

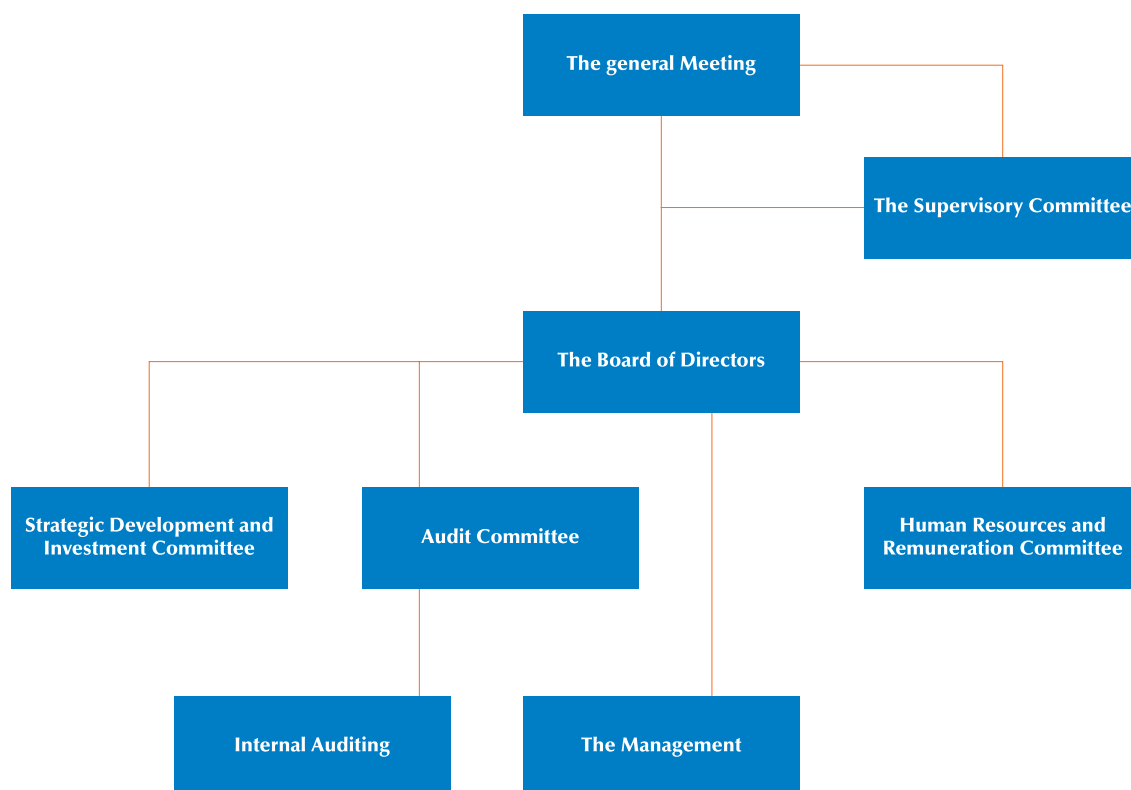
Corporate Governance Structure and Governance Report

I Corporate Governance

The corporate governance an enterprise adopted can reflect its management and operating ability. Sound corporate governance is useful for the healthy development and investor confidence. In order to gain the sound corporate governance the company should review from time to time that if the corporate governance measures are in accordance with the market development trend and with the requirements of relevant governance departments.

Since its incorporation, the Company has strictly complied with the Company Law, Securities Law, the rules and regulations promulgated by the CSRC and relevant requirements of Listing Rules of Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited. The Company strived to improve its operation on corporate governance, so as to establish a modern enterprise system with an objective to perfect its corporate legal person's governance system.

II Legal person governance structure of the Company



1. Shareholders and the Shareholders' General Meeting

The Company treats all the shareholders equally and ensures the all shareholders have the rights to be informed and to make decisions on material matters relating to the Company. The Company ensures that all shareholders, especially medium and small shareholders, are treated equally and may fully exercise their rights. Any shareholders and insiders of the Company are prohibited from any insider dealings with any insiders of the Company or any act that may jeopardize the interests of all shareholders and the Company.

Shareholders' General meeting

Shareholders' General Meeting is the organ of supreme power of the Company and exercises its powers according to law to determine major events of the Company. The annual general meeting and extraordinary general meetings provide direct channel for communication between the board and shareholders of the Company. Therefore, the Company has put great emphasis on general meetings and encourages all shareholders to attend general meetings and welcomes them to deliver speeches at the meetings. The convening, holding and procedures of the shareholders' general meeting are set out in section (III) "compliance with the Code on Corporate Governance Practice and Other information".

Substantial Shareholders

Anhui Expressway Holding Corporation and Huajian Transportation Economic Development Center are the substantial shareholders of the Company, holding 31.27% and 20.92% of the Company's shares. The Company's business, assets, staff, organization and finance are separated from those of the controlling shareholders, allowing the Company to have complete autonomy over its business and operations. The controlling shareholder exercises its right as a capital contributor strictly in accordance with the law and have not intervened the decision making process and operations of the Company directly or indirectly bypassing the general meetings.

Other shareholders' materials as at the end of the reporting period, please see "Shareholders and the Change of Share Capital" section in the annual report for this year.

2. Directors and the Board of Directors

The composition, members and operational procedures of the Board are set out in section (III) "compliance with the Code on Corporate Governance Practice and Other information".

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3. Supervisors and Supervisory Committee

The Supervisory Committee of the Company consists of 3 supervisors, of which 2 are shareholders' representatives and 1 is employee's representative. The number of supervisors and the composition has complied with the requirements of the rules and regulations.

The Supervisory Committee is responsible to all shareholders as a whole. Its core duties, among others, are to supervise the corporate finances and also to ensure that the directors and senior management are performing their duties with due diligence with a view to safeguarding corporate assets and protecting legal interests of the Company and its shareholders.

Name of Supervisors	Attendance of Supervisors at the Supervisory Committee (Attended in person/ Attended by attorney/ Absent/Number of attendance)
Li Huaijie	1/0/0/1
Kan Zhaorong	3/0/0/3
Yang Yicong	4/0/0/4
He Kun	4/0/0/4

4. The Management

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

III. Compliance with the Code on Corporate Governance Practice and Other Information

The Code on Corporate Governance Practise (the "Code") as set out in Appendix 14 of the Listing Rules came into effect on 1 January 2005. The Board reviewed the daily governance of the Company in accordance with the relevant provisions during the reporting period and considered that, from 1 January 2006 to the date of this report, the Company regulated its operation and stringently governed in accordance with the relevant provisions of the relevant code, striving to achieve the various recommended best practises.



Corporate Governance Structure and Governance Report

A. Directors

A1. The Board

Code principle

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.

Recommended best practise

The Company should make proper insurance arrangements for the legal act the directors may face.

Various Board committees of the Company should adopt principles and procedures of broadly the same as the Board within the doable scope.

The corporate governance status

The Board represents interests of all the shareholders and is wholly responsible to General Meetings. It has strictly complied with the "Rules Governing the Operation of the Board" within the authority scope of the Articles of Association, which stipulates the decision-making process related to the development strategies, planning and management and financial control. The Board also supervises and reviews the development and operation of the Company with the primary mission of achieving best operating results for shareholders.

Corporate Governance Structure and Governance Report

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
Regular Board Meeting at least four times a year approximately once every quarter. Majority the director attended in person or by other ways. A regular Board meeting does not include the practise of obtaining Board consent through the circulation of written resolutions.	Yes	<p>In 2006, the Company totally convened 6 meetings.</p> <p>Each of the Board Meetings was actively attended by the directors in person. Details of attendance of 2006 Board Meetings:</p> <p>Attendance/Number of meetings</p> <p>Chairman Wang Shui 6/6</p> <p>Executive director Li Yungui 6/6 Tu Xiaobei 6/6 Zhang Hui 6/6</p> <p>Non-executive director Zhang Wensheng 6/6 Li Zhanglin 6/6</p> <p>Independent non-executive director Leung Man Kit 6/6 Li Mei 6/6 Guo Shan 6/6</p>
All directors are given an opportunity to include matters in the agenda for regular Board meetings.	Yes	All directors are given an opportunity to include matters in the agenda for regular Board meetings.
Notice of at least 14 days should be given of a regular Board meeting.	Yes	Notice, agenda and the relevant information of each regular Board Meeting were given 14 days prior to such meetings to ensure all the directors attend.

Corporate Governance Structure and Governance Report

Code provision	Compliance	Corporate governance procedures
All the directors should have access to the advice and services of the company secretary.	Yes	The secretary of the Board maintained close communication with all directors and provided timely material information of the Company and the relevant updated rules, as well as contributed advices to the directors on matters arising from corporate governance and rules compliance, ensuring that the Board operations complied with the procedures.
Minutes of the Board should be kept by the secretary of the Board and open for inspection at any reasonable time by any director.	Yes	Secretary of the Board has been responsible for preparing and maintaining all minutes and the relevant meeting materials of the Board and Board committees were available for inspection at any time by any director.
Meeting minutes should record in sufficient detail the matters considered by the Board and decision reached.	Yes	The meeting minutes reflected objectively the consideration, voting and opinions given by the directors in detail and were duly signed by directors attending the meeting.
Directors could seek independent advice under an agreed procedure at the Company's expense.	Yes	For matters that require advices to be sought from professional institutions, the Company will appoint professional institutions including accountants, lawyers, valuation firms, and so first to issue a written report 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.
If a substantial shareholder or a director has a conflict of interest in a material matter, the connected director must abstain from voting.	Yes	The Company has stated that, if a substantial shareholder or a director has a conflict of interest in any material matter, the connected director must abstain from voting when a Board Meeting is held. The relevant matter should not be dealt with by way of circulation of written resolutions or by a Board committee. Meanwhile, after relevant directors abstain from voting, the voting and quorum confirm with the provisions of the Code.



Corporate Governance Structure and Governance Report

A2. Chairman and Chief Executive Officer

Code principle	There should be a clear division of responsibility between the Chairman and the Chief Executive officer to ensure a balance of power and authority.
Recommended best practices	<p>The Chairman should ensure the Board's effective operations and discuss with all the important matters on time. The Chairman should be mainly engaged in confirming and approving the agenda of Board Meetings, including any matter motioned by other directors, which can be done by director or company secretary appointed by the Chairman.</p> <p>The Chairman has the obligation that the Company should formulate sound corporate governance practice and procedures.</p> <p>The Chairman should encourage all the directors to devote their efforts to the matters of the Board and act as a role model and make sure that the Board act in the best interests of the issuer.</p> <p>The Chairman should hold at least one meeting with non-executive directors (including independent non-executive directors) without executive directors' attendance.</p> <p>The Chairman should take suitable steps to maintain effective communication with shareholders of the Company to make sure the shareholders' opinions can reach the Board.</p> <p>The Chairman should promote the directors (especially the non-executive directors) to make contributions to the Board and strive to ensure that there are constructive relations between executive directors and non-executive directors.</p>
The corporate governance status	The Company has clearly defined the responsibility of the Chairman and the General Manager. The responsibility 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" and "Standing Orders 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.

Corporate Governance Structure and Governance Report

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
Roles of the Chairman and the Chief Executive Officer should be separate and clearly established and set out in writing and can not be held by one person.	Yes	<p>Mr. Wang Shui assumes the position of Chairman and Mr. Li Yungui was appointed by the Board as the General Manager. The Chairman concentrates his work on the Company'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 Meetings" and "Standing Orders for the Operation of General Meeting" respectively.</p> <p>There was no relationship existing between the Chairman and the Chief Executive Officer, including financial, operational, family or other relevant relations.</p>
The Chairman should ensure all directors be briefed on issues arising at Board Meetings.	Yes	<p>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. The Chairman also tabled the decision making on any material matters of the Company to the Board for collective discussion by the directors at the meeting.</p>
The Chairman should ensure that directors receive adequate information.	Yes	<p>The Chairman has appointed the secretary of the Board to timely provide all the information regarding the performance of the Board's obligations in a timely manner and has been committed to improving continuously the quality and timeliness of the information.</p>



Corporate Governance Structure and Governance Report

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.

Recommended best practices

The Independent Non-executive Directors the issuer consigned should account for over one-third of the members of the Board.

The issuer should maintain the list of updated Board members, together with their roles and responsibilities and identify Independent Non-executive Directors.

The corporate governance status

The Board of the Company consists of 9 directors, of which 4 are Executive Directors, 2 are Non-executive Directors and 3 are independent directors that represent one-third of the Board. The present Board is the Company's fourth session since incorporation. The term of the directors commence from 17 August 2005 to 16 August 2008.

The directors are elected by cumulative voting in the General Meetings. The company shareholders, the Board or Supervisory Committee have the rights to nominate director candidates in writing. The term of directors is 3 years, but is extendable by election. Independent Directors are individuals having no connections with the Company's management or its major shareholders.

Members of the board have different industry backgrounds with expertise in investment strategy, corporate management, financial accounting, highway management and construction, investment banking and human resources. Among them, not less than one Independent Director possesses the professional accounting qualifications required. The biographies of members of the board are set out in "Directors, Supervisors, Senior Management and Staff Profiles" of this annual report.

There has not any relationship between the members of the Board, including financial, business, relatives and other major relevant relations.

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Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
Identify the Independent Non-executive Directors in all issuer's communications.	Yes	The Board members are disclosed in all corporate communications according to the types of directorship.

A4. Appointment, Re-election and Removal

Code principle

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.

Recommended best practices

Any proposal for appointing an Independent Non-executive Director whose term is over 9 years should be considered and approved at the Shareholder's General Meeting as independent resolution.

The issuer should establish a Nomination Committee with the majority of Independent Non-executive Director.

The issuer should regulate the Nomination Committee's authority scope in writing.

The Nomination Committee should make its authority scope known to the public and explain its roles and rights given by the Board.

The Nomination Committee should be provided with sufficient resources to implement its obligations.

If the Board plans to present a proposal for electing a person as the Independent Non-executive Director at the General Meeting, the Company should include the reasons for appointing the person and the independence statement in the notice of the General Meeting and the shareholders' circular.

There has no any relationship between the members of the Board, including finance, business relatives and other major relevant relations.

Corporate Governance Structure and Governance Report

The corporate governance status

The Board of the Company established Human Resources and Remuneration Committee, which brings suggestions to Director candidate's appointment, re-election and removal and its implementation procedures and presents it to the Board for consideration and finally decided at the Shareholder's General Meeting. It consists of 3 directors with names of Mr. Zhang Wensheng, Mr. Leung Man Kit and Mrs. Guo Shan, of which 2 are independent directors.

In 2006, the Human Resources and Remuneration Committee held one meeting. Whereas, Mr. Kan Zhaorong, the Chairman of the Supervisory Committee resigned for retirement, the Committee advised to appoint Mr. Li Huaijie to replace, which was presented to the Board for consideration and approved by the Shareholder's General Meeting.

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
Non-executive Directors should be appointed for a special term, subject to re-election.	Yes	Directors are appointed for a term of three years. All directors are appointed at the General Meeting and can be re-appointed upon expiry of the term.
Directors appointed to fill casual vacancies should be subject to election by shareholders at the first General Meeting after their appointment.	Yes	All directors are elected and replaced by Shareholders' General Meeting. The Company has introduced the cumulative voting system for the election of directors.
Each director should be subject to retirement by rotation at least once every three years.	No	Due to the difficulty in re-election of candidates for directors annually, the Company has arranged that in every session of the Board, there will be directors retiring from their office, but is yet unable to guarantee the retirement by rotation each year.

A5. Responsibilities of Directors

Code principles

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.

Recommended best practices

All directors will have opportunities to receive professional training arranged by the Company for them during their term of office.

Each director has provided information on his/her employment with other companies and other major commitments to the Company upon his/her appointment, among which, the name and appointment date relating to other companies must be provided.

Non-executive Directors should attend Board meetings and meetings of various committees regularly and meanwhile attend the General Meeting to gain fair understanding of shareholders' opinions.

The corporate governance status

The Company has formulated the "Rules of Procedure of the Board of Directors" and "Authority Scope Letter for Specialized Committees" to specify the responsibility of all directors so as to ensure that all directors understand their roles and duties thoroughly.

With the assistance of the secretary of the Board, all directors can be informed of the legal, regulatory and other continual obligations that directors of listed companies have to take and their recent amendments in a timely manner. As the directors are truly aware of their fiduciary duties, the Board operates in an effective and comprehensive way in compliance with appropriate rules and regulations.

Corporate Governance Structure and Governance Report

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
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.	Yes	<p>A comprehensive information package containing an introduction to the Company's operations, a brief introduction to directors' responsibilities and duties and other statutory requirements will be provided to new directors upon their appointment. Meanwhile, the Company will have director qualification training for them in accordance with statutory requirements.</p> <p>All Non-executive Directors will be provided reports on business progress, financial objectives and development plans regularly by the Management.</p> <p>The Secretary of the Board is responsible for ensuring that all directors obtain the latest information on the statutory requirements.</p>
Responsibilities of Non-executive Directors.	Yes	Non-executive Directors have actively attended 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.
Each director should ensure that he/she can give sufficient time to the affairs of the Company.	Yes	All directors have worked hard and faithfully performed their duties. There was satisfactory attendance at Board meetings and meetings of the various committees.
Directors must comply with the Model Code as set out in Appendix 10.	Yes	After making specific enquiries of all directors, the Company confirms that all directors fully complied with the "Model Code for Securities Transactions" in 2006. 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.

Corporate Governance Structure and Governance Report

A6. Supply of and Access to Information

Code principle	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.
The corporate governance status	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 other statutory requirements; and improving the quality and timeliness of information on a continued basis. As the directors are truly aware of their fiduciary duties, the Board operates in an effective and comprehensive way in compliance with appropriate rules and regulations.

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
Meeting documents should be sent to directors at least three days before the date of the Board and Board Committee meeting.	Yes	Meeting materials were sent to directors at least three days before the date of each Board and Board Committee meeting.
The Management has the responsibility to provide sufficient timely information to the Board and its committees 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.	Yes	The Management provided sufficient information to the Board and its committees in a timely manner. Director could have separate and independent access to the Company's Senior Management for obtaining necessary information. The Board and its committees would make arrangement to attend their meetings and report the latest situation about operations.
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.	Yes	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 its 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.

Corporate Governance Structure and Governance Report

B. Remuneration of Directors and Senior Management

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

Code principle	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.
Recommended best practice	<p>The remuneration of Executive directors and Senior Management has been generally linked with corporate and individual performance.</p> <p>The Company has disclosed the remuneration of each director, supervisor and member of senior management with their names in the annual report and accounts.</p> <p>Any remuneration and its arrangements approved by the Board resolutions, which was not approved by previous Remuneration Committee, the Board should disclose the approving reasons in the next annual report.</p>
The corporate governance status	<p>The Company has established the Human Resources and Remuneration Committee, with its scope of duties including formulating and reviewing the remuneration policy and plan for the Company's directors and management.</p> <p>The remuneration is determined with reference to the same type companies and to their payment for duties.</p> <p>Remuneration of directors in this year was in "Director, Supervisors, Senior Management and Staff".</p>

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
The issuer should establish the Remuneration Committee with a majority of members of the committee being Independent Non-executive Directors.	Yes	The Board of the Company has established the Human Resources and Remuneration Committee whose members comprise Zhang Wensheng, Leung Man Kit and Guo Shan, of whom there are two Independent Directors, and also formulated authority scope to guide their decision-making procedures and behaviour. The details have been published on the website of the Company.

C. Accountability and Audit

C1. Financial Reporting

Code principle

The Board should present a clear, comprehensive assessment of the Company's performance, position and prospects.

Recommended best practice

The issuer should announce and issue quarterly financial results within 45 days after the end of relevant quarter.

The corporate governance status

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 the 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 Company's operating management conditions and prospects.

Apart from the disclosure of annual and interim report, in accordance with the requirements of the Shanghai Stock Exchange, the Company also prepares and discloses the First and Third Quarterly Report within 30 days after the end of relevant quarter. The information disclosed were enough for the shareholders to assess the Company's performance, financial situation and prospects.

Corporate Governance Structure and Governance Report

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
The Management will provide such explanation and information to enable the Board to make assessment of the relevant matters.	Yes	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.
Directors should acknowledge their responsibilities for preparing the accounts; there should be a statement by the auditors about their reporting responsibilities in the report.	Yes	Directors have been responsible for overseeing the preparation of annual accounts so that the accounts could give a true and fair view of the Company's results and cash flow in the relevant year. The auditors' report stated the reporting responsibilities.
The Board should present a balanced, clear and comprehensive assessment of the Company's performance in regular reports, announcements on share price-sensitive information and other financial information required to be disclosed.	Yes	The Board gave an objective, fair and clear presentation of the Company's position and prospects in all communications issued to shareholders.

C2. Internal Control

Code principle

The Board should ensure that the issuer maintains sound and effective internal control to safeguard the shareholders' investment and the issuer's assets.

Recommended best practice

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



Corporate Governance Structure and Governance Report

The corporate governance status

The board is responsible for establishing and maintaining the internal control system of the Company for reviewing the relevant financial, operating and monitoring control procedures and safeguarding shareholders' interests and assets of the Company. The board authorizes the management to implement the internal control system and reviews its effectiveness through the audit committee.

The Company has established the internal audit department to inspect, supervise and evaluate the financial information disclosure, operating and internal control activities of the Company on a regular basis and when necessary in accordance with risks existing in and the importance of the internal control systems of different businesses and flows so as to ensure the transparency of external information disclosure, the efficiency of operation and internal control system and provide independent and objective evaluations and recommendations in the form of an audit report.

The Company has appointed accountants with qualification 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.

The Company has established corresponding management systems and procedures in corporate governance, operations, finance and administration and conducts one comprehensive inspection and monitoring each year, which has met the relevant requirements of the Appendix 14 "Code on Corporate Governance Practice" of the Listing Rules of the Hong Kong Stock Exchange.

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
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), and report to shareholders in Corporate Governance Report.	Yes	The Company has established corresponding management systems and procedures in corporate governance, operations, finance and administration and conducts one comprehensive inspection and monitoring each year, which has met the relevant requirements of the Appendix 14 "Code on Corporate Governance Practice" of the Listing Rules of the Hong Kong Stock Exchange.



Corporate Governance Structure and Governance Report

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.

Recommended best practice

There should be 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.

The corporate governance status

The Company has established the Audit Committee comprising members including Mr. Li Zhanglin, Mr. Leung Man Kit and Mrs. Li Mei. All of them have expertise and experience in financial management. Two of them are Independent Directors and Leung Man Kit is appointed chairman of the Committee.

The Audit Committee is mainly responsible for supervising the Company's internal control system and its execution, evaluating financial information and related disclosure, reviewing the internal control system, auditing major connected transactions and also communicating, supervising and investigating the Company's internal and external audits.

The Audit Committee held four meetings in 2006 at which the Management and the financial controller reported on the financial position of the Company and major matters related to internal control.

The Audit Committee makes at least one direct contact with external auditors of the Company each year to understand the procedures and principles for the preparation of the auditors' report so as to serve as a basis for evaluation.

Corporate Governance Structure and Governance Report

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
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.	Yes	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.
A former partner of the existing auditors should not sit on the Audit Committee.	Yes	None of the Audit Committee members is a former partner of the existing auditors.
The Audit Committee should have a certain of authority scope and make it known to public on time and explain its roles and rights given by the Board.	Yes	The Company has formulated the "Authority Scope Letter of Audit Committee", which detailed its authority scope and working procedure.
The Board should obtain opinions from the Audit Committee on the selection or removal of auditors. If they have different opinions, the issuer should state in the "Corporate Governance Report".	Yes	The Audit Committee makes recommendations on the selection or removal of auditors to the Board, subject to approval at the General Meeting after consideration of the Board.
The Audit Committee should be provided with sufficient resources to discharge its duties.	Yes	The Audit Committee may seek necessary independent professional advices pursuant to the established procedures at the costs of the Company.

Corporate Governance Structure and Governance Report

D. Delegation by the Board

D1. Management Functions

Code principle	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.
Recommended best practices	<p>The issuer should disclose the separate functions and duties between the Board and the Management.</p> <p>The issuer should have formal director appointment letter specifying the major terms and conditions of the appointment to make the directors understand the fixed rights delegation arrangement clearly.</p>
The corporate governance status	<p>The Company has formulated the “Rules of proceedings for the Board” and “Working Provisions for the General Manager” to specify the authority scope of the Board and the Management.</p> <p>The Board may delegate part of its functions and duties to specialized committees, directors’ working group and the management and specify matters requiring approval by the Board.</p>

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
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.	Yes	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. When exercising its authorities, the Management cannot surpass its terms of reference and resolutions of Board meetings.
The issuer should separately identify functions reserved to the Board and those delegated to the Management and conduct reviews on a regular basis.	Yes	The Company has formulated the “Rules of proceedings for the Board” and “Working Provisions for the General Manager” to specify the authority scope of the Board and the Management and conduct reviews on a regular basis.

Corporate Governance Structure and Governance Report

D2. The Board Committees

Code principle

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

The corporate governance status

The Board of the Company has established three specialized committees, including the Strategic Development and Investment Committee, Audit Committee and Human Resources and Remuneration Committee. The Board selects and appoints members of each committee by taking into account the expertise and experience of each director.

Each committee has defined authority scope letters, which deal clearly with the committee's authority and duties as well as the working procedures. Meetings of each committee convene regularly and all the 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 (Attendance/Number of Meetings)

Name	Position	Strategic Development and Investment Committee	Audit Committee	Human Resources and Remuneration Committee
Wang Shui	Chairman			
Li Yungui	Executive Director			
Tu Xiaobei	Executive Director			
Zhang Hui	Executive Director			
Zhang Wensheng	Non-executive Director			1/1
Li Zhanglin	Non-executive Director		4/4	
Leung Man Kit	Independent Director		4/4	1/1
Li Mei	Independent Director		4/4	
Guo Shan	Independent Director			1/1

Corporate Governance Structure and Governance Report

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
The Board should specify clearly the term of reference of the committees so that the committees can perform their duties properly.	Yes	The Specialized Committees established by the Board have adopted their respective detailed rules of operations to provide guidance on their performance of duties. Detailed please see the Company's website.
The terms of reference of the committees should require them to report to the Board their decisions and recommendations.	Yes	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.

E. Communications with Shareholders

E1. Effective Communications

Code principle

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.

The corporate governance status

The Company pays more attention to Shareholders' General Meeting and encourages all shareholders to attend general meetings and welcomes them to deliver speeches at the meetings. Members of the Board and Senior Management of the Company should try their best to attend the Shareholders' General Meetings, listen to shareholders' advices and answer their questions.

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.	Yes	Separate resolution was proposed at the General Meeting on each substantially separate issue.
The chairman of the Board should attend the annual general meeting and arrange for chairman or members of the committees to be available to answer questions at the meeting.	Yes	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.

Corporate Governance Structure and Governance Report

E2. Voting by poll

Code principle

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”.

The corporate governance status

The Company has formulated the “Rules of Proceedings of General Meetings” specifying the voting format and the voting procedures of General Meetings and ensured that the procedures comply with the requirements contained in the “Listing Rules” and the “Articles of Association”.

The Company confirmed the validity of all the voting shares present at the meeting and appointed auditors 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.

Compliance procedures of the Code

Code provision	Compliance	Corporate governance procedures
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.	Yes	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.
Ensure the votes cast are properly counted and recorded.	Yes	The Company appointed the auditors 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.
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.	Yes	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.

IV. The Model Code for Securities Transactions by Directors

For securities transactions by directors, the Company has adopted the code provisions on the trading of shares of the Company by relevant directors contained in the “Model Code for Securities Transactions by Directors of Listed Issuers” (“Model Code for Securities Transactions”) as set out in the Appendix 10 of the “Listing Rules”. After making specific enquiries of all directors, the Company confirms that all directors fully complied with the “Model Code for Securities Transactions” in 2006.

V. Auditors’ Remuneration

Please see “Major Events” section in the annual report for this year.

VI. Information Disclosure and Investor Relations

1. Information Disclosure

The secretary of the board of the Company is responsible for information disclosure and investor relations management of the Company. The Company has formulated the “Information Disclosure Management System” and “Investor Relations Management System” to ensure information disclosure in an open, fair and just way and that all shareholders can enjoy equal and full right of accessing information, and increase the transparency of the Company.

2. Investor Relations

The Company has persisted in enhancing mutual communication through active investor relations activities. The Company communicates with investors through a wide variety of forms such as web site, result presentations, large investor promotional activities, analyst meetings, one-to-one meetings and telephone enquires to strengthen recognition from investors and increase the transparency of the Company.

Major investor relationship activities in 2006

- The Company participated in the UBS Greater China Conference 2006 held by UBS in Shanghai in January 2006;
- The Company held “Share Segregation Reform Investor Communication Meeting of on Network” at Quanjing Net Roadshow Center in February 2006;
- The Company held 2005 Annual Results Press Conference in Hong Kong in April 2006;
- The Company participated in the 11th CLSA China Forum held by CLSA in Shanghai in May 2006;
- The Company participated in the A Shares Companies investment & Exchange Conference held by UBS in Qing Dao in June 2006;
- The Company held “Investor Meeting Conference” in Shenzhen and Shanghai in July 2006;
- The Company held 2006 Interim Results Press Conference in Hong Kong in August 2006;
- The Company participated in the 13th China Economy Development Forum held by BNP Paribas Peregrine in Chong Qing in October 2006.

As at the end of the reporting period, the closing price of the Company’s circulating A shares was RMB5.86 per share, with the total market capitalization of circulating A shares amounting to RMB6,830 million. The closing price of H shares was HK\$6.28 per share, with the total market capitalization of circulating H shares amounting to HK\$3,096 million.