communication construction and management of expressway operation. Mr. Xie is a senior expert with substantial experience in expressway construction and management.

Ms. Zhang Yang, Director, was born in 1964 and with post-graduate qualification and a political commissar. From 1988 to 1994, Ms. Zhang was a principal staff member of the political division of the Ministry of Aerospace. From 1994 to 2007, she was the manager and assistant to general manager of the securities management division of Huajian Transportation Economic Development Center, and she is now the deputy general manager of Huajian Transportation Economic Development Center. She is also a director of Shenzhen Expressway Company Limited, Zhejiang Expressway Company Limited and Xiamen International Port Co., Ltd. as well as the Vice Chairman of Sichuan Expressway Company Limited. Ms. Zhang has extensive knowledge in the transportation and securities industries as well as rich management experience.

Mr. Sun Hong Ning, Director, Member of the Nomination, Remuneration and Appraisal Committee, born in 1961, EMBA from China Europe International Business School in Shanghai. Mr. Sun had been deputy division head at Jiangsu State Secrecy Bureau since 1994. He was secretary of general office at the Jiangsu Provincial Party Committee in 1995, secretary of general office of the Jiangsu Provincial Government in 2001; and director and deputy general manager of Communications Holdings in 2003. Mr. Sun is also vice chairman of Jiangsu Sujiahang Expressway Co., Ltd., a director of Huatai Securities Co. Ltd. and a director of Jinling Hotel Co. Ltd. He has substantial experience in business and management.



## Directors, Supervisors, Senior Management and Staff


Mr. Chen Xiang Hui, Director, Member of the Strategy Committee, born in 1963, with a Bachelor degree in industrial engineering and an MBA, post-graduate grade senior engineer. Mr. Chen has been involved in communication construction management and expressway operation management for a long time. Mr. Chen was deputy director of the Project Quality Supervisory Section of Jiangsu Communications Department, a director of Jiangsu Ninglian Ningtong Management Office and general manager of the Company. Mr. Chen is currently director and deputy general manager of Communications Holdings. He is vice chairman of the Jiangsu Young Businessmen Association, deputy secretary general of the Expressway Operations Management Association of China's Academy of Highways and a standing committee member of the Expressway Operations Committee of Jiangsu Academy of Highways.

Ms. Fan Yu Shu, Director, Member of the Audit Committee, born in 1952. She is tertiary educated and a senior accountant. Ms. Fan was a manager of Transportation Business Department of Jiangsu Leasing Company and a deputy manager of Jiangsu Communications Investment Corp. She is a director of the Finance Department of Communications Holdings, a director of Jiangsu Yangtze Bridge Co., Ltd. and Jiangsu Guangjing Xicheng Expressway Co., Ltd., and vice chairman of the Jiangsu Communications Accountant Association. She has more than 20 years of experience in finance and accounting management.

Mr. Cui Xiao Long, Director, Member of the Strategy Committee, born in 1961, university graduate, senior economist. Mr. Cui had been working in the Jiangsu Communications Bureau since 1984. He was the section chief of Finance Division, the deputy general manager of Jiangsu Communications Investment Corp. and director of Investment and Development Department at Communications Holdings. Mr. Cui is director of the Operational Safety Department at Communications Holdings and holds the position of director of Toll Management Centre of Expressway Network of Jiangsu Province concurrently. He is also deputy secretary general of Communications Enterprise Association of Jiangsu Province. He has over 20 years of experience in corporate management and finance management.

Ms. Chang Yung Tsung, Alice, Independent Director, Chairman of the Nomination, Remuneration and Appraisal Committee, born in 1932. She was a member of the Preparatory Committee for the Hong Kong Special Administrative Region, a standing committee member of the National Committee of the Chinese People's Political Consultative Conference, an advisor to the Hong Kong & Macau Affairs Office and the Xinhua News Agency (Hong Kong Branch) and chairperson of the Business Enterprise Management Centre of the Hong Kong Management Association. She is also managing director of Taching Petroleum Co. Ltd., president of Yung Shing Enterprise Co., the China senior advisor to Telefonaktiebolaget LM Ericsson, the director of Nanjing Ericsson Panda Communications Co., Ltd., the director of Beijing SE Putian Mobile Communications Co., Ltd., chairman of Shanghai Overseas Chinese Commercial Centre Co., Ltd., and chairman of Jiangsu Hong Kong Aero Enterprise Ltd. Ms. Chang has decades of experience in business development and investment. Ms. Chang has been awarded the Insignia of the Commander of the Royal Order of the Polar Star bestowed by His Swedish Majesty King Carl Gustav XVI of the Kingdom of Sweden and the Gold Bauhinia Star of the Hong Kong Special Administrative Region.

Mr. Fang Hung, Kenneth, Independent Director, Member of the Nomination, Remuneration and Appraisal Committee, born in 1938 and originated from Shanghai, graduated from Massachusetts Institute of Technology in the USA with a chemical engineering master degree in 1960s. He is the chairman of Jiangsu Times Supermarket Co., Ltd., the chairman of Fang Brothers Knitting Ltd., and a member of the National Committee of the Chinese People's Political Consultative Conference. He also undertakes many other key positions in major industrial or commercial associations, including as an Honorary Chairman of Hong Kong Textile Council and Hong Kong Wollen & Synthetic Knitting Manufacturers Association and a member of the Textile Advisory Board.



Mr. Yang Xiong Sheng, Independent Director, Chairman of the Audit Committee, Member of the Nomination, Remuneration and Appraisal Committee, born in 1960 and a tutor for doctoral candidates. Mr. Yang became research office director of Jiangsu Lianyungang Finance School in 1981 before joining the Lianyungang Audit Bureau in 1987. In 1994 he was posted to the accounting department of Nanjing University, where he has been department head since 1999, underpinning his profound expertise in the accounting profession.

Mr. Fan Cong Lai, Independent Director, Member of the Strategy Committee, Member of the Audit Committee, born in 1962, is a tutor for doctoral candidates and a renowned economist nationwide. Mr. Fan was a teaching assistant of the Economics Faculty of the Business School at Nanjing University in 1983 and a lecturer in 1988. He has been professor and department head of the Economics Faculty of the Business School at Nanjing University since 1996. Mr. Fan is currently secretary of the Communist Party Committee of the Business School at Nanjing University, vice chairman of Jiangsu Finance Association and vice chairman of the Jiangsu Investment Association. Mr. Fan has long been engaged in teaching and research of monetary finance, corporate finance and capital markets. He is knowledgeable in economic theories. He has received numerous national awards honouring his outstanding contribution as an expert. In 2003, he was awarded the “National Higher Education Professional” by the State’s Education Department.

#### Supervisors

Mr. Zhou Jian Qiang, Chairman of the Supervisory Committee, born in 1953, senior economist and senior engineer, graduated in 1985 with a master degree. Mr. Zhou has joined the Jiangsu Provincial Planning Economy Committee since 1985 and then director; he was deputy general manager of Jiangsu ITIC in 1997; deputy director of Jiangsu Provincial Planning Economy Committee in 1999; and vice chairman and general manager of Communications Holdings since January 2001. Mr. Zhou has been involved in investment management, finance and securities for a long time, and has extensive experience in operation and management.

Mr. Zhang Cheng Yu, Supervisor, born 1951, tertiary educated, senior economist. Mr. Zhang has been deputy general manager, deputy secretary of the Communist Party Commission, general manager and secretary of the Communist Party Commission of Yangzhou Motoring Corporation since 1985. He became deputy head (chief director grade) of the Communications Bureau of Yangzhou City in 1996 and then joined Jiangsu Yangtze Bridge Co., Ltd. as deputy general manager in January 2001. In July 2001, he became general manager of Jiangsu Ningjingyen Expressway and in January 2002, he became personnel director of Communications Holdings. Mr. Zhang has extensive experience in financial and transport management.

Ms. Luo Yi, Supervisor, born in 1972 and a university graduate, an accountant and a CPA. She commenced work in 1997. From 1996 to 2001, Ms. Luo was the deputy director of the finance division of China Merchants Group Limited. From 2001 to 2002, she was the financial controller of China Merchants Insurance Company Limited. From 2002 to 2003, she was the deputy general manager of the finance division of Houlder Insurance Brokers Company Ltd.. From 2003 to 2005, she was the manager of the finance division of China Merchants Group (Beijing) Co., Ltd. From February 2005 to date, she has been the manager of the finance division of Huajian Transportation Economic development Center. She is also Director of Shandong Expressway Company Limited and a supervisor of Guangxi Wuzhou Communications Company Limited. Ms. Luo has been engaged in financial work with extensive financial expertise and management experience.

Ms. Shang Hong, Supervisor, born in 1963, university graduate and senior engineer. Ms. Shang taught in the Civil Engineering Department of Nanjing Jinling Vocational University from July 1985 to May 1993. She was an engineer of the Engineering Department of Jiangsu Expressways Command Office from June 1993 to September 1996. She was deputy head of the Planning Division of the Manager Department of the Company in September 1996, head of the Planning Division of the Securities Department of the Company in May 2000 and deputy manager of the Investment Development Department of the Company in February 2002. She has been the manager of the Investment Development Department since January 2004 until now.



## Directors, Supervisors, Senior Management and Staff

Mr. Zhou Hao Xiang, Supervisor, born in 1948, tertiary-educated and has been working since 1968, economist and supervising engineer for transportation projects. Mr. Zhou had been the secretary of the Communist Youth Party Committee of Jiangsu Communications Bureau, deputy manager of Jiangsu United Transport Co., deputy director of the General Department of Jiangsu Expressways Command Office, deputy director of the Preparatory Office of Jiangsu Expressway Company Limited, deputy director of the Preparatory Department of the Jiangsu Transportation Command Centre, vice chairman of the Labour Union of Jiangsu Expressway Company Limited. Mr. Zhou has long been involved in the transportation sector, amassing considerable practical experience in comprehensive management, infrastructure projects and staff relations.

### Other Senior Management

Mr. Qian Yong Xiang, Deputy General Manager, born in 1964, with a master degree in industries and an MBA. He taught at Southeast University from 1987 to 1992. He joined the Company in 1992 and has been head of the Planning Section and deputy manager of the Investment and Securities Department. Mr. Qian has long been involved in strategies studies of the transport industry, the Company's investment analysis and management, project construction and operational management.

Ms. Liu Wei, Deputy General Manager, Financial Controller, born in 1956, university graduate, senior accountant. Ms. Liu joined the Company in August 1992. She had been the deputy section chief of the Planning Division of the Communications Department of Jiangsu Province, the person-in-charge of the Finance Department of the Jiangsu Roads & Bridges Construction Co. and the section chief of the Finance Division of the Jiangsu Expressways Command Office. Ms. Liu was also the deputy division chief and the manager of the Finance Department of the Company. She has been working in the economic and financial management for 20 years and has extensive experience in these areas.

Mr. Zhao Jie Jun, Deputy General Manager, born in 1967, with a master degree in industries, post-graduate grade senior engineer, joined the Company in August 1992. Mr. Zhao had been an engineer of the Planning Department of Jiangsu Expressway Construction Command Office and deputy director of the engineering division of the Company's Engineering and Technology Department, director of the General Department, deputy manager and manager of the Engineering and Technology Department. Mr. Zhao has been engaged in the construction, maintenance and repair, operation and management of transportation projects since he started working.

Mr. Yao Yong Jia, Secretary to the Board, born in 1964, with a master degree, senior engineer. Mr. Yao joined the Company in August 1992. He has been a section chief of the Communications Design and Planning Institute of Jiangsu Province, the Jiangsu Expressways Command Office and the Securities Department, as well as the director of the secretariat to the Board of the Company. Mr. Yao has extensive experience and he has been engaging in project management, investment analysis, financing and securities.

Ms. Lee Wai Fun, Betty, Secretary to the Board in Hong Kong, born in 1961. She obtained a professional diploma in company secretaryship and administration from the Hong Kong Polytechnic (presently the Hong Kong Polytechnic University) in 1983. She is a chartered secretary in Hong Kong. She is a member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

## (8) Human Resources

### Human Resource Management

The Company has established a human resource management system, with recruitment, training, appraisal and salary management forming its core. Recruitment primarily focuses on external referrals, with recruitment for major technical positions conducted in the open market. A two-tier corporate-department training network was formed, with internal and external training integrated. The salary system comprises a position-based salary component and a performance-based salary component, facilitating a strengthening of positional awareness of the staff. A two-tier corporate-department performance appraisal system was established, thereby ensuring the Company's effective control over the department's results and adequately utilizing the subjective dynamism and flexibility of departmental internal performance appraisal. The Company hopes to effectively allocate and utilize its human resources and enhance the staff's occupational ability and initiative through a regulated and comprehensive human resource management system, so as to facilitate a unified objective and mutual cooperation between the Company's various departments and to achieve the strategic objective of long-term development.

During the reporting period, the Company fixed the relevant systems and staff employment methods with reference to the Labour Contract Law, and began the renewals and new signings of the staff labor contracts according to the Labour Contract Law's requirements.

### Staffing Situations

As at 31 December 2007, the Company had 3,815 staff (excluding subsidiaries and associates) and the staff composition is as follows:

#### 1. Professional Composition

Type of profession	Number	Percentage
Administrative and management staff	231	6.1%
Toll operation staff	2,120	55.5%
Maintenance and repair staff	198	5.2%
Road management staff	107	2.8%
Service area staff	1,159	30.4%

#### 2. Educational Background

Education level	Number	Percentage
University or above	257	6.7%
Vocational institutes	915	24%
Secondary/vocational schools or below	2,643	69.3%

# Directors, Supervisors, Senior Management and Staff

## Staff Salary

The Company adopts a position-based salary system in full scale with performance being the determining factor. Staff salary comprises three parts, namely monthly salary, performance bonus and fringe benefits. Salaries are determined in accordance with the comprehensive performance appraisal results of each staff, with reference to the principle of “salary by position, award by performance”, thereby raising the competitiveness and fairness of the salary system.

In 2007, the Company further improved the salary management system, eliminating the differences in income distribution among staff with different tasks in the same position. The Company also specifically adjusted the salaries of certain positions in service areas and maintenance centers which involve more manual labour, so as to enhance the aggressiveness and pro-activeness on production among staff. Based on the management principle of sharing the fruits of corporate development with staff, the Company adjusted the basic salaries of 3,234 staff, with the per capita monthly salary increased by RMB141.

The aggregate annual salaries of the staff were subject to approval by the Board. During 2007, the aggregate salaries actually utilized by the Company amounted to RMB145,800,000.

## Staff Insurance and Welfare

The Company cares for its staff with affection and protects the statutory interests of the staff. In accordance with the relevant State regulations, the Company provides its current staff with social insurances including retirement insurance, basic medical insurance and unemployment insurance, with all insurance premiums fully paid. Meanwhile, in order to provide better protection for our staff, the Company has also obtained supplementary medical insurance and labour injury insurance from commercial insurance companies for the staff. The Company also established the corporate annuity scheme established, aiming at improving the living standards of the staff after retirement.

The Company participates in the central retirement and pension fund scheme administered by the State, which undertakes the pension payment to the Company's retired employees.

## Staff Education and Training

The Company emphasizes staff education and training. In order to improve the education and training system, the Company commenced a practical, pragmatic and effective training scheme with specific goals. In 2006, with position skill training and comprehensive quality enhancement being the primary objectives, the Company has training programmes and seminars regarding topics such as the Property Right Law, 6S on-site management method and toll collection system maintenance with reference to various management needs, as well as strengthening entry training for new staff and extensively organized training sessions to enhance toll operations and the position skills of production staff. Staff participation in such training programmes was counted at 7,746 times. In addition, the Company also set the objective of enhancing management ability and updating professional and technical knowledge, thereby organizing external training programmes such as professional manager training, young/middle-aged management staff training, labour contract management, information system building and supervision assignment management for the operation management staff, middle management staff and professional technical staff. Staff participation in such external training programmes was counted at 89 times. Accordingly, the individual comprehensive capability of the staff was enhanced and the corporate team spirit was strengthened.





# Shareholders' General Meetings

## (1) Annual General Meeting

Session	Convening date	Newspapers for disclosing the resolutions passed at the meeting	Disclosure date
2006 annual general meeting	13 June 2007	China Securities Journal Shanghai Securities News	14 June 2007

The annual general meeting has considered the following significant matters:

1. Matters approved as ordinary resolutions including:
  - the report of the directors, the report of the supervisory committee, the audited accounts and auditors' report for the year 2006;
  - 2006 profit distribution scheme;
  - Continuous appointment of foreign and domestic auditors.
2. Matters approved as extraordinary resolutions including:
  - Comprehensive amendments to the relevant articles of the articles of association of the Company in accordance with Guidance for the Articles of Association of Listed Companies 《上市公司章程指引》.

## (2) Extraordinary General Meeting

Session	Convening date	Newspapers for disclosing the resolutions passed at the meeting	Disclosure date
2007 first extraordinary general meeting	28 November 2007	China Securities Journal Shanghai Securities News	29 November 2007
2007 second extraordinary general meeting	4 January 2008		7 January 2008

The extraordinary general meetings have considered the following significant matters:

1. Matters approved as ordinary resolutions including:
  - the appointment of Ms. Zhang Yang as director of the Company was approved;
  - the appointment of Ms. Luo Yi as director of the Company was approved.
2. Matters approved as extraordinary resolutions including:
  - the issuance of not more than RMB2 billion short-term commercial paper by the Company was approved;
  - the issuance of not more than RMB1.5 billion corporate bonds by the Company was approved.

# Report of the Supervisory Committee

## (1) Meetings Held by the Supervisory Committee during the Reporting Period

In accordance with the Company Law, the Listing Rules, the Articles of Association and the Rules of Proceedings for Supervisory Committee Meetings and by observance of the principle of good faith, all members of the Company's Supervisory Committee have faithfully discharged their duties in a positive and cautious manner during the year 2007 for the purpose of safeguarding the lawful interests of the Company and its shareholders.

The Supervisory Committee held three meetings in 2007. The convening, proceedings and resolutions of the meetings complied with legal procedures. Significant matters were considered and examined by the Supervisory Committees as follows:

Convening of the Supervisory Committee Meeting	Agenda of the Supervisory Committee Meeting
The fifth session of the fourth Supervisory Committee	<ul style="list-style-type: none"><li>— The 2006 Annual Report and its summary were considered.</li><li>— The Supervisory Committee Work Report of 2006 was considered.</li></ul>
The fifth session of the fifth Supervisory Committee	<ul style="list-style-type: none"><li>— The 2007 First Quarterly Report was considered.</li></ul>
The fifth session of the sixth Supervisory Committee	<ul style="list-style-type: none"><li>— The 2007 Interim Report was considered.</li></ul>
The fifth session of the seventh Supervisory Committee	<ul style="list-style-type: none"><li>— The resignation of Ms Ma Ning due to job change was accepted; and the appointment of Ms Lo Yi as supervisor was proposed.</li></ul>
The fifth session of the eighth Supervisory Committee	<ul style="list-style-type: none"><li>— The 2007 third quarterly report was considered.</li></ul>

During the reporting period, the Supervisory Committee attended all Board meetings and examined the signing of written resolutions by the Board. It exercised effective supervision on the management behaviour of the Company's directors, management and senior management members as well as on the decision-making process of the Company. During the reporting period, no negotiations or litigations were made or initiated by any supervisors' representative against any directors of the Company.

## (2) Independent Opinions of the Supervisory Committee

### 1. Compliance with the Company's Operations

During the reporting period, the Supervisory Committee has monitored the procedures for convening shareholders' general meetings and Board meetings and the resolutions passed thereat. It has also supervised the implementation of resolutions passed at the shareholders' general meetings by the Board and the implementation of resolutions passed at the Board meetings by the management. It considered that the adoption and implementation of each system and the daily operation and management of the Company complied with the laws and regulations; the improvement in the internal control regime has further enhanced the corporate governance of the Company.

In compliance with the requirements as stipulated under relevant laws and regulations, the Company's directors and senior management have conscientiously discharged their duties, bearing in mind the best interests of shareholders and the Company. They have not violated the relevant laws and regulations, abused their authorities or caused damage to the interests of the Company, its shareholders and staff.



## 2. Financial Conditions of the Company

The Supervisory Committee has duly examined the financial statements, the profit distribution scheme and other accounting information etc. for the year 2007 and is of the view that the financial income and expenditure accounts are clear; and that the accounting, auditing and financial management have complied with the relevant requirements without any problems identified. The domestic and foreign auditors of the Company have audited the 2007 financial statements of the Company in accordance with the HKFRS and the PRC Accounting Standards, respectively, and have issued auditors' reports with standard unqualified audit opinions accordingly. The Supervisory Committee is of the view that the financial income and expenditure and the operating results of the Company are fairly and correctly reflected by the auditors' reports. The operating results achieved are truthful.

## 3. Acquisition and Sale of Assets by the Company

During the reporting period, the Supervisory Committee has examined the disposal of the property asset of Communication Building and the equity transfer of Jiangsu Sundian. It is of the view that the disposal and the transfer of the two asset items were in the interests of the Company and all of its shareholders. Meanwhile, transaction prices were determined on the basis of a full assessment. All transactions were fair and the prices were reasonable. The Supervisory Committee was not aware of any insider dealing or act which might jeopardize the interests of certain shareholders or cause losses to the Company's assets.

## 4. Connected Transactions of the Company

The Supervisory Committee has examined all connected transactions of the Company during the year. It is of the view that all contracts, agreements and other documents relating to connected transactions during the year are in compliance with the legal procedures. The terms of the transactions are fair and reasonable to the Company and all of its shareholders. The connected transactions have been entered into in strict compliance with the principles of "fairness, justice and openness". No insider dealing has been identified, nor has the Board been found to have breached the principle of integrity when making decision, signing agreements or carrying out information disclosure.

By Order of the Supervisory Committee

**Zhou Jian Qiang**

*Chairman of the Supervisory Committee*

Nanjing, the PRC

28 March 2008

# Significant Matters

## (1) Material Litigation or Arbitration

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

## (2) Assets Transaction


### 1. Disposal of Properties

On 25 September 2007, the Company entered into the Property Transfer Agreement with the Jiangsu Communications Bureau, pursuant to which the Company disposed of its former office property in the Jiangsu Communications Building with an area of approximately 5,929.95 m<sup>2</sup> to the Jiangsu Communications Bureau. The net book value of the property as at 31 August 2007 was RMB30,923,000, while the value as at the valuation date was RMB42,636,000. By selling the property at the valuation price, the disposal price of the property exceeded the book value by an amount of RMB11,713,000, representing 0.49% of the Company's total profit for the year. Jiangsu Communications Bureau should pay the consideration within seven dates upon delivering of the property assets. As Jiangsu Communications Bureau was one of the promoters of the Company when it was set up, even though Jiangsu Communications Bureau is not a shareholder of the Company at present, it remains a connected person of the Company pursuant to rule 1.01 of the Hong Kong Listing Rules and the transaction constituted a connected transaction of the Company. The Company had duly fulfilled the relevant reporting and disclosure obligations stipulated by rule 14A.32(1) of the Hong Kong Listing Rules. For details of the disposal of properties, please refer to the announcement dated 28 September 2007 published by the Company in designated newspapers and websites. The transfer procedures for the relevant assets were completed.

### 2. Transfer of Interests in a Subsidiary

On 18 December 2007, the Company and Guangjing Xicheng Expressway entered into the Share Transfer and Capital Increase Contract with Communications Holdings and its connected parties (including Yangtze Bridge, Ninghong Expressway, Xiyi Expressway, Yanjiang Expressway, Ningchangzhenhai Expressway and Husuzhe Expressway). The Company transferred its 56.15% interest in Jiangsu Sundian (representing capital contribution of RMB27.61 million) and 3.32% interest in Jiangsu Sundian (representing capital contribution of RMB1.63 million) to Communications Holdings and Ninghong Expressway, respectively, at the transfer prices of RMB32 million and RMB1.89 million, respectively. Guangjing Xicheng Expressway transferred its 10.53% interest in Jiangsu Sundian (representing capital contribution of RMB5.18 million) and 8.95% interest in Jiangsu Sundian (representing capital contribution of RMB4.40 million) to Yangtze Bridge and Xiyi Expressway, respectively, at the transfer prices of RMB6 million and RMB5.1 million, respectively. The assessed net assets value of the entire equity interests held by the shareholders of Jiangsu Sundian as at 30 June 2007 was RMB56.988 million, while its registered capital as at the assessment date was RMB49.17 million. Accordingly, the ratio of Jiangsu Sundian's paid-up capital to assessed net asset value would be RMB1 : RMB1.159 and the transfer price of the relevant interests were determined on the basis of this ratio.

Upon completion of the share transfer, Ninghong Expressway, Xiyi Expressway, Yanjiang Expressway, Ningchangzhenhai Expressway and Husuzhe Expressway contributed capital to Jiangsu Sundian in the sums of RMB4.11 million, RMB900,000, RMB6 million, RMB6 million and RMB6 million, respectively. The total capital contribution by these five parties amounted to RMB23.01 million, which would be used as registered capital of Jiangsu Sundian. After the capital increase, Jiangsu Sundian's registered capital became RMB72.18 million. The profit sharing and voting rights agreed among the shareholders of Jiangsu Sundian will be: 40% for Communications Holdings; and 7.5% each for eight other companies including the Company and Guangjing Xicheng Expressway. The share transfer and the capital increase contract were in effect on 1 January 2008.



As the parties involved in the share transfer and the capital increase are the parent company of the Company and the parent company's subsidiaries, they are connected parties to the Company and the relevant transactions constituted connected transactions, whereas the connected Directors abstained from voting when the Board considered the relevant resolution. The Company had duly fulfilled the relevant reporting and disclosure obligations stipulated by Chapter 14A of the Hong Kong Listing Rules. For details of the transactions, please refer to the announcement dated 19 December 2007 published by the Company in designated newspapers and websites.

### **(3) Material Connected Transactions**

During the reporting period, the transactions between the Company and connected companies are as follows:

– **Connected transactions related to day-to-day operation**

**1. Road Maintenance Service Contracts with Jiangsu Sundian**

On 26 April 2007, Guangjing Xicheng, the Company's subsidiary, entered into a maintenance service contract with Jiangsu Sundian in respect of the repair and maintenance services of Guangjing Expressway and Xicheng Expressway, for a term commencing on 1 May 2007 and ending on 31 December 2007. The maximum contractual maintenance service fees were estimated to be no more than RMB20 million.

The maintenance service fees are determined by the following principles: the tender prices so accepted will serve as the fee basis for projects to be awarded through public tenders whereas the fee basis for other projects will be determined after arm's length negotiation and with reference to the prevailing market prices reviewed by an independent and qualified cost consultation institute, with principle of not higher than the market price of the relevant works. The upper limits of the maintenance service fees are set according to the estimated works in 2007. The maintenance service fees are to be paid out of Guangjing Xicheng's own funds. At the end of the reporting period, the actual amount of the maintenance service fee was RMB4,968,000.

Such transaction constituted a continuing connected transaction under Chapter 14A of the Hong Kong Listing Rules. However, under the Shanghai Listing Rules, such transaction was exempted from the disclosure requirements for connected transactions.

**2. Technological Service Agreement with the Toll-Network Company**

On 26 April 2007, the Company entered into a technological service agreement with Jiangsu Expressway Toll-network Technology Service Co., Ltd. (the "Toll-network Company", 江蘇高速公路聯網收費技術服務有限公司). The Toll-network Company would provide relevant data audit, statistical and analytical services and consultation services on inter-network tolling technology upgrade for the road and bridge projects of the Company. The service fees for 2007 would be no more than RMB6,000,000 in aggregate. At the end of the reporting period, the actual amount of the maintenance service fee was RMB5,402,000.

The Toll-network Company was jointly established by Communications Holdings and its road and bridge subsidiaries. Communications Holdings is the largest shareholder holding 30% equity interests. The Company made a total capital contribution of RMB1,750,000 and holds 5% equity interests. In accordance with the respective listing rules of the Shanghai Stock Exchange and Chapter 14A of the Hong Kong Stock Exchange, the Toll-network Company is a connected company of the Company. Such transaction constituted a connected transaction relating to the daily operations of the Company.

## Significant Matters

### 3. Leasing of Operation of Petroleum Products Sales Business

During the reporting period, Guangjing Xicheng, the Company's subsidiary, continued to implement the agreement entered into with Jiangsu Expressway Petroleum Development Co., Ltd. (江蘇高速公路石油發展有限公司) ("Jiangsu Petroleum Company") regarding the leasing of the operation of the petroleum products sales business at the petrol station in the Yanqiao Service Area. Such transaction constituted a connected transaction. However, pursuant to Shanghai Listing Rules and Rule 14A.33(3) of the Hong Kong Listing Rules, such transaction was exempted from the requirements of reporting, announcement and approval from independent shareholders.

During 2007, Jiangsu Petroleum Company has paid leasing fee to Guangjing Xicheng amounting to RMB2,776,000 in aggregate which was below the requirement for reporting and disclosure.

#### – Sale of Assets between Connected Parties

For details, please refer to "Assets Transaction - Disposal of Properties" of this chapter.

#### – Transfer of Interests between Connected Parties

For details, please refer to "Assets Transaction - Transfer of Interests in a Subsidiary" of this chapter.

#### – Capital Dealings with Connected Parties

Unit: RMB'000


Connected Parties	Provide capital to connected parties		Connected parties provide capital to listed company	
	Amount	Balance	Amount	Balance
Jiangsu Guangjing Xicheng Expressway Co., Ltd.	0	0	(50,000)	250,000

In 2006, the Company secured a loan of RMB300,000,000 from its subsidiary Jiangsu Guangjing Xicheng Expressway Co., Ltd. by way of a trust loan. Of this amount, RMB200,000,000 had a term from 15 July 2006 to 15 January 2007 at a monthly interest rate of 3.915%, while the other RMB100,000,000 had a term from 27 December 2006 to 27 June 2007 at a monthly interest rate of 4.185%. The principal and interests of the loan were settled at the maturity dates.

The Company also secured two separate loans of RMB200,000,000 and RMB250,000,000 from Jiangsu Guangjing Xicheng Expressway Co., Ltd. on 15 January 2007 and 27 June 2007 respectively. Both loans have a term of one year and carry an annual interest rate of 5.022%. Among the loan, RMB200,000,000 was repaid in advance on 15 January 2007.

The independent non-executive directors of the Company have reviewed the continuing connected transactions and confirmed in the interim report and accounts that:

- (1) Such transactions constituted the usual course of business of the listed issuer;
- (2) Such transactions were conducted on normal commercial terms or, if transactions available for comparison were insufficient to determine whether the terms of such transactions are normal commercial terms, from the perspective of the Company, the terms of such transactions were in any way no worse than the terms offered to or by (as the case may be) independent third parties; and

- 
- (3) Such transactions were conducted in accordance with the terms of the agreements of respective transaction. The transaction terms were fair and reasonable and in the best interests of the Company's shareholders as a whole.

**Independent Opinion by Independent Directors on Appropriation of Funds by Connected Parties and External Guarantees of Jiangsu Expressway Company Limited**

Pursuant to "Notice Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties" (Zheng Jiang Fa Document No.56 (2003)) promulgated jointly by China Securities Regulatory Commission and State-owned Assets Supervision and Administration Commission of State Council and Shanghai Stock Exchange's relevant requirements on the preparation of annual reports by listed companies, the Company prepared the "2007 Summarized Table of Appropriation of Funds by the Controlling Shareholder and Other Connected Parties" (the "Summarized Table").

Upon reviewing the appropriation of funds by the Company's connected parties, the independent directors confirm that the information contained in the Summarized Table is consistent with the content of the 2007 auditors' report issued by Deloitte Touche Tohmatsu Certified Public Accountants Co., Ltd., the Company's auditors for the year; that the relevant information and data listed in the Summarized Table are truthful, accurate and complete; and that the Company's auditors for the year have issued an unqualified auditors' report.

Upon reviewing the Company's external guarantees, the independent directors confirm that during 2007, the Company did not provide any guarantee to its substantial shareholder, subsidiaries, associates or other connected parties.

*Independent Directors:*

*Chang Yung Tsung; Fang Hung, Kenneth; Yang Xiong Sheng; Fan Cong Lai*

28 March 2008



## Significant Matters

### **(4) Trust**

During the reporting period, the Company had no material trusts.

### **(5) Subcontracting**

During the reporting period, the Company had no material subcontracting.

### **(6) Leasing**

Guangjing Xicheng, the Company's subsidiary, leased the operation of its petroleum products sales business at the petrol station in the Yanqiao Service Area the continued to Jiangsu Petroleum Company for a period of three years from 1 January 2006 to 31 December 2007. Under the agreement between both parties, the leasing fee will be calculated on the basis of the sales volume of the petroleum products at RMB100 per ton, with the minimum leasing fee paid to Guangjing Xicheng by Jiangsu Petroleum Company amounted to RMB500,000 per annum. During the reporting period, such leasing agreement continued to be implemented.

### **(7) Material Guarantees and Pledge of Assets**

During the reporting period, the Company did not provide any guarantee for any shareholders or connected party or any other companies, nor was there any pledge of assets subsisting.

### **(8) Entrusted Financial Management**

During the reporting period, the Company did not entrust any other person to carry out cash asset management activity.

### **(9) Other Material Contracts**

On 26 April 2007, the Company entered into a maintenance service contract with Jiangsu Sundian for a term commencing on 1 May 2007 and ending on 31 December 2007. Total contract sum was estimated to be no more than RMB10 million. At the end of the reporting period, the actual amount of such fee amounted to RMB4,968,000.

During the reporting period, the Company and its subsidiaries did not enter into any material contract with or provide any loan to the controlling shareholder or its subsidiaries or connected parties. Save as the contracts disclosed above, the Company did not enter into any service or management contract to any person, enterprise or legal entity.

### **(10) Performance of Undertakings**

1. The Board of the Company has made an undertaking in respect of the profit distribution proposal for 2007 that once cash dividend distribution will be made for 2007 at a ration of no less than 85% of the distributable profit of the year.

The Board of the Company has faithfully fulfilled such undertaking. For details, please refer to "2007 Profit Distribution Scheme" under the section entitled "Report of the Directors".



2. Special undertakings made by the original Non-circulating Shareholders during the process of the Share Segregation Reform and the performance thereof:

Name of shareholder	Special undertakings	Fulfillment of undertakings
Communications Holdings Huajian Transportation	<ol style="list-style-type: none"> <li>1. Within 60 months from the day on which the listing status is granted, the original non-circulating shares of the Company held by the two companies will not be traded on the Shanghai Stock Exchange.</li> <li>2. The two companies will propose a motion and vote for a proposal at each of the 2005-2008 annual general meetings of the Company regarding a cash dividend payment of not less than 85% of the distributable profit of the Company realized in the relevant year.</li> </ol>	The Company is not aware that such shareholders were in breach of the relevant undertakings during the reporting period.
Communications Holdings Huajian Transportation Jiangsu Communications Construction Group Co., Ltd. Jiangsu Communications Engineering Co., Ltd.	These companies undertake that they shall bear all relevant expenses arising from the Share Segregation Reform as per their agreement.	Fulfilled

## (11) Appointment of Auditors

At the 2006 annual general meeting of the Company, it was approved that Deloitte Touche Tohmatsu CPA Ltd. and Deloitte Touche Tohmatsu would continue to be appointed as the domestic and international auditors, respectively of the Company for 2007. Auditing fees for the year amount to RMB2.1 million. The Company did not pay any other fees and nor were there any charges that might have affected the auditors' independence.

The above-mentioned auditing firms have been providing audit services to the Company for five consecutive years since 2003.

## (12) Regulatory Penalty

During the reporting period, there was no administrative penalty, reprimand or other public condemnation imposed against the Company or its Board, supervisory committee as well as directors, supervisors, senior management.

# Financial Report

<b>105</b>	Independent Auditor's Report
<b>107</b>	Consolidated Income Statement
<b>108</b>	Consolidated Balance Sheet
<b>110</b>	Consolidated Statement of Changes in Equity
<b>111</b>	Consolidated Cash Flow Statement
<b>113</b>	Notes to the Consolidated Financial Statements

# Independent Auditor's Report

**Deloitte.**

德勤

TO THE MEMBERS OF JIANGSU EXPRESSWAY COMPANY LIMITED

*(incorporated in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of Jiangsu Expressway Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 107 to 146, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong  
28 March 2008

# Consolidated Income Statement

For the year ended 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Revenue	7	5,068,913	3,925,569
Cost of sales and other direct operating costs		(2,176,028)	(1,695,073)
Gross profit		2,892,885	2,230,496
Other income		59,024	39,981
Administrative expenses		(128,577)	(182,471)
Finance costs	9	(512,400)	(455,278)
Share of profits of associates		129,527	128,265
Loss on disposal of an associate		—	(714)
Changes in fair value of held-for-trading investments		9,594	2,047
Profit before tax		2,450,053	1,762,326
Income tax expense	10	(769,560)	(549,048)
Profit for the year	11	1,680,493	1,213,278
Attributable to:			
Equity holders of the Company		1,642,331	1,174,111
Minority interests		38,162	39,167
		1,680,493	1,213,278
Dividend	14	957,172	730,473
Earnings per share - Basic	15	RMB0.33	RMB0.23

# Consolidated Balance Sheet

At 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	16	1,598,189	1,855,686
Toll roads infrastructures	17	18,793,287	19,367,653
Prepaid lease payments	18	1,160,542	1,208,377
Interests in associates	19	1,603,897	1,587,391
Available-for-sale financial assets	20	5,500	5,500
Deferred tax assets	22	5,865	8,014
		<b>23,167,280</b>	<b>24,032,621</b>
<b>Current assets</b>			
Inventories	23	13,196	10,045
Properties under development	24	41,695	11,650
Prepayments and other receivables	25	107,335	93,339
Prepaid lease payments	18	65,280	64,483
Held-for-trading investments	21	42,345	37,784
Bank balances and cash	26	1,128,947	796,874
		<b>1,398,798</b>	<b>1,014,175</b>
<b>Current liabilities</b>			
Other payables		261,169	170,938
Amounts due to related companies	35	62,900	—
Construction costs payable		938,625	1,731,863
Tax liabilities		276,487	104,960
Dividend payable		19,472	11,058
Long-term borrowings - due within one year	27	201,810	1,935
Short-term borrowings	28	4,753,930	4,510,000
		<b>6,514,393</b>	<b>6,530,754</b>
Net current liabilities		<b>(5,115,595)</b>	<b>(5,516,579)</b>
Total assets less current liabilities		<b>18,051,685</b>	<b>18,516,042</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	22	1,350	—
Long-term borrowings - due after one year	27	3,284,386	4,436,759
		<b>3,285,736</b>	<b>4,436,759</b>
Net assets		<b>14,765,949</b>	<b>14,079,283</b>

	NOTES	2007 RMB'000	2006 RMB'000
<b>Capital and reserves</b>			
Share capital	29	5,037,748	5,037,748
Reserves	30	9,298,866	8,613,707
Equity attributable to equity holders of the Company		14,336,614	13,651,455
Minority interests		429,335	427,828
<b>Total equity</b>		<b>14,765,949</b>	<b>14,079,283</b>

The consolidated financial statements on pages 107 to 146 were approved and authorised for issue by the Board of Directors on 28 March 2008 and are signed on its behalf by:

Shen Chang Quan  
DIRECTOR

Xie Jia Quan  
DIRECTOR

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company							
	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	5,037,748	5,730,454	705,619	352,811	1,381,185	13,207,817	416,908	13,624,725
Transfer (note 1)	—	—	352,811	(352,811)	—	—	—	—
Profit for the year and total income recognised	—	—	—	—	1,174,111	1,174,111	39,167	1,213,278
Appropriations	—	—	135,704	—	(135,704)	—	—	—
Dividends	—	—	—	—	(730,473)	(730,473)	—	(730,473)
Dividends paid to minority shareholders	—	—	—	—	—	—	(28,247)	(28,247)
At 31 December 2006	5,037,748	5,730,454	1,194,134	—	1,689,119	13,651,455	427,828	14,079,283
At 1 January 2007	5,037,748	5,730,454	1,194,134	—	1,689,119	13,651,455	427,828	14,079,283
Profit for the year and total income recognised	—	—	—	—	1,642,331	1,642,331	38,162	1,680,493
Adjustment (note 2)	—	—	(24,006)	—	24,006	—	—	—
Appropriations	—	—	179,880	—	(179,880)	—	—	—
Dividends	—	—	—	—	(957,172)	(957,172)	—	(957,172)
Dividends paid to minority shareholders	—	—	—	—	—	—	(36,655)	(36,655)
At 31 December 2007	5,037,748	5,730,454	1,350,008	—	2,218,404	14,336,614	429,335	14,765,949

## Notes:

- (1) In accordance with "Cai Qi [2006] No.67, Notice of accounting treatment as a result of the implementation of the PRC Company Law", the balance of statutory public welfare fund at 31 December 2005 is transferred to the statutory surplus reserve. Further, effective from 1 January 2006, appropriation of the profit as reported under the People's Republic of China ("PRC") statutory financial statements to the statutory public welfare fund is no longer required.
- (2) In the current year, the Group has applied, for the first time, the new accounting standard ("new standard") issued by the Ministry of Finance of People's Republic of China ("MOF") on 15 February 2006, which are effective for the Group's financial year beginning 1 January 2007. The adoption of the new standard has resulted in changes to the Group's retained profit under PRC statutory financial statements and the statutory surplus reserve had been adjusted accordingly.



# Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Operating activities		
Profit before tax	2,450,053	1,762,326
Adjustments for:		
Finance costs	512,400	455,278
Interest income	(8,294)	(10,186)
Change in fair value of held-for-trading investments	(9,594)	(2,047)
Dividend from unlisted available-for-sale financial assets	(200)	(200)
Share of profits of associates	(129,527)	(128,265)
Loss on disposal of an associate	—	714
Depreciation of property, plant and equipment	206,722	184,858
Depreciation of toll roads infrastructures	612,910	570,390
Operating lease rental in respect of land use rights	65,280	64,593
Impairment loss (reversed) made on other receivables	(885)	297
(Gain) loss on disposal of property, plant and equipment and toll roads infrastructures	(4,941)	15,271
Operating cash flows before movements in working capital	3,693,924	2,913,029
Increase in inventories	(3,151)	(945)
Increase in properties under development	(30,045)	(1,207)
Increase in prepayments and other receivables	(7,622)	(40,201)
Decrease (increase) in held-for-trading investments	5,033	(35,737)
Increase in other payables	87,733	27,647
Cash generated from operations	3,745,872	2,862,586
Interest paid	(512,400)	(455,278)
PRC income tax paid	(594,534)	(470,807)
Net cash generated from operating activities	2,638,938	1,936,501
Investing activities		
Interest received	8,294	10,186
Dividend received from associates	107,532	112,865
Dividend received from available-for-sale financial assets	200	200
Disposal of an associate	—	4,082
Advance from related companies	39,890	—
Proceeds on disposals of property, plant and equipment and toll roads infrastructures	42,912	2,814
Purchase of property, plant and equipment and toll roads infrastructures	(837,220)	(1,210,499)
Purchase of available-for-sale financial assets	—	(2,500)
Repayment of receivable from a former joint venture	—	1,000
Net cash used in investing activities	(638,392)	(1,081,852)

## Consolidated Cash Flow Statement

	<b>2007</b> RMB'000	<b>2006</b> RMB'000
Financing activities		
Dividends paid	(948,758)	(743,621)
Dividends paid to minority shareholders	(36,655)	(28,247)
Advance from related companies	23,010	—
Repayment of long-term borrowings	(950,000)	(507,939)
Repayment of short-term bond	—	(3,912,026)
New short-term borrowings raised	8,423,930	6,310,000
Repayment of short-term borrowings	(8,180,000)	(2,250,000)
<b>Net cash used in financing activities</b>	<b>(1,668,473)</b>	<b>(1,131,833)</b>
Net increase (decrease) in cash and cash equivalents	332,073	(277,184)
Cash and cash equivalents at beginning of the year	796,874	1,074,058
<b>Cash and cash equivalents at end of the year, represented by bank balances and cash</b>	<b>1,128,947</b>	<b>796,874</b>

# Notes to the Financial Statements

For the year ended 31 December 2007

## 1. GENERAL

The Company was incorporated in the People's Republic of China (the "PRC") on 1 August 1992 as a joint stock limited company and its H shares and A shares are listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange, respectively. Its parent is Jiangsu Communications Holding Company Limited 江蘇交通控股有限公司 ("Jiangsu Communications Holding"), a state-owned enterprise incorporated in the PRC. The addresses of the registered office and principal place of business of the Company are disclosed in the annual report.

The consolidated financial statements are presented in Renminbi, which is the same as the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "Group") are the investment, construction, operation and management of the Jiangsu section of Shanghai-Nanjing Expressway ("Ninghu Expressway"), the Jiangsu section of the 312 National Highway (the "312 National Highway"), Nanjing-Lianyungang Class 1 Highway-Nanjing Section ("Nanjing-Lianyungang Highway") and other toll roads in Jiangsu Province, and the provision of passenger transport services and other supporting services along the toll roads.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### Standards and Interpretations effective in current year

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - INT 8	Scope of HKFRS 2
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) - INT 10	Interim financial reporting and impairment

The adoption of the new HKFRSs had no material effects on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 respectively. Certain information presented in prior year under the requirement of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

# Notes to the Financial Statements

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

### Standards and Interpretations in issue not yet adopted

The Group has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23(Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) - INT 11	HKFRS 2: Group and treasury share transactions <sup>3</sup>
HK(IFRIC) - INT 12	Service concession arrangements <sup>4</sup>
HK(IFRIC) - INT 13	Customer Loyalty Programmes <sup>5</sup>
HK(IFRIC) - INT 14	HKAS19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the adoption of HKFRS “Operating segments” will have no material impact on the presentation of segment information of the Group as the Group’s principal activities of operation and management of toll roads are located and carried out only in the PRC. The application of HK (IFRIC) – INT 12 “Service concession arrangements” is anticipated to have the following impact on the result and the financial position of the Group:

- Expressways and bridges will cease to be recognised as toll roads infrastructures of the Group; and
- Instead they will be classified as an intangible asset for the right to charge users of the public service.

The directors of the Company are still in the process of assessing other impacts of the application of HK (IFRIC) – INT 12, and have not yet quantified the expected effect.

The directors anticipate that the adoption of other new standards and interpretations in future periods will have no material impact on the consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain held-for-trading investments which are measured at fair value as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Hong Kong Listing Rules and by the Hong Kong Companies Ordinance.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

#### **Interests in associates**

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

#### *Goodwill arising on acquisitions prior to 1 January 2005*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. From 1 January 2005 onwards, the Group discontinued amortisation of previously capitalised goodwill and such goodwill (net of cumulative amortisation as at 31 December 2004) is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

# Notes to the Financial Statements

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Interests in associates (Cont'd)

#### *Goodwill arising on acquisitions on or after 1 January 2005*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of sales related taxes.

Toll revenue, net of business tax, is recognised on a receipt basis.

Sale of petrol is recognised when delivery has taken place.

Sale of food and beverages are recognised when goods and services are provided.

Emergency assistance income and advertising income are recognised when services are rendered.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the bank deposits to their net carrying amount.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the supply of services, or for administrative purpose other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of property, plant and equipment is calculated using the straight-line method to write off the cost, after taking into account the estimated residual value, of each asset over its expected useful life. The expected useful lives of assets are the shorter of the expected useful lives of the assets or the remaining concession period. The expected useful lives of the assets are as follows:

Buildings	30 years
Safety equipment	10 years
Communication and signalling equipment	10 years
Toll stations and ancillary equipment	8 years
Motor vehicles	8 years
Other machinery and equipment	5 - 8 years

Construction in progress is stated at cost which includes development expenditure and other direct costs, including interest cost on the related borrowed funds during the construction period attributable to the development of toll roads, buildings and structures for the Group's own use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

#### Toll roads infrastructures

Toll roads infrastructures, which include toll roads infrastructures work and operating rights, are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation of the toll roads infrastructures are calculated to write off their cost, over their expected useful lives or the remaining concession period, whichever is the shorter, commencing from the date of commencement of commercial operation of the toll roads, based on the ratio of actual traffic volume compared to the total expected traffic volume of the toll roads as estimated by the management or by reference to traffic projection reports prepared by independent traffic consultants.

# Notes to the Financial Statements

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessor*

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

#### *The Group as lessee*

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

### Land use right

Land use right are accounted for as prepaid lease payments and are stated at cost and are amortised over the period of the lease on a straight-line basis to the consolidated income statement.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Government grants

Government grants are recognised in the consolidated income statement when they become receivable and reported separately as 'other income'.



### **3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

#### **Retirement benefit costs**

The employees of the Company and its subsidiaries are members of state-managed retirement pension schemes, under which the Group's obligations are equivalent to those arising in a defined contribution retirement pension plan. Payments made to the state-managed retirement pension schemes are charged as expenses when employees have rendered service entitling them to the contributions.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

#### **Properties under development**

Properties under development, representing leasehold land located in PRC under development for future sale in ordinary course of business, are stated at the lower of cost and net realisable value. Cost comprises the costs of land use rights, construction costs and other direct development expenditure. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

# Notes to the Financial Statements

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial assets and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

#### *Financial assets at fair value through profit or loss*

The Group's financial assets at fair value through profit or loss are classified into financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking

At each balance sheet date subsequent to initial recognition, financial assets held for trading is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial assets (Cont'd)

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including bank balances and other receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any other categories.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below)

#### **Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivable could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

# Notes to the Financial Statements

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

#### *Other financial liabilities*

Other financial liabilities including bank and other borrowings, dividend payable, construction costs payable and other payables are subsequently measured at amortised cost, using the effective interest method.

#### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### Key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, management had made the following estimation that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### *Depreciation of toll roads infrastructures*

Depreciation of the toll roads infrastructures are calculated to write off their cost, commencing from the date of commencement of commercial operation of the toll roads, based on the ratio of actual traffic volume compared to the total expected traffic volume of the toll roads.

The management exercises their judgment in estimating the ratio of actual traffic volume compared to the total expected traffic volume of the toll roads.

#### *Impairment review of 312 National Highway*

At 31 December 2007, included in the Group's toll roads infrastructures is carrying amount of RMB 3,183,769,602 in relation to the 312 National Highway. 312 National Highway operates at a loss since 2006, which is an indicator that an impairment loss may have occurred and requires the Group to estimate the recoverable amount to determine whether there is any indication that 312 National Highway has suffered an impairment loss.

In measuring the recoverable amount the Group has looked at the value in use based on the following factors: the current and expected future traffic volume, current and expected future toll fee level, length of operating rights, maintenance costs and discount rate (the "Relevant Factors") in estimating the recoverable amount of the toll road infrastructures in respect of 312 National Highway.

In arriving at the recoverable amount of the toll road infrastructure, the management exercised their judgment with reference to these Relevant Factors in estimating the recoverable amounts of the toll road infrastructures in respect of 312 National Highway. As a result, the management considered that its recoverable amounts are above their carrying amounts and no impairment was accordingly made in respect of 312 National Highway.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 27 and 28, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on timely basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its over capital structure through the payment of dividends, as well as the issue of new debt or the redemption of existing debt.

# Notes to the Financial Statements

## 6. FINANCIAL INSTRUMENTS

### Categories of financial instruments

	2007 RMB'000	2006 RMB'000
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading	42,345	37,784
Loans and receivables (including cash and cash equivalents)	1,236,282	890,213
Available-for-sale financial assets	5,500	5,500
	1,284,127	933,497
Financial liabilities	9,502,820	10,851,495

### Financial risk management objectives and policies

The Group's major financial instruments include equity investments, borrowings, other receivables, other payables and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Market risk

##### (a) Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. Although the Group has certain long-term borrowings denominated in USD, the proportion to the Group's total assets is insignificant. Further the Group carries out majority of its transactions in RMB and accordingly, the Group is not exposed to any significant foreign currency risk.

##### (b) Interest rate risk

Interest bearing financial assets are mainly bank balances which are all short-term in nature and is therefore not exposed to significant fair value interest rate risk. The Group's fair value interest rate risk relates primarily to fixed-rate short-term bank and other borrowings (refer to note 28 for details of these borrowings). For variable-rate long-term portion of borrowings, the Group closely monitors the level of the borrowings and will negotiate with the banks granting the borrowings to adjust interest rate if the rate charged to the Group significantly exceeds the market interest rate. In this regard, the directors of the Group consider that the Group's exposure to fair value interest rate risk is significantly reduced. The Group currently does not have an interest rate hedging policy.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate long-term bank borrowings (refer to note 27 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

## 6. FINANCIAL INSTRUMENTS (Cont'd)

### Financial risk management objectives and policies (Cont'd)

#### *Market risk (Cont'd)*

##### (b) Interest rate risk (Cont'd)

#### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate long-term bank borrowings (refer to note 27 for details of these borrowings), the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by RMB 17,430,980 (2006: decrease/increase by RMB 22,193,469). This is mainly attributable to the Group's exposure to interest rates on its variable-rate long-term bank borrowings.

##### (c) Other Price risk

The Group's held-for-trading investments comprise gold bullion and listed equity shares, and are measured at fair value at each balance sheet date. Therefore, the Group is exposed to price risk. The Group established an internal investment division and a designated team is assigned to monitor closely the price movement of its investment. In this regard, the directors of the Group consider that the Group's price risk is mitigated.

#### Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to equity price risks and gold bullion market price risks at the reporting date. As a result, the changes in fair value of held-for-trading investments will not have material impact on the Group's equity at 31 December 2007 and its profit for the year then ended.

##### (d) Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet;

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

# Notes to the Financial Statements

## 6. FINANCIAL INSTRUMENTS (Cont'd)

### Financial risk management objectives and policies (Cont'd)

#### Market risk (Cont'd)

#### (d) Credit risk (Cont'd)

#### Liquidity risk

The Group closely monitors its cash position from its operation and the directors consider that the Group has sufficient liquid assets generated from its operations and sufficient available undrawn long-term and short-term borrowing facilities at 31 December 2007 of approximately RMB 11,450,000,000 (2006: RMB 8,700,000,000) (refer to notes 27 and 28) to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, although the Group had net current liabilities of RMB 5,115,595,000 (2006: RMB 5,516,579,000) at the balance sheet date, the Group has well managed the liquidity risk.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

#### Liquidity and interest risk tables

	Weighted average effective interest rate %	Within 1 year RMB'000	1-5 years RMB'000	5+ years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31/12/2007 RMB'000
<b>2007</b>						
Non-derivative financial liabilities						
Trade and other payables	—	324,069	—	—	324,069	324,069
Construction cost payable	—	938,625	—	—	938,625	938,625
Bank loans						
- fixed rate	5.41	4,753,930	—	—	4,753,930	4,753,930
- variable rate	6.28	201,810	1,807,246	1,477,140	3,486,196	3,486,196
		<b>6,218,434</b>	<b>1,807,246</b>	<b>1,477,140</b>	<b>9,502,820</b>	<b>9,502,820</b>
<b>2006</b>						
Non-derivative financial liabilities						
Trade and other payables	—	170,938	—	—	170,938	170,938
Construction cost payable	—	1,731,863	—	—	1,731,863	1,731,863
Bank loans						
- fixed rate	5.23	4,510,000	—	—	4,510,000	4,510,000
- variable rate	5.71	1,935	2,207,740	2,229,019	4,438,694	4,438,694
		<b>6,414,736</b>	<b>2,207,740</b>	<b>2,229,019</b>	<b>10,867,365</b>	<b>10,851,495</b>



## 6. FINANCIAL INSTRUMENTS (Cont'd)

### Financial risk management objectives and policies (Cont'd)

#### Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid and ask prices;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 7. REVENUE

	2007 RMB'000	2006 RMB'000
Turnover comprises:		
Toll revenue	4,079,602	3,312,426
Sale of petrol	856,930	504,954
Sale of food and beverages	117,283	97,100
Emergency assistance income and others	15,098	11,089
	<b>5,068,913</b>	<b>3,925,569</b>

## 8. SEGMENT INFORMATION

All the Group's operations are located and carried out in the PRC, and the principal activities of the Group is the operation and management of toll roads. Accordingly, no segment information by business and geographical segment is presented.

## 9. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on bank and other borrowings wholly repayable:		
Within five years	406,854	324,513
Over five years	105,546	130,765
Total borrowing costs	<b>512,400</b>	<b>455,278</b>

# Notes to the Financial Statements

## 10. TAXATION

	2007 RMB'000	2006 RMB'000
The charge comprises:		
PRC income tax	766,061	549,079
Deferred tax charge (credit) (note 22)	3,499	(31)
Taxation attributable to the Company and its subsidiaries	<b>769,560</b>	549,048

The Company and its subsidiaries are subject to PRC income tax rate of 33% (2006: 33%) pursuant to the relevant PRC income tax laws.

No provision for Hong Kong Profits Tax has been made as the income neither arises, nor is derived from, Hong Kong.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the income tax rate to 25% for enterprises in the PRC with effective from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

	2007		2006	
	RMB'000	%	RMB'000	%
Profit before tax	2,450,053		1,762,326	
Tax at the domestic tax rate of 33% (2006: 33%)	808,517	33.0	581,568	33.0
Tax effect of expenses not deductible for tax purpose	5,730	—	9,807	0.6
Tax effect of share of profits of associates	(42,744)	(1.6)	(42,327)	(2.4)
Effect of tax rate change	(1,943)	—	—	—
Tax charge and effective tax rate for the year	<b>769,560</b>	<b>31.4</b>	549,048	31.2

## 11. PROFIT FOR THE YEAR

	2007 RMB'000	2006 RMB'000
Profit for the year has been arrived at after charging:		
Staff costs including directors' emoluments	188,580	179,300
Retirement benefits scheme contributions	34,511	33,695
<hr/>		
Total staff costs	223,091	212,995
Auditor's remuneration	2,100	1,700
Impairment loss on other receivables	—	297
Depreciation of property, plant and equipment and toll roads infrastructures	819,632	755,248
Loss on disposal of property, plant and equipment and toll roads infrastructures	—	15,271
Operating lease rental in respect of land use rights (included in cost of sales and other direct operating costs)	65,280	64,593
Cost of inventories recognised as an expense	939,523	577,486
Share of tax of associates (included in share of profits of associates)	57,906	60,849
and after crediting:		
Interest income from bank deposits	8,294	10,186
Government grants received (note)	980	1,810
Dividend income from unlisted available-for-sale financial assets	200	200
Gain on disposal of property, plant and equipment and toll roads infrastructures	6,711	—
Impairment loss made on other receivables reversed	885	—
<hr/>		

Note: Government grants of RMB 980,000 (2006: RMB1,810,000) have been received in the current year as an incentive payment to the Company's subsidiary, Jiangsu Sundian Engineering Co., Ltd. and Jiangsu Ninghu Investment Development Co., Ltd. The incentive payment was unconditional and has been included in other income for the year.

## 12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the Company's directors were as follows:

	Shen Changquan RMB'000	Xie Jiaquan RMB'000	Zhang Wensheng RMB'000	Sun Hongning RMB'000	Chen Xianghui RMB'000	Fan Yushu RMB'000	Cui Xiaolong RMB'000	Fang* Keng RMB'000	Chang* Yungtsung RMB'000	Yang* Xiongsheng RMB'000	Fan* Conglai RMB'000	Total RMB'000
2007												
Fees	—	—	—	—	—	—	—	187	187	50	50	474
Other emoluments:												
Salaries and other benefits	—	350	—	—	—	—	—	—	—	—	—	350
Contributions to retirement benefits/pension schemes	—	43	—	—	—	—	—	—	—	—	—	43
Total emoluments	—	393	—	—	—	—	187	187	187	50	50	867
2006												
Fees	—	—	—	—	—	—	—	200	200	50	50	500
Other emoluments:												
Salaries and other benefits	—	330	—	—	—	—	—	—	—	—	—	330
Contributions to retirement benefits/pension schemes	—	38	—	—	—	—	—	—	—	—	—	38
Total emoluments	—	368	—	—	—	—	200	200	200	50	50	868

\* Independent non-executive directors

### 13. EMPLOYEES' EMOLUMENTS

One (2006: one) of the five individuals with the highest emoluments in the Group is a director of the Company whose emoluments are included in note 12. The emoluments of the remaining four (2006: four) individuals were as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other benefits	981	883
Contributions to retirement benefits schemes	170	146
	<b>1,151</b>	<b>1,029</b>

Their emoluments were within the following bands:

	2007 No. of employees	2006 No. of employees
Nil to HK\$ 1,000,000 (Nil to RMB1,000,000)	4	4

### 14. DIVIDEND

	2007 RMB'000	2006 RMB'000
Dividend recognised as distribution during the year: Final – RMB 0.19 (2006: RMB 0.145) per share	957,172	730,473

Pursuant to a directors' meeting dated 28 March 2008, a final dividend of RMB 0.27 (2006: directors' meeting dated 23 March 2007 for a final dividend of RMB 0.19) per share for the year ended 31 December 2007 has been proposed by the directors and is subject to approval by the shareholders in general meeting.

### 15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit for the year attributable to the equity holders of the Company of RMB1,642,331,000 (2006: RMB1,174,111,000) and 5,037,747,500 (2006: 5,037,747,500) ordinary shares in issue during the year.

No diluted earnings per share is presented as the Company has no potential ordinary shares outstanding for the two years ended 31 December 2007.

# Notes to the Financial Statements

## 16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Safety equipment RMB'000	Communication and signalling equipment RMB'000	Toll stations and ancillary equipment RMB'000	Motor vehicles RMB'000	Other machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>COST</b>								
At 1 January 2006	862,500	336,873	252,917	317,389	173,070	292,843	1,121,070	3,356,662
Additions	342	116	79	1,969	7,435	3,399	258,188	271,528
Transfers	93,749	353,037	131,299	(43,410)	(4,977)	29,547	(559,245)	—
Transfers to toll roads infrastructures	—	—	—	—	—	—	(788,609)	(788,609)
Disposals	(4,771)	—	(743)	(13,882)	(2,723)	(12,522)	—	(34,641)
At 31 December 2006	951,820	690,026	383,552	262,066	172,805	313,267	31,404	2,804,940
Additions	5,385	200	937	20,054	6,417	14,233	49,568	96,794
Transfers	99	—	—	—	3,345	24,887	(28,331)	—
Cost adjustment (Note)	(127,716)	(49,805)	(42,565)	20,830	(2,280)	110,180	—	(91,356)
Amount written off	—	—	—	—	—	—	(1,770)	(1,770)
Transfers to prepaid lease payments	(18,739)	—	—	—	—	—	—	(18,739)
Disposals	(46,521)	—	—	—	(7,481)	(10,024)	—	(64,026)
At 31 December 2007	764,328	640,421	341,924	302,950	172,806	452,543	50,871	2,725,843
<b>DEPRECIATION AND AMORTISATION</b>								
At 1 January 2006	134,065	265,397	71,882	118,993	70,757	130,519	—	791,613
Provided for the year	22,487	41,655	26,824	39,066	14,407	40,419	—	184,858
Eliminated on disposals	(949)	—	(721)	(13,390)	(2,361)	(9,796)	—	(27,217)
At 31 December 2006	155,603	307,052	97,985	144,669	82,803	161,142	—	949,254
Provided for the year	29,194	60,583	28,394	33,794	9,056	45,701	—	206,722
Transfers to prepaid lease payments	(497)	—	—	—	—	—	—	(497)
Eliminated on disposals	(12,862)	—	—	—	(6,257)	(8,706)	—	(27,825)
At 31 December 2007	171,438	367,635	126,379	178,463	85,602	198,137	—	1,127,654
<b>CARRYING VALUES</b>								
At 31 December 2007	592,890	272,786	215,545	124,487	87,204	254,406	50,871	1,598,189
At 31 December 2006	796,217	382,974	285,567	117,397	90,002	152,125	31,404	1,855,686

## 16. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

*Note:* The cost adjustment during the year was made by the Company upon the completion audit report of the widening project of Ninghu Expressway in accordance with instructions from relevant government bureau. As a result of the cost adjustment, RMB 91,356,000 was transferred out from property, plant and equipment, among which about RMB 38,544,000 was transferred to toll roads infrastructures, and adjusted aggregate amount of RMB 52,812,000 was adjusted to reduce the construction costs payable.

All the Group's buildings are situated in the PRC and held under medium-term land use rights.

## 17. TOLL ROADS INFRASTRUCTURES

	RMB'000
<b>COST</b>	
At 1 January 2006	20,769,347
Transfers	788,609
Disposals	(11,572)
<b>At 31 December 2006</b>	<b>21,546,384</b>
Cost Adjustment	38,544
<b>At 31 December 2007</b>	<b>21,584,928</b>
<b>DEPRECIATION</b>	
At 1 January 2006	1,609,252
Provided for the year	570,390
Eliminated on disposals	(911)
<b>At 31 December 2006</b>	<b>2,178,731</b>
Provided for the year	612,910
<b>At 31 December 2007</b>	<b>2,791,641</b>
<b>CARRYING VALUES</b>	
<b>At 31 December 2007</b>	<b>18,793,287</b>
<b>At 31 December 2006</b>	<b>19,367,653</b>

The toll roads infrastructures are all located in the PRC. The Group has been granted by the relevant local government authorities the rights to operate the respective toll roads for periods ranging from 27 to 36 years. According to the relevant governments' approval documents and the relevant regulations, the Group is responsible for the construction of the toll roads and the acquisition of the related facilities and equipment and it is also responsible for the operations and management, maintenance and overhaul of the toll roads during the approved operating periods. The toll fees collected during the operating periods is attributable to the Group. The relevant toll roads assets are required to be returned to the local government authorities when the operating rights periods expire without any payments to be made to the Group.

# Notes to the Financial Statements

## 18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2007 RMB'000	2006 RMB'000
Medium-term lease in the PRC	1,225,822	1,272,860
Analysed for reporting purposes as:		
Non-current asset	1,160,542	1,208,377
Current asset	65,280	64,483
	1,225,822	1,272,860

## 19. INTERESTS IN ASSOCIATES

	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	1,390,164	1,390,164
Share of post-acquisition profits, net of dividends received	213,733	197,227
	1,603,897	1,587,391



## 19. INTERESTS IN ASSOCIATES (Cont'd)

At 31 December 2007, the Group had interests in the following associates, all of which are limited liability companies:

Name of entity	Place of registration and operations	Proportion of registered capital held by the Group		Principal activity
		Directly	Indirectly by subsidiaries	
Jiangsu Kuailu Bus Transportation Stock Co., Ltd.	PRC	33.20%	—	Provision of passenger transportation service along the Shanghai—Nanjing Expressway
Jiangsu Yangzte Bridge Co., Ltd.	PRC	26.66%	—	Investment, construction, operation and management of Jiangjin Yangtze River Bridge
Suzhou Sujiahang Expressway Co., Ltd.	PRC	33.33%	—	Investment, construction, operation and management of Sujiahang Expressway
Jiangsu SEU Intelligent System Technology Co., Ltd.	PRC	—	20.69%	Computer software development
Jiangsu Leasing Co., Ltd. (Note)	PRC	—	20.00%	Leasing and financing activities

Notes:

9% of the equity interest of Jiangsu Leasing Co., Ltd. is held indirectly through an associate which is not included in the above 20.00%.

Included in the cost of investment in associates is goodwill of RMB81,815,000 (2006: RMB81,815,000) arising on acquisitions of associates in prior years. The carrying amounts of goodwill at 31 December 2007 are related to the following associates:

	2007 & 2006 RMB'000
Jiangsu Yangzte Bridge Co., Ltd.	53,207
Suzhou Sujiahang Expressway Co., Ltd.	28,608
	81,815

# Notes to the Financial Statements

## 19. INTERESTS IN ASSOCIATES (Cont'd)

The summarised financial information in respect of the Group's associates is set out below:

	2007 RMB'000	2006 RMB'000
Total assets	9,600,310	10,022,867
Total liabilities	(4,216,285)	(4,702,011)
Net assets	5,383,025	5,320,856
Group's share of net assets of associates	1,522,082	1,505,576
Revenue	1,623,605	1,584,606
Profit for the year	475,713	474,737
Group's share of result of associates for the year	129,527	128,265

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets at 31 December 2007 comprise:

	2007 RMB'000	2006 RMB'000
Unlisted equity securities, at cost	5,500	5,500

The above unlisted investments represent investments in unlisted equity securities. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

## 21. HELD-FOR-TRADING INVESTMENTS

Held for trading investments include:

	2007 RMB'000	2006 RMB'000
Equity securities listed in PRC	1,538	189
Gold bullion	40,807	37,595
	42,345	37,784

## 22. DEFERRED TAXATION

The following are the deferred tax assets (liabilities) recognised and movements thereon during the current and prior year:

	Change of fair value RMB'000	Impairment loss on other receivables RMB'000	Others RMB'000	Total RMB'000
At 1 January 2006	—	7,983	—	7,983
Credit to consolidated income statement for the year	—	31	—	31
At 31 December 2006	—	8,014	—	8,014
(Charge) credit to consolidated income statement for the year	(1,350)	(229)	23	(1,556)
Effect of tax rate change	—	(1,943)	—	(1,943)
At 31 December 2007	(1,350)	5,842	23	4,515

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007 RMB'000	2006 RMB'000
Deferred tax assets	5,865	8,014
Deferred tax liabilities	(1,350)	—
	4,515	8,014

# Notes to the Financial Statements

## 23. INVENTORIES

Inventories comprise petrol for sales, materials and spare parts for repairs and maintenance of toll roads infrastructures. All inventories are stated at cost.

## 24. PROPERTIES UNDER DEVELOPMENT

	2007 RMB'000	2006 RMB'000
Medium-term land use rights	10,443	10,443
Development costs	31,252	1,207
	<b>41,695</b>	<b>11,650</b>

## 25. PREPAYMENTS AND OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Dividend receivable from an associate	5,489	—
Receivable from liquidation of a former joint venture	18,812	18,812
Prepayments	1,091	4,377
Toll road fee	38,012	36,474
Others	67,899	58,529
	<b>131,303</b>	<b>118,192</b>
Less: Accumulated impairment losses	<b>(23,968)</b>	<b>(24,853)</b>
	<b>107,335</b>	<b>93,339</b>

## 26. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The short-term bank deposits carry interest at prevailing market rate at 0.72% (2006: 0.72%).

## 27. LONG-TERM BORROWINGS

	Maturity date		Effective interest rate		Carrying amount	
	2007	2006	2007	2006	2007 RMB'000	2006 RMB'000
Unsecured bank loans	2008-2016	2008-2016	6.28%	5.71%	3,450,000	4,400,000
USD denominated Spain government loans (Note)	2007-2026	2007-2026	2.00%	1.00%	36,196	38,694
					<b>3,486,196</b>	<b>4,438,694</b>

Note:

The USD denominated Spanish government loans were guaranteed by the Company's parent, Jiangsu Communications Holding, which is a state-owned enterprise incorporated in the PRC.

The maturity of the above variable-rate loans is as follows:

	2007 RMB'000	2006 RMB'000
Within one year	201,810	1,935
More than one year but not exceeding two years	401,810	201,935
More than two years but not exceeding three years	301,810	501,935
More than three years but not exceeding four years	451,810	1,001,935
More than four years but not exceeding five years	651,810	501,935
More than five years	1,477,140	2,229,019
	<b>3,486,196</b>	<b>4,438,694</b>
Less: Amount due within one year included in current liabilities	(201,810)	(1,935)
Amount due after one year	<b>3,284,386</b>	<b>4,436,759</b>

The long-term borrowings are all variable-rate borrowings which carry interest at the rates quoted by the People's Bank of China.

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are US\$4,955,000 (2006: US\$4,955,000).

# Notes to the Financial Statements

## 27. LONG-TERM BORROWINGS (Cont'd)

At the balance sheet date, the Group has the following undrawn long-term borrowings facilities:

	2007 RMB'000	2006 RMB'000
Variable rate		
- expiring beyond one year	10,400,000	8,500,000

## 28. SHORT-TERM BORROWINGS

	2007 RMB'000	2006 RMB'000
Unsecured bank loans	3,720,000	2,910,000
Unsecured other loans	1,033,930	1,600,000
	4,753,930	4,510,000

The loans are unsecured and repayable within one year and arranged at fixed interest rates in the range of 4.65% to 7.29% (2006: range of 4.65% to 5.58%) and expose the Group to fair value interest rate risk. The fair value of the above Group's loans is estimated by discounting their future cash flows at the prevailing market borrowing rates based on the rates quoted by the People's Bank of China at the balance sheet date. The carrying amount of loans approximates to their fair value.

At the balance sheet date, the Group has the following undrawn short-term borrowings facilities:

	2007 RMB'000	2006 RMB'000
Fixed rate		
- expiring within one year	1,050,000	200,000

## 29. SHARE CAPITAL

	31.12.2005		Transfer		31.12.2006	
	Number of shares	Share capital RMB'000	Number of shares	Share capital RMB'000	Number of shares	Share capital RMB'000
1. Non-tradable shares	3,665,747,500	3,665,748	(3,665,747,500)	(3,665,748)	—	—
2. Restricted tradable shares	—	—	3,617,747,500	3,617,748	3,617,747,500	3,617,748
3. Tradable shares						
H shares	1,222,000,000	1,222,000	—	—	1,222,000,000	1,222,000
A shares	150,000,000	150,000	48,000,000	48,000	198,000,000	198,000
<b>Total</b>	<b>5,037,747,500</b>	<b>5,037,748</b>	<b>—</b>	<b>—</b>	<b>5,037,747,500</b>	<b>5,037,748</b>

	31.12.2006		Transfer		31.12.2007	
	Number of shares	Share capital RMB'000	Number of shares	Share capital RMB'000	Number of shares	Share capital RMB'000
1. Restricted tradable shares	3,617,747,500	3,617,748	(151,153,880)	(151,154)	3,466,593,620	3,466,594
2. Tradable shares						
H shares	1,222,000,000	1,222,000	—	—	1,222,000,000	1,222,000
A shares	198,000,000	198,000	151,153,880	151,154	349,153,880	349,154
<b>Total</b>	<b>5,037,747,500</b>	<b>5,037,748</b>	<b>—</b>	<b>—</b>	<b>5,037,747,500</b>	<b>5,037,748</b>

In accordance with the Company's state share reform proposal adopted by the Company's shareholders' meeting on 24 April 2006, the shareholders of the non-tradable shares which comprise the state shares, state legal person shares and legal person shares, in return for the conversion of those non-tradable shares into restricted tradable shares, offer a transfer of 3.2 shares for every 10 "A" shares held by the then holders of A-shares in exchange for their approval of conversion of non-trade shares to tradable A shares. As a result, an aggregate of 48,000,000 non-tradable shares are transferred to the then holders of A-shares by the non-tradable shareholders, and these non-tradable shares are granted trading status on 16 May 2006 and included in the balance of tradable A shares at both 31 December 2006 and 31 December 2007.

The formerly non-tradable shares were also converted into restricted tradable shares which are subject to certain restrictions in their sale. In current year, an aggregate of 151,153,880 restricted tradable shares have granted trading status and included in the balance of tradable A shares at 31 December 2007.

The restricted tradable shares, H shares and A shares have a par value of RMB 1 each and rank pari passu in all respects, except that ownership of restricted tradable shares are restricted to PRC legal persons, while H shares can only be owned and traded by overseas investors and A shares can only be owned and traded by PRC investors.

# Notes to the Financial Statements

## 30. RESERVE

In accordance with the PRC Company Law and the articles of association, each of the Company and its subsidiaries registered in the PRC are required to appropriate 10% of the annual profit after taxation (after offsetting any prior years' losses), as reported under the PRC statutory financial statements to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of each entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after such usages.

Title of statutory surplus reserve will remain with the respective companies comprising the Group.

Statutory surplus reserve cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

In accordance with "Cai Qi [2006] No.67, Notice of accounting treatment as a result of the implementation of the PRC Company Law", the balance of statutory public welfare fund at 31 December 2005 is transferred to the statutory surplus reserve. Further, effective from 1 January 2006, appropriation of the profit as reported under the PRC statutory financial statements to the statutory public welfare fund is no longer required.

In accordance with the Company's Articles of Association, the profit after taxation for the purpose of appropriation will be deemed to be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) the HKFRS.

## 31. CAPITAL COMMITMENTS

	2007 RMB'000	2006 RMB'000
Commitments for:		
- acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	48,989	5,383

## 32. OTHER COMMITMENTS

As at 31 December 2007, the Group is committed to pay Ninglian Ningtong Management Office, an independent third party, a management service charge of RMB10,645,000 (2006: RMB17,520,000) at a fixed rate of 17% of the total toll revenue collected on Nanjing-Lianyungang Highway per annum for a term of 30 years from 1 January 2000.

## 33. MAJOR NON-CASH TRANSACTION

During the year, on completion of the widening project of Ninghu Expressway, the cost of widening project of RMB 52,812,000 was adjusted to reduce the construction cost payable in accordance with instructions from the relevant government bureau.



### 34. RETIREMENT BENEFITS SCHEME

The Group participates in the Jiangsu Provincial Retirement Scheme managed by Jiangsu Social Security Bureau (the “Bureau”). Pursuant to the relevant provisions, the Group is required to make a monthly contribution equivalent to 21% (2006: 21%) of the monthly salary in respect of its employees. The Bureau is responsible for pension payments to the retired employees of the Group and the Group has no further obligations.

The total cost charged to the consolidated income statement of RMB34,511,180 (2006: RMB33,695,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. All the contributions had been paid over to the scheme as at 31 December 2007.

### 35. RELATED PARTY TRANSACTIONS

(a) During the year, the Group has the following significant transactions with the companies:

Name	Relationship	Nature of transactions	2007 RMB'000	2006 RMB'000
Jiangsu Kuailu Bus Transportation Stock Co., Ltd.	Associate	Toll fee received	9,600	8,400
Jiangsu Kuailu Bus Transportation Stock Co., Ltd.	Associate	Sales of petrol	28,977	22,715
Jiangsu Yangzte Bridge Co., Ltd.	Associate	Toll service expenses	1,026	1,086
Jiangsu Expressway Petroleum Development Co., Ltd.	Same parent company	Rental income received	2,776	1,807
Jiangsu Expressway Toll-network Technology Service Co., Ltd.	Same parent company	Technology advisory fee expenses	5,402	2,642
Jiangsu Communications Department (note)	Promoter	Transfer of building	42,636	—

Note: Jiangsu Communications Department (江蘇交通廳) was one of the promoters of the Company when it was set up.

# Notes to the Financial Statements

## 35. RELATED PARTY TRANSACTIONS (Cont'd)

(b) At the balance sheet date, the Group have current accounts with the following related companies:

Name	Relationship	2007 RMB'000	2006 RMB'000
Amounts due from:			
Suzhou Sujiahang Expressway Co., Ltd.	Associate	18,263	15,270
Jiangsu Kuailu Bus Transportation Stock Co., Ltd.	Associate	7,172	2,598
Jiangsu Yangzte Bridge Co., Ltd.	Associate	3,689	2,017
Jiangsu Expressway Petroleum Development Co., Ltd.	Same parent company	1,031	1,655
		<b>30,155</b>	<b>21,540</b>
Amounts due to			
Suzhou Sujiahang Expressway Co., Ltd.	Associate	1,698	2,094
Jiangsu Yangzte Bridge Co., Ltd.	Associate	1,535	1,565
Jiangsu Kuailu Bus Transportation Stock Co., Ltd.	Associate	—	1,000
		<b>3,233</b>	<b>4,659</b>

The balances mainly represent receipts of toll fees collected, the deposit of petrol and expenses paid on behalf of the Group, which are unsecured, interest free and repayable within one year. The above current accounts were included in other receivables and other payables on the balance sheet.

(c) At the balance sheet date, the Group have balances owed to the following related companies:

Amounts due to the Jiangsu Communications Holding Group (as defined in note 37):

	2007 RMB'000	2006 RMB'000
Amounts received pursuant to the Sundian Transfer Agreement	39,890	—
Amounts received pursuant to Sundian Capital increase	23,010	—
	<b>62,900</b>	<b>—</b>

### 35. RELATED PARTY TRANSACTIONS (Cont'd)

#### (d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2007 RMB'000	2006 RMB'000
Short-term benefits	1,856	1,874
Post-employment benefits	217	208
	<b>2,073</b>	<b>2,082</b>

The remuneration of directors and key executives are determined by reference to the performance of individuals and market trends.

#### (e) Transactions and balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under Jiangsu Communications Holding which is controlled by the PRC government. Apart from the transactions with Jiangsu Communications Holding and fellow subsidiaries and other related parties disclosed above, the Group also conducts business with other state-controlled entities. The directors considered those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In view of the Group's toll road business, the directors are of the opinion that it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions are with other state-controlled entities.

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

# Notes to the Financial Statements

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries, all of which are limited liability companies, as at 31 December 2007 are as follows:

Name	Place of registration and operations	Paid up registered capital RMB	Proportion of registered capital held by the Company		Principal activities
			Directly	Indirectly	
Jiangsu Guangjing Xicheng Expressway Co., Ltd.	PRC	850,000,000	85.00%	—	Construction, management and operation of expressway
Jiangsu Ninghu Investment Development Co., Ltd.	PRC	100,000,000	95.00%	—	Infrastructure and industrial investments
Jiangsu Sundian Engineering Co., Ltd	PRC	35,000,000	70%	25.5%	Construction and maintenance of expressway
Kunshan Feng Yuan Real Estate Development Co., Ltd.	PRC	37,000,000	—	100%	Real estate development
Tong Yuan Trading Limited	Hong Kong, PRC	—	—	100%	Inactive

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

## 37. POST BALANCE SHEET EVENTS

### i) Disposal of Jiangsu Sundian Engineering Co., Ltd. ("Sundian")

As at 31 December 2007, the Group has an effective 95.5% equity interest in Sundian. On 18 December 2007, the Company and its subsidiary, Jiangsu Guangjing Xicheng Expressway Co., Ltd. entered into an agreement (the "Sundian Transfer Agreement") with, among others, Jiangsu Communications Holding and other entities associated with Jiangsu Communications Holding (the "Jiangsu Communications Holding Group"), pursuant to which the Group disposed and transferred an aggregate 78.95% equity interest of Sundian to the Jiangsu Communications Holding Group at an aggregate consideration of RMB44,990,000. In addition, the Jiangsu Communications Holding Group will inject an additional RMB23,010,000 ("Sundian Capital Increase") as registered capital of Sundian upon the completion of the Sundian Transfer Agreement. The Sundian Transfer Agreement and the Sundian Capital Increase are both made effective on 1 January 2008. On completion of the Sundian Transfer Agreement and the Sundian Capital Increase, the Group's effective interest in Sundian will be diluted and reduced to 15%. The contributions by Sundian to the Group's results, assets and liabilities are insignificant at 31 December 2007 and for the year then ended.

### ii) Issue of short-term bond

On 18 January 2008, the Company issued a short-term bond of RMB1,000,000,000, which is unsecured, bears interest at 5.45% per annum, and is repayable on 17 January 2009.

# Company Information

Statutory name of the Company in Chinese and English:	江蘇寧滬高速公路股份有限公司 Jiangsu Expressway Company Limited
Abbreviation of Chinese name and English name:	寧滬高速 Jiangsu Expressway
Legal representative of the Company:	Shen Chang Quan
Secretary to the board of directors:	Yao Yong Jia
Telephone:	8625-8446 9332
Company secretary in Hong Kong:	Lee Wai Fun, Betty
Telephone:	852-2801 8008
Securities officers:	Jiang Tao, Lou Qing
Telephone:	8625-8436 2700-301835, 301836
Fax:	8625-8446 6643
E-mail address:	nhgs@jsexpressway.com
Registered office of the Company:	238 Magun Street, Nanjing Jiangsu Province, the PRC
Place of business of the Company:	238 Maqun Street, Nanjing Jiangsu Province, the PRC
Postcode:	210049
Website of the Company:	<a href="http://www.jsexpressway.com">http://www.jsexpressway.com</a>
E-mail address of the Company:	nhgs@public1.ptt.js.cn
Newspapers designated for regular announcements:	Shanghai Securities News, China Securities Journal
Website designated for information disclosure:	<a href="http://www.sse.com.cn">www.sse.com.cn</a> <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> Shanghai Stock Exchange 528 Pudong Road South Shanghai, the PRC
Regular reports available at:	Hong Kong Registrars Limited 18/F, Hopewell Centre 183 Queen's Road East Wan Chai, Hong Kong  Jiangsu Expressway Company Limited 238 Maqun Street, Nanjing, Jiangsu Province, the PRC  Richards Butler 20th Floor, Alexandra House 16-20 Chater Road, Central, Hong Kong
Stock exchanges where the Company's shares are listed:	A share Shanghai Stock Exchange Stock name of A shares: 寧滬高速 Stock code of A shares: 600377  H share The Stock Exchange of Hong Kong Limited Stock name of H shares: Jiangsu Expressway Stock code of H shares: 0177  ADR the United States of America Stock Name of ADR: JEXWW Security United Code: 477373104



## Company Information

Registration date of the Company:	1 August 1992
Place of registration:	Nanjing, Jiangsu Province
Registration number of the business license of enterprise authorized as legal person:	3200001100976
Registration no. of taxation:	320003134762764
Domestic accountants:	Deloitte Touche Tohmatsu Certified Public Accountants Limited Office Address: 30th Floor, Bund Center 222 Yan An Road East Shanghai, the PRC
Hong Kong auditors:	Deloitte Touche Tohmatsu Office Address: 35/F One Pacific Place 88 Queensway Hong Kong
Domestic legal advisor:	Jiangsu New Century Tongren Law Office Office Address: 5/F, 26 Beijing West Road Nanjing, the PRC
Hong Kong legal advisor:	Richards Butler Office Address: 20th Floor, Alexandra House 16-20 Chater Road, Central Hong Kong
Authorised representative under the Hong Kong Companies Ordinance:	Lee Wai Fun, Betty Office Address: 20th Floor, Alexandra House 16-20 Chater Road, Central Hong Kong
Hong Kong investor relations consultant:	Rikes Communications Limited Office Address: Room 1312, Wing On Centre 111 Connaught Road Central Hong Kong Telephone:(852) 2520 2201 Fax:(852) 2520 2241
Domestic share registrar and transfer office:	China Securities Depository & Clearing Corporation Limited, Shanghai Branch China Insurance Building 166 Lujiazui Road East Pudong New District, Shanghai, the PRC
Overseas share registrar and transfer office:	Hong Kong Registrars Limited 18/F, Hopewell Centre 183 Queen's Road East Wan Chai, Hong Kong



# Documents Available for Inspection

The following documents were included:

- (1) Copies of the annual report signed by the Chairman;
- (2) Financial statements signed and sealed by the legal representative, the chief accounting officer and the person-in-charge of an accounting institution;
- (3) Original copy of the auditors' report sealed by the CPA firm, and sealed and signed by a certified accountant;
- (4) Original copies of all company documents and announcements published in the designated press by the China Securities Regulatory Commission during the reporting period.
- (5) Articles of Association of the Company;
- (6) Copies of annual reports released in other stock exchanges.

The above documents are available for inspection at the Secretariat Office of the Board at 6 Maqun Street, Nanjing, the PRC

**Shen Chang Quan**  
*Chairman of the Board*  
**Jiangsu Expressway Company Limited**

Nanjing, the PRC  
28 March 2008

# Appendix

## 1. Description of the Toll Roads and Bridges

### Jiangsu Section of Shanghai-Nanjing Expressway

Shanghai-Nanjing Expressway was completed and opened to traffic in September 1996. This two-way 4-lane closed-end expressway starts from Maqun of Nanjing in the west and ends at Anting of Shanghai in the east. Its trunk road is 248.21 km long and the Zhenjiang branch is 10.25 km long. The total investment in such construction amounted to RMB6,157 million. There are six service areas and 18 tollgates along the expressway. In June 2004, the Company invested approximately RMB10.54 billion in the expansion project of Shanghai-Nanjing Expressway. The full 8-lane expressway was opened to traffic in 1 January 2006. The operating period of the expanded Jiangsu section of Shanghai Nanjing Expressway is extended by 5 years to 2032. The expressway by 6 service areas and 20 tollgates.

Shanghai-Nanjing Expressway is a major part of the main truck of the Shanghai-Chengdu National Road, as well as an important passage which facilitates the social and economic connections between mid-western and eastern China. As the main vein of Jiangsu-Shanghai traffic, Shanghai-Nanjing Expressway has been maintaining rapid growth in traffic volume and toll revenue since its opening to traffic.

### The Shanghai-Nanjing Section of G312

The Shanghai-Nanjing section of G312 was initially a Class 2 Highway completed in December 1991. In June 1997, the Company invested RMB1,346 million to acquire a 15-year toll right of the section. In December 2005, the Shanghai-Nanjing section of G312 completed the 4-lane Class 1 Highway expansion and conversion project. The section starts from Dongyangfang viaduct of Nanjing in the west and ends at Anting of Shanghai in the east, measured 282km long. The whole section has tollgate and is an open-end toll highway. The Company has invested RMB2.7 billion to acquire an extended 12-year toll collection operating right upon completion of the expansion. The toll collection operating period is extended to 2024.

G312 is part of the national road from Shanghai to Huoerguosi and is primarily engaged in the inter-city and intra-city passenger and cargo traffic along the route. It is an ancillary road for Shanghai-Nanjing Expressway.

### The Nanjing Section of Nanjing-Lianyungang Highway

The Nanjing Section of Nanjing-Lianyungang Highway is part of G205 and is a traditionally a trans-Yangtze Passage for passenger and cargo traffic between the north and the south. It starts from Luhe of Nanjing and ends at Tianchang of Anhui Province. It was completed and opened to traffic in September 1996. Being 29.8 km long, it is a two-way 4-lane closed-end expressway with 1 tollgate. The Company invested RMB448 million in December 1999 to acquire its 30-year toll collection operating right. The operating period is up to 2029.

### Guangjing Expressway

Guangjing Expressway starts from Guanglin of Taixin in the north and ends at the northern end of Jianguyin Yangtze River Bridge in the south. It was completed and opened to traffic in September 1999. Being a two-way 6-lane closed-end expressway, it has a total length of 17.2 km and one service area. Its operating period is up to 2029.



## Xicheng Expressway

Xicheng Expressway starts from the southern end of Jiangyin Yangtze River Bridge in the north and ends at Qiangxiang of Wuxi in the south. It was completed and opened to traffic in September 1999. Being a two-way 6-lane closed-end expressway, it has a total length of 35km. There are one service area and four tollgates along this expressway. Its operating period is up to 2029.

## Jiangyin Yangtze River Bridge

Jiangyin Yangtze River Bridge is a long span steel suspension bridge. It was completed and opened to traffic in September 1999. Having a total length of 3,071m, it is designed as a two-way 6-lane expressway with one tollgate. Its operating period is up to 2029. Jiangyin Yangtze River Bridge, together with Guangjiang Expressway and Xicheng Expressway, serve as the main parts of the national truck linking Tongjiang to Sanya, and Beijing to Shanghai, which prove to be an important link between the southern and northern parts of Jiangsu.

## The Jiangsu Section of the Sujiahang Expressway

The Jiangsu Section of Sujiahang Expressway is a two-way 4-lane closed-end expressway. It has a total length of 100.1km which is divided into the southern section and the northern section. The southern section stretches from Suzhou to Wujiang, measuring 54.4 km long. It was completed and opened to traffic in December 2002. The northern section stretches from Changsu to Suzhou, measuring 45.7km long. It was completed and opened to traffic in November 2003. There are two service areas and ten tollgates along the Jiangsu Section of Sujiahang Expressway. It is a traffic hub between Jiangsu Province and Zhejiang Province. Its operating period is up to 2032.

## 2. Vehicle Classification and Toll Rates

### Vehicle classification and toll rates for expressways

Class	Vehicle Class and Specifications		Toll Coefficient	Toll Rate (RMB/km)	Minimum Toll (RMB)
	Passenger vehicle	Truck			
1	≤ 7-seater	≤ 2 tons	1	0.45	15
			1.5	0.675	15
2	8 seater - 19 seater	2 tons - 5 tons (including 5 tons)	1.5	0.675	15
			2	0.90	20
3	20 seater - 39 seater	5 tons-10 tons (including 10 tons)	2	0.90	20
			2.5	1.125	20
4	≥ 40 seater	10 tons-15 tons (including 15 tons)	2	0.90	20
		20' CTN	3	1.35	30
5		> 15 tons 40' CTN	3.5	1.575	30

## Appendix

### Vehicle classification and toll rates for Jiangyin Yangtze Bridge

Class	Vehicle Class and Specifications		Toll Rate (RMB/vehicle)
	Passenger vehicle	Truck	
1	≤ 7-seater		25
		≤ 2 tons	35
2	8 seater - 19 seater		35
		2 tons - 5 tons (including 5 tons)	60
3	20 seater - 39 seater		60
		5 tons - 10 tons (including 10 tons)	85
4	≥ 40 seater		60
		10 tons-15 tons (including 15 tons) 20' CTN	95
5		> 15 tons 40' CTN	100

### Vehicle classification and toll rates for general highways

Class	Vehicle Class and Specifications		Toll Rates for Panjia Garden Toll Station (RMB/vehicle)	Toll Rates for Gunan Toll Station (RMB/vehicle)	Toll Rates for the Stations of Shanghai-Nanjing Section of G312 at Wangting, Luoshe, Benniu and Daijiamen (RMB/vehicle)
	Passenger vehicle	Truck			
	Small Tractor, Regular Tricycle		5	20	5
1	≤ 7-seater		10	30	10
		≤ 2 tons	12	30	12
2	8 seater - 19 seater		12	30	12
		2 tons - 5 tons (including 5 tons)	15	40	20
3	20 seater - 39 seater		15	40	20
		5 tons - 10 tons (including 10 tons)	25	80	30
4	≥ 40 seater		15	40	20
		10 tons - 15 tons (including 15 tons) 20' CTN	30	100	40
5		> 15 tons 40' CTN	45	120	60

The toll for a vehicle carrying two 20' Standard CTN is subject to the above toll rate for a vehicle carrying a 40' CTN.

### 3. Toll Rates by Weight for Goods Vehicles

#### Toll Rates by Weight for Normal Vehicles (vehicles which are not overloaded)

1. Toll rates by weight for closed-end expressways

The basic toll rate is RMB0.09/ton per km. Subject to the actual total vehicle axle limit, vehicles below 10 tons will be charged at the basic toll rate; those between 10 tons and 40 tons will be charged at a rate which is reduced in a linear manner from RMB0.09/ton per km to RMB0.04/ton per km. Vehicles over 40 tons will be charged at RMB0.04/ton per km. Vehicles having total axle limit below 5 tons will be counted as 5 tons and be charged accordingly; and RMB20 will be charged for any weight toll of less than RMB20.

2. Toll rates by weight for Jiangyin Yangtze Bridge

The basic toll rate is RMB6.00/ton per vehicle. Subject to the actual total vehicle weight, vehicles below 10 tons will be charged at RMB6.00/ton per vehicle; those between 10 tons and 40 tons will be charged at a rate which is reduced in a linear manner from RMB6.00/ton per vehicle to RMB3.00/ton per vehicle. Vehicles over 40 tons will be charged at RMB3.00/ton per vehicle. Vehicles having total weight below 5 tons will be counted as 5 tons and be charged accordingly.

3. Toll rates by weight for general highways

The basic toll rate is RMB1.50/ton per vehicle. Subject to the actual total vehicle axle limit, vehicles below 10 tons will be charged at the basic toll rate; those between 10 tons and 40 tons will be charged at a rate which is reduced in a linear manner from RMB1.50/ton per vehicle to RMB1.10/ton per vehicle. Vehicles over 40 tons will be charged at RMB1.10/ton per vehicle. RMB12 will be charged for any weight toll of less than RMB12.

4. Toll rates charged by certain toll stations are as follows:

Toll Rates I (toll rate by weight)	Goods Vehicles below 10 tons	RMB/ton per vehicle	1.5	Panjia Garden Toll Station of Nanjing-Lianyungang Highway
	Goods Vehicle between 10 tons to 40 tons		1.5-1.1	
	Goods Vehicles over 40 tons		1.1	
Toll Rate II (toll rate by weight)	Goods Vehicles below 10 tons	RMB/ton per vehicle	2	Toll Stations of the Shanghai-Nanjing Section of G312 at Suzhou Wangting, Wuxi Luoshe, and Zhangzhou Benniu
	Goods Vehicle between 10 tons to 40 tons		2-1.47	
	Goods Vehicles over 40 tons		1.47	

## Higher Tolls on Overloaded Vehicles

Higher toll rates on overloaded goods vehicles are determined on the basis of the excesses of total weights over aggregate axle limits (or total weight limit), and the specific toll rates are as follows:

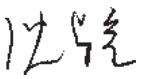
1. Tolls will be charged for vehicles of normal weight or overloaded within 30% at the rates by weight for normal vehicles.
2. For vehicles overloaded between 30% and 50% (including 50%), tolls will be charged for the portions which are of normal weight and overloaded within 30% at the rates by weight for normal vehicles whereas tolls for the remaining portion will be charged at the basic rate x 2.
3. For vehicles overloaded between 50% and 100% (including 100%), tolls will be charged for the portions which are of normal weight and overloaded within 30% at the rates by weight for normal vehicles whereas tolls for the remaining portion will be charged at the basic rate x 3.
4. For vehicles overloaded above 100%, tolls will be charged for the portions which are of normal weight and overloaded within 30% at the rates by weight for normal vehicles whereas tolls for the excess portion will be charged at the basic rate x 4.

# Confirmation Opinion

## Confirmation Opinion to 2007 Annual Report by Directors and Senior Management

The Company's directors and senior management hereby confirm in writing that they have reviewed the annual report for the year and are of the opinion that there are no false representations or misleading statements contained in or material omissions from this report; and that they shall be severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the content of this report.

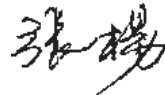
### Directors



Shen Chang Quan



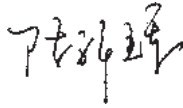
Xie Jia Quan



Zhang Yang



Sun Hong Ning



Chen Xiang Hui



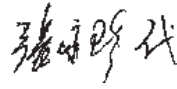
Fan Yu Shu



Cui Xiao Long



Chang Yung Tsung



Fang Hung, Kenneth

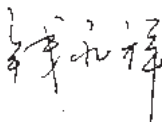


Yang Xiong Sheng



Fan Cong Lai

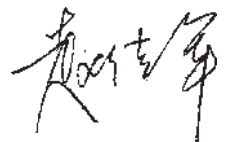
### Senior Management



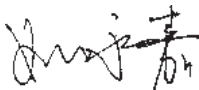
Qian Yong Xiang



Liu Wei



Zhao Jia Jun



Yao Yong Jia

Jiangsu Expressway Company Limited

28 March 2008

# The Group's Highway Network

