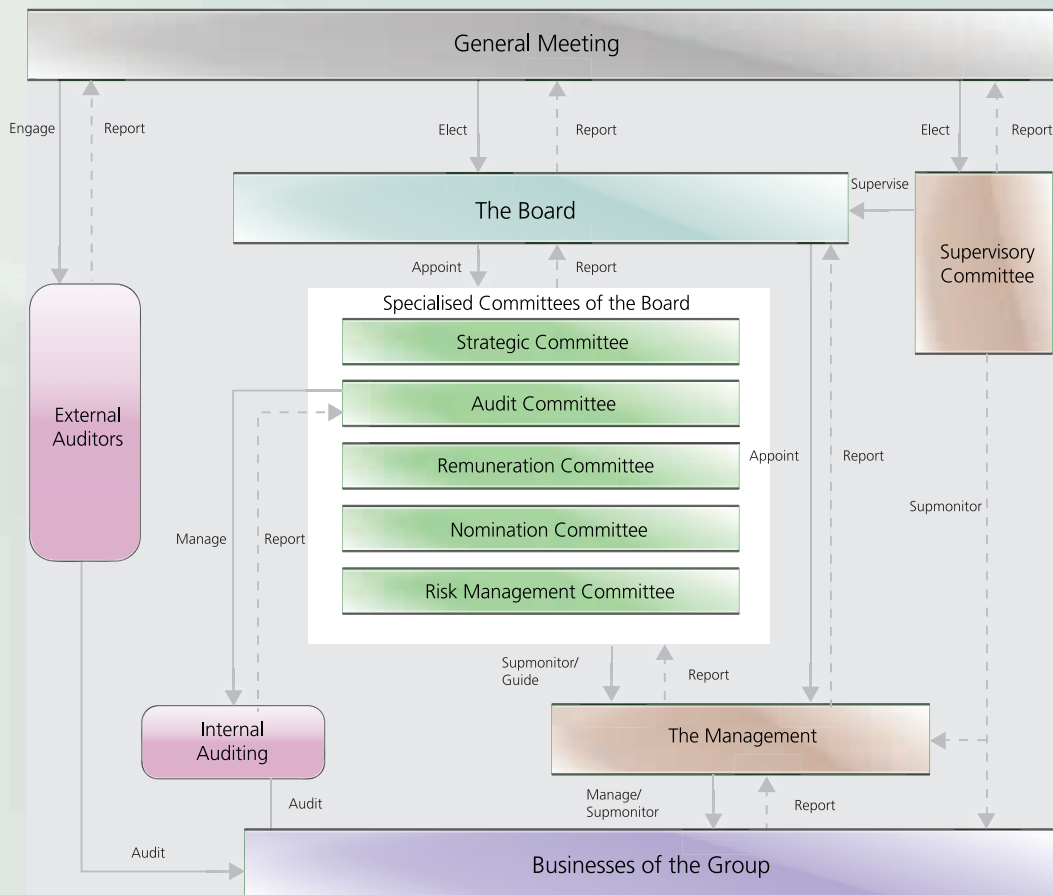


# Corporate Governance Report

The Company is listed on both HKEx and SSE. Besides complying with the applicable laws and regulations, we have to comply with the requirements of the Code on Corporate Governance Practices of HKEx and the Code of Corporate Governance for Listed Companies of CSRC regarding the practice of corporate governance. During the Reporting Period, the Company has fully adopted and complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules of the HKEx. There is no substantial difference between the actual condition of corporate governance of the Company and the requirements stipulated in the Code of Corporate Governance for Listed Companies.

Sound corporate governance goes beyond merely meeting the regulatory authorities' basic requirements for listed companies' operations. More importantly, it fulfils the Company's internal development needs. A scientific and regulated decision-making system, a supervisory system with check and balance and effective execution capabilities constitute the foundation for the Company's healthy and sustained development. Since its establishment, the Company has set up a corporate governance structure which comprises the general meeting, the Board, the Supervisory Committee and the management, and has continued to review and enhance such structure by means of practice. To date, the Company has realised a separation in positions between the Chairman and the President. It sets up five specialised committees under the Board and these committees practically perform their tasks, including implementing an independent internal audit regime, establishing a comprehensive internal control regime as well as formulating multi-tier governance rules based on the Articles of Association of the Company. These rules aim to clearly define the duties, limit of authority and conduct standards. Based on the laws and regulations and the governance rules, shareholders of the Company, the Board, the Supervisory Committee and the management discharge their own duties, coordinate with each other, effectively counter-regulate each other, and continuously enhance corporate governance standards, thereby laying a good foundation for driving the Company's development and maximising value for the shareholders. The current governance structure of the Company is shown as follows:



# Corporate Governance Report

The following contents marked with the symbol<sup>†</sup> can be found on the website of the Company.

The current corporate governance practices of the Company have gone beyond the requirements of the Code on Corporate Governance Practices of HKEx in certain aspects, mainly including:

- √ The adoption of the cumulative voting system for election of directors;
- √ The appointment of 4 Independent Directors, accounting for 1/3 of the Board membership; the total of 10 non-executive directors (including Independent Directors) exceeds 2/3 of the Board membership;
- √ The stipulation on the terms of office for Independent Directors of no more than 6 years;
- √ The establishment of the Nomination Committee, the Risk Management Committee and the Strategic Committee under the Board, in addition to the Audit Committee and the Remuneration Committee;
- √ Purchase of insurance on directors' and senior management's liabilities for Directors, Supervisors and the senior management;
- √ The provision of independent channel<sup>†</sup> for the Audit Committee to obtain information about fraudulence risks, whereby informants may report alleged fraudulence directly to the chairman of the Audit Committee;
- √ Disclosure of senior management remunerations on a named basis in the annual report;
- √ Preparing and publishing quarterly results announcements in accordance with CAS;
- √ Maintaining active and effective communication with shareholders and setting up channels for conveying small and medium shareholders' important opinions and recommendations to the Board and the management;
- √ Disclosing a large part of information on its website that the public may be interested in, including monthly operational statistics of each toll highway<sup>†</sup>, main governance guideline of the Company<sup>†</sup> as well as the profiles of the Directors, Supervisors and members of the senior management<sup>†</sup>;
- √ Disclosing the Self-assessment Report on Internal Control and Corporate Social Responsibility Report of the Company since 2008;

This "Corporate Governance Report" mainly sets out the structure of the Board of the Company, the governance principles, the detailed operation and practice of corporate governance. For a full understanding of the practice of corporate governance of the Company, please read in conjunction with the following chapters or content in this annual report.

- Shareholders and Investor Relations
- Report of the Supervisory Committee
- Corporate Social Responsibility Report 2008<sup>†</sup>

## A. Board of Directors

### 1. Responsibilities and Division of Work

The Board is responsible for leading the Group's development, establishing the Group's strategic goals, and ensuring the availability of necessary financial and other resources for the Group to achieve pre-set strategic goals. The principal duties of the Board are to exercise management and decision-making authorities according to the shareholders at the general meeting in respect of the Company's development strategies, management structures, investment and financing, planning, financial control, human resources, and so forth. The Articles and the attachments to the Articles (Rules of Procedures for the Board of Directors Meeting)<sup>†</sup> have already spelt out the Board's duties and authorities in respect of the Company's development strategies and management as well as its duties and authorities to supervise and inspect the Company's development and operation.

The Chairman of the Board of the Company (the "Chairman") is Mr. Yang Hai, while the President (the "President") is Mr. Wu Ya De. The Articles and the attachments to the Articles (Rules of Procedures for the Board of Directors Meeting)<sup>†</sup> as well as the Work Details for the President<sup>†</sup> set out the authorities and duties of the Chairman and the President of the Company respectively. Meanwhile, the Board also reviewed again and listed out the duties of the Chairman and the President in 2008, which clearly defined the respective responsibilities of the two roles.

Main duties of the **Chairman** include:

- Taking charge and coordinating the operation of the Board, confirming the agenda of each Board meeting and ensuring the Board functions effectively and discusses all major and appropriate matters in a timely and constructive manner; continuously monitoring the execution of the Board resolutions;
- Ensuring the Board's availability of accurate, timely and clear information to induce effective contribution from the Board;
- Providing leadership in the Board to set the Group's overall development strategies and directions, and to achieve the Group's goals;
- Ensuring good corporate governance practice and procedures for the Company;
- Maintaining good contact and effective communication with shareholders so as to ensure shareholders' opinions are conveyed to the entire Board.

# Corporate Governance Report

The **President**, with the support and assistance of the Board and other senior management of the Company, is responsible for coordinating and managing the Group's business and operations, implementing the strategies laid down by the Board and making day-to-day operating decisions. His main duties include:

- Being responsible for, and taking charge of, the Group's daily operation and appropriately utilising the Group's resources to enhance overall profits;
- Implementing the Company's development strategies, organising the execution of the Board's resolutions and timely reporting to the Board as well as providing to the Board messages and information that are useful for monitoring the performance of the management;
- Setting out detailed regulations and regimes of the Company, maintaining suitable internal control measures and regimes and disclosing appropriately to the Board and shareholders;
- Formulating the Company's human resources development plan and carrying out the detailed implementation plan, fostering good corporate culture and enhancing the Company's development strength;
- Managing external relationships and fostering a favourable operating environment.

## 2. Composition of the Board

The Board comprises 12 directors. As at 31 December 2008, members of the Board include:

- Executive Directors: Mr. Yang Hai and Mr. Wu Ya De
- Non-Executive Directors: Mr. Li Jing Qi, Mr. Wang Ji Zhong, Mr. Liu Jun, Mr. Lin Xiang Ke, Ms. Zhang Yang and Mr. Chiu Chi Cheong, Clifton
- Independent Directors: Mr. Li Zhi Zheng, Mr. Zhang Zhi Xue, Mr. Poon Kai Leung, James and Mr Wong Kam Ling.

The above-mentioned directors came from various industry backgrounds and have professional expertise in highway industry, construction, investment, accounting, finance and securities, human resources or corporate management. Among the directors, two of the Independent Directors possess professional accounting qualifications or appropriate expertise in accounting or related financial management as required by the regulatory organisations. Four Independent Directors and one External Director holding no office at any shareholding institutions represent one third of the total membership of the Board. There are only two Executive Directors, representing one-sixth of the total membership of the Board. Such a structure helps the Board to analyse and discuss issues from various perspectives. It also helps the Board to maintain its independence and to review and monitor the Company's management procedures in a strict manner, thereby providing sound supervision and balance to safeguard the overall interests of the Company and the shareholders.

The term of the fourth session of the Board of the Company expired on 31 December 2008. The members of the fifth session of the Board of the Company were elected at the general meeting and all of them performed duties on 1 January 2009 and elected Mr. Yang Hai once again as the Chairman of the fifth session of the Board of the Company. The new Board members came from various industry backgrounds and have professional expertise in highway industry, project construction, accounting and auditing, finance and securities, law and administration, among whom quite a few (including Independent Directors) possess professional accounting qualifications or expertise in financial management. A majority of the members have experience in working with listed companies. A summary of the members of the fifth session of the Board is as follows:

Name	Position	Date first become Director	Term of the current session	Experience/skill	Work in the shareholding institutions
Yang Hai	Chairman	April 2005		industry experience, road and bridge construction	Yes
Wu Ya De	Executive Director	January 1997		industry experience, corporate management	No
Li Jing Qi	Non-Executive Director	April 2005		international banking experience, risk management	Yes
Zhao Jun Rong	Non-Executive Director	Newly appointed		Law, investment project management	Yes
Tse Yat Hong	Non-Executive Director	Newly appointed		Financial and accounting, corporate governance	Yes
Lin Xiang Ke	Non-Executive Director	June 1998	From 1 January 2009 to 31 December 2011	industry experience, financial management	Yes
Zhang Yang	Non-Executive Director	March 2001		industry experience, investment project management	Yes
Chiu Chi Cheong, Clifton	Non-Executive Director	December 1996		corporate governance, finance and securities and finance	No
Lam Wai Hon, Ambrose	Independent Director	Newly appointed		Finance and securities, financial management	No
Ting Fook Cheung, Fred	Independent Director	Newly appointed		Human resources, administration	No
Wang Hai Tao	Independent Director	Newly appointed		Industry experience, Personnel administration	No
Zhang Li Min	Independent Director	Newly appointed		Finance and accounting, auditing	No

For details of the election of and change in Directors and the profiles of the Directors<sup>†</sup> (including their professional experience and their positions held at shareholding institutions), please refer to "Report of the Directors" and "Directors, Supervisors and Senior Management" of this annual report.

# Corporate Governance Report

## 3. Procedures

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

On the basis of ensuring the Board's duties and authorities on the Company's management, the Board issued the Letter of Authorisation to the Executive Directors in 2008 to grant Executive Directors certain authorities on aspects such as external investment, acquisition and disposal of assets, pledge of assets and internal management so as to enhance the overall quality and efficiency of decision-making of the Board. The Board has formulated the Rules of Procedures for the Executive Directors Meeting which requires the Executive Directors to resolve matters through Executive Directors meetings, report the details of the resolutions to the Board and the Supervisory Committee for record and make timely external disclosure in accordance with requirements. The Board conducts annual review and assessment on the implementation of authorised matters and the scope of authorisation and make timely amendments and adjustments when necessary. Through an appropriate degree of authorisation, establishing a regime on procedural management, documentation and regular reviews, the Board's management of the authorised matters can be strengthened. The Company is of the view that enhancing quality and efficiency of decision-making through an appropriate degree of authorisation can improve the existing accountability regime, thereby enhancing the governance standards of the Company.

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

On a connected transaction which is subject to external disclosure requirements, or on a matter on which any of the Executive Directors will have to abstain from voting or which involves conflicts of economic interests of major shareholders or directors, the matter shall be considered and approved at a Board meeting held by the Company, and no resolutions shall be made by means of written resolutions or resolutions by proxy. Whenever a transaction is considered at a Board meeting, the Directors are required to report their respective interests involved, and abstain when appropriate. According to the Company's Rules of Procedures for the Board of Directors Meeting<sup>1</sup>, a Director should abstain from a meeting and be given no voting rights in case an item considered by the Board is relevant to his/her personal economic interests. In addition, a Director who also holds office in a connected company is not allowed to vote in case the Board is considering a transaction between the connected company and the listed company.

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

#### 4. Decision-making for the Year

Details of the four Board meetings held by the Board of the Company during the Reporting Period are as follows:

Session of the meeting	Date convened	Major newspapers and websites on which the information is disclosed	Date of disclosure on newspapers
The sixteenth meeting of the fourth session of the Board	14 March 2008		17 March 2008
The seventeenth meeting of the fourth session of the Board	25 April 2008	Shanghai Securities News Securities Times <a href="http://www.sse.com.cn">http://www.sse.com.cn</a>	28 April 2008
The eighteenth meeting of the fourth session of the Board	29 August 2008	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.sz-expressway.com">http://www.sz-expressway.com</a>	30 August 2008
The nineteenth meeting of the fourth session of the Board	30 October 2008		31 October 2008

During the Year, through appropriate means including holding all-members meetings, executing written resolutions or resolutions by proxy, the Board conducted discussion, made decisions and passed 39 resolutions on issues covering the Group's operating and financial performance, financing plans, management structure and elections of directors:

- Consideration of the annual final accounts and budgets, work reports of the Board and internal control assessment reports;
- Consideration of the annual, interim and quarterly reports;
- Consideration of the proposed annual profit distribution;
- Evaluating the operating performance of 2007 and determining the operating performance targets for 2008;
- Studying and determining matters on changes in accounting policies, significant accounting matters and re-appointment of auditors;
- Applying for bank loans, banking facilities and arranging financing guarantees;
- Expansion of the entrusted management business;
- Purchase of insurance on Director's liabilities;
- Reviewing and enhancing the authorisation system of the Board;
- Enhancing corporate governance rules and the relevant management regimes;
- Approving the Company's self-inspection reports on specific activities on corporate governance and on appropriation of funds by connected parties;
- Nomination of candidates for the fifth session of the Board and proposing the Directors' remuneration scheme.

## B. Directors

### 1. Appointment

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

The Company's Rules of Procedures for the Board of Directors Meeting<sup>1</sup> have listed the Company's requirements on the qualifications and basic qualities of Directors, the nomination format and the proposing procedures: that is, the Nomination Committee is responsible for qualification inspection and quality assessment on the candidates for directorship, as well as making proposals to the Board and providing explanations to the general meetings.

The term of the fourth session of the Board of the Company expired at the end of 2008. In this regard, the Company issued a voluntary announcement on 8 September 2008 explaining to all shareholders the work arrangement for the new Board and matters related to nominations, including the election procedures for the new Board, qualifications of the nominees, basic requirements for the positions of Directors and the required submission documents and information for nominators and nominees, in order to ensure that shareholders have the opportunities to exercise their nomination rights. Meanwhile, an open nomination process can expand the contact channels between the Company and high quality candidates in the society, thereby facilitating an enhancement of the overall quality of the decision-making body of the Company.

The Company's election of Directors adopts the cumulative voting system whereby, on election of Directors, the number of votes that each shareholder is entitled to cast is equal to the number of shares that he/she holds multiplied by the number of Directors whom he/she has the right to elect. Each shareholder may elect a Director by using all the votes held or may allocate the votes to all the candidates whom he/she has the right to elect at discretion. The candidates with more votes will be elected. The voting on the election of Independent Directors shall be conducted separately from that of non-independent Directors. On 16 December 2008, the Company convened the extraordinary general meeting and successfully elected the members of the fifth session of the Board.

### 2. Information Support

The Company strives to enhance its internal information support systems and communication regimes to adequately ensure an effective operation of the Board. During their respective terms of office, all Directors are able to duly obtain from the Secretary to the Board the relevant information and updates on the required statutory, regulatory and other continuing obligations that a director of a listed company should comply with, as well as other information such as relevant industry policies, market opinions and the Company's operations. In 2008, the Company compiled 6 editions of reference document summaries and 5 editions of market news briefings for the Directors, so as to provide them with the most updated regulatory policy documents and relevant reports and analyses on the securities market and the news media. During the Year, the Company also arranged reporting sessions for the Board on strategies review and risks management which aimed at reporting to the Directors on the Company's work and thoughts on the implementation of strategies, analyses of the internal and external environment and risks management. It also organised site visits to Nanguang Expressway, Yanba Expressway and Qinglian Project for the Directors, enabling the Directors to have an in-depth and comprehensive understanding of the operating status and construction progress of the above-mentioned projects. In addition, each Director is provided with channels to independently contact and communicate with the Company's senior management members and specialised committee secretaries when necessary.



Through the various approaches mentioned above, all Directors, particularly the Non-executive Directors, may obtain timely and diverse updates on the Company's business development, competition and regulatory environment and other information which may affect the Group and the industry. This facilitates the Company's Directors to have a timely understanding of their duties, to make correct decision, and to exercise effective monitoring, thereby ensuring that the Board's operation is in compliance with regulations.

Considering that there is a relatively large number of new members in the fifth session of the Board, during the nomination period, the Company arranged meetings between the candidates and the management of the Company as well as site visits to the Company's projects, and also arranged Independent Directors candidates to participate in the qualification training organised by the Shanghai Stock Exchange, so as to facilitate a deeper understanding by the candidates towards the Company and the responsibilities as a Director. These efforts, on the one hand, enhance their willingness to accept the nominations and to undertake corresponding responsibilities for the Company, and on the other hand facilitate them to commence their work and discharge their duties as soon as possible upon being elected. In January 2009, after the new Directors had reported duties, the Company immediately provided them with Director's Manual and arranged orientation activities for them to enable them to develop a comprehensive and systematic understanding of the basic operations of the Company and the domestic and overseas requirements and principles related to governance.

### 3. Performance of Duties in the Year

During the Reporting Period, the Company's Directors attended Board meetings in a prudent, responsible, proactive and serious manner, adequately capitalising on their respective professional experience and expertise. They provided independent judgment, knowledge and experience towards the matters discussed, thereby enabling the Board to carry out effective discussions and make prompt yet prudent decisions. They produced proactive and encouraging effect in ensuring the Board to work to the best interests of the Company as its objective. Attendance of Directors (including attendance by appointing other Directors as proxies) at the Board meetings in 2008 was 100% while attendance in person was 95.8%. Attendance of members in person at the meetings of the specialised committees of the Board was 100%. Details of attendance of each Director at the Board meetings are as follows:

Directors	Attendance in person/	
	Total number of Board meetings	Attendance
Yang Hai	(Chairman) 4 / 4	100%
Wu Ya De	(Executive Director) 4 / 4	100%
Li Jing Qi	(Non-Executive Director) 4 / 4	100%
Wang Ji Zhong	(Non-Executive Director) 4 / 4	100%
Liu Jun	(Non-Executive Director) 4 / 4	100%
Lin Xiang Ke	(Non-Executive Director) 4 / 4	100%
Zhang Yang	(Non-Executive Director) 4 / 4	100%
Chiu Chi Cheong, Clifton	(Non-Executive Director) 4 / 4	100%
Li Zhi Zheng	(Independent Director) 4 / 4	100%
Zhang Zhi Xue	(Independent Director) 3 / 4 <sup>#</sup>	75%
Poon Kai Leung, James	(Independent Director) 3 / 4 <sup>#</sup>	75%
Wong Kam Ling	(Independent Director) 4 / 4	100%

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

# Corporate Governance Report

The Company's Independent Directors were able to perform their duties independently and were not subject to the influence of the Company's substantial shareholders, de facto controllers or other units or individuals having interests in the Company. Four Independent Directors of the Company assumed crucial duties and tasks in the five specialised committees of the Board respectively. Chairmen of the specialised committees other than the Strategic Committee were taken up by Independent Directors who possess relevant experience or qualifications. Meanwhile, the Independent Directors held meetings with the external auditors according to the requirements and directions of the relevant regulations to discuss the annual auditing work. They also provided independent opinions and proposals on nominations of Directors, Directors' remunerations, external guarantees and connected transactions of the Company, thereby providing sound check-and-balance for safeguarding the overall interests of the Company and shareholders. In 2008, the Independent Directors gave no dissent to matters discussed by the Board and did not propose to hold any Board meeting and general meeting or publicly collect voting rights from shareholders. Since 2005, the Independent Directors have been submitting their annual work reports<sup>1</sup> at the general meeting each year for shareholders' review.

## 4. Remunerations of Directors

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

## 5. Independence of Directors

The Company has appointed a sufficient number of Independent Directors. In accordance with the requirements of the Articles of Association, re-elected Independent Directors are subject to a maximum term of six years. As the terms of the four Independent Directors of the fourth session of the Board have reached six years or nearly six years, upon the expiry of their terms of the fourth session of the Board, these Independent Directors did not offer themselves for re-election. The Board has obtained written confirmations from all Independent Directors of the fourth session of the Board concerning their independence in accordance with rule 3.13 of the Listing Rules of HKEx. The Company believes that, for the year ended 31 December 2008, these Directors have all complied with the relevant guidelines as stipulated in such rule and are regarded as independent. Four Independent Directors of the fifth session of the Board submitted statements to the Board concerning their independence when they were nominated and on the date of the approval of this report.

## 6. Securities Transactions by Directors

The Securities Transaction Code<sup>1</sup> of the Company has been adopted by the Board in accordance with Appendix 10 to the Listing Rules of HKEx entitled "Model Code for Securities Transactions by Directors of Listed Issuers" as a written guide to regulate dealings in the Company's securities by the Directors, Supervisors and relevant staff. The standards set under Appendix 10 to the Listing Rules of HKEx have been incorporated into the Securities Transaction Code of the Company. After making specific enquiry to all the Directors, Supervisors and senior management, the Company confirms that all of the Directors, Supervisors or senior management have complied with the standards on securities transactions by Directors as stipulated by the aforementioned code during the Reporting Period.

## 7. Insurance on Directors' Liabilities

In accordance with the approval and authorisation of the generating meeting, the Company has purchased the Directors and senior management's liability insurance for the Directors, Supervisors and senior management staff of the Company. Purchase of liability insurance for the Directors can, on the one hand, enhance the Company's ability to resist risks and help safeguard the legal interests of small and medium shareholders and, on the other hand, effectively establish an occupational risk resistance mechanism for management staff, encourage their innovative spirit and create the condition for the Company to attract more excellent management staff.

## C. Specialised Committees of the Board

In order to help the Board to discharge their duties and promote effective operation, five specialised committees have been set up under the Board. These committees have their designated duties and terms of reference. They are required to review and monitor matters in specific areas of the Company and make corresponding recommendations to the Board while the right to make decision for all matters hinges on the Board. Each of the committees has formulated its terms of reference<sup>1</sup> and such terms of reference have been approved by the Board.

The Company's policy is to ensure each of the committees to receive sufficient resources to discharge their duties. Each of the committees holds meetings each year to discuss matters within their terms of reference according to the actual situation and report to their Board on a regular basis. All items passed at the meetings of the committees are recorded and kept for filing. The respective minutes are also timely submitted to the Board for documentation.

### 1. Strategic Committee

The Strategic Committee was established in November 2001. It is responsible for examining and reviewing the directions of the Company's strategic development, formulating the Company's strategic plans, monitoring the implementation of strategies and facilitating adjustments to the Company's strategies and governance structure on a timely basis.

As at 31 December 2008, members of the committee include Mr. Yang Hai (Chairman), Mr. Wu Ya De, Mr. Chiu Chi Cheong, Clifton and Mr. Li Zhi Zheng <sup>Independent Director</sup>. Upon the establishment of the fifth session of the Board, the name of the Strategic Development and Investment Committee has been changed to the Strategic Committee. The new session of the committee has been formed and it comprises Mr. Yang Hai (Chairman), Mr. Wu Ya De, Mr. Li Jing Qi, Mr. Chiu Chi Cheong, Clifton and Mr. Lam Wai Hon, Ambrose <sup>Independent Director</sup>.

In 2008, the Strategic Committee held one meeting and all members attended the meeting. The committee reviewed the terms of reference and proposed recommendations for amendments. In addition, it studied the development strategies and direction of the Company for the next stage and proposed an overall principle of "adherence to enhancing the return on net assets as the objective of the Company while taking a development path characterised by high quality."

### 2. Audit Committee

The Audit Committee was established in August 1999 and mainly comprises Independent Directors. It is responsible for reviewing and monitoring the quality and procedures of the Group's financial reporting; evaluating whether the Company's internal control regimes are sound and effective; appointing the independent auditors, coordinating their work and reviewing the efficiency and quality of their work; and reviewing all written reports furnished by internal audit officers as well as the management's feedback to such reports.

As at 31 December 2008, members of the committee include Mr. Wong Kam Ling <sup>Independent Director</sup> (Chairman), Mr. Poon Kai Leung, James <sup>Independent Director</sup> and Mr. Chiu Chi Cheong, Clifton. Upon the establishment of the fifth session of the Board, the new session of the committee has been formed and it comprises Mr. Lam Wai Hon, Ambrose <sup>Independent Director</sup> (Chairman), Mr. Zhang Li Min <sup>Independent Director</sup> and Mr. Chiu Chi Cheong, Clifton. The committee hereby submits the Annual Work Report as follows:

## Annual Work Report of the Audit Committee

The fourth session of the Audit Committee has held totally five meetings in 2008, and all members attended the meetings. As at the date of this annual report, two meetings of the fifth session of the Audit Committee of the Board were held, and all members attended the meetings. Among the aforementioned meetings, external auditors were invited to six meetings to discuss relevant issues. The Audit Committee has the regime of holding independent meetings at the request of external auditors, the Company's management or the Audit Department, so as to ensure independence and objectivity of reporting. The Audit Committee will, after each meeting, submit a report to the Board on major items discussed and brief the Board at least every six months on its work and progress. The Audit Committee hereby reports the major tasks in the said period as follows:

### (1) Review of Periodic Financial Statements

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

The unaudited financial statements for the first and third quarters of 2008 (prepared under CAS) and the unaudited financial statements for the first six months of 2008 have been reviewed by the fourth session of the Audit Committee of the Board and submitted to the Board for approval prior to their publication.

Upon its establishment, the fifth session of the Audit Committee of the Board mainly reviewed the 2008 financial statements. Its relevant work includes:

- Pursuant to the relevant requirements of the China Securities Regulatory Commission and the Shanghai Stock Exchange, the Audit Committee proposed to amend the "Rules for Reviewing the Annual Financial Report by the Audit Committee" and the amendments were approved by the Board, thereby further enhancing the procedures for reviewing the annual report and defining clearly the scope of the relevant work.
- Before the annual audit began, members of the Audit Committee and the Independent Directors of the Company had obtained the "Work Plan on the Annual Financial Report and Annual Audit for 2008" from the Company's Financial Controller and the "Annual Audit Plan for 2008" from the certified public accountants for the annual audit. It also met with the certified public accountants for the annual audit and discussed the composition of the audit team, the audit plan, risks evaluations, methods for testing and assessment of risks and fraudulence, the focus of the annual audit, and the detailed schedule of the audit work for the annual financial report.
- Before the certified public accountants for the annual audit began the audit, the Audit Committee preliminarily reviewed the Group's 2008 financial statements with special attention paid to the handling of the Year's significant financial and accounting matters. The Audit Committee gave preliminary approval to the management's handling of the significant financial and accounting matters for 2008 and believed that significant accounting estimates adopted by the management were basically reasonable. It suggested further improvement on the annual financial statement and the content of the notes, so as to ensure the compliance, completeness and accuracy of disclosure and the consistency between the overall data in the financial statements and the notes.
- Before the certified public accountants for the annual audit had finished the preliminary auditing opinion, members of the Audit Committee communicated and exchanged ideas for a number of times with the auditors through methods such as teleconference and email to ensure consistency between the two parties in understanding the significant matters and that relevant accounting treatments were appropriate.

- On 23 March 2009, after the certified public accountants for the annual audit issued the preliminary auditing opinion, the Company held a joint meeting attended by the Audit Committee, the Independent Directors and the certified public accountants for the annual audit, with the Chairman of the Supervisory Committee invited to participate as well. The Audit Committee again reviewed the 2008 financial statements of the Group and had in-depth discussion and communication with the management and the certified public accountants for the annual audit over the appropriateness of the accounting policies adopted by the Group and the reasonableness of the accounting estimates. The Audit Committee believes that the accounting policies and accounting estimates adopted by the Group for 2008 satisfied the requirements of the domestic and overseas accounting standards, while the significant accounting estimates adopted and the handling of significant financial and accounting matters were reasonable.
- Through adequate communication in advance and timely supervision during the process, the certified public accountants for the annual audit submitted as scheduled the annual auditing report on 2 April 2009.

Based on the aforementioned work and the certified public accountants' auditing report for the annual audit, the Audit Committee believes that the Group's 2008 financial statements truthfully and reasonably reflect the Group's 2008 operating results and the financial position as at 31 December 2008, and hereby suggests the Board to approve the same.

## **(2) Internal Control and Risk Management**

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

In early 2007, the Audit Committee set up an independent report-fraud mailbox<sup>†</sup> to obtain fraud-related information in a timely manner and a cooperation memorandum was reached with the Company's disciplinary supervision committee on this basis to strengthen the communication and cooperation between both sides. Meanwhile, the Audit Committee regularly exchanged opinion with the certified public accountants for the annual audit on risks of fraud and their management and control measures. The committee and Independent Directors believe that the management and control adopted by the Company on the prevention of risks of fraud are effective.

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

## **(3) Work Evaluation and Re-appointment of Auditors**

The Audit Committee considered and approved the Management Regime for the Selection and Appointment of Certified Public Accountants for the Annual Audit. After discussion and evaluation with the management, the Audit Committee summarised the auditing work of the certified public accountants for the annual audit in 2008 in accordance with the requirements of the regime. The committee believes that PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. performed well in terms of independence and objectivity, professional skills, quality and efficiency of financial information disclosure auditing, and communicating with the management and the Audit Committee. The committee proposes the Board to re-appoint the aforementioned institutions as the Company's international auditors and statutory auditors for 2009, respectively.

Members of the Audit Committee: Lam Wai Hon, Ambrose; Chiu Chi Cheong, Clifton and Zhang Li Min  
2 April 2009

### 3. Remuneration Committee

The Remuneration Committee was established in November 2001. It comprises mainly Independent Directors. It is responsible for studying and examining the Company's remuneration policies and incentive regimes, devising the appraisal standards for the Company's Directors and members of the senior management, and conducting appraisals thereof. As at 31 December 2008, members of the committee include Mr. Li Zhi Zheng <sup>Independent Director</sup> (Chairman), Mr. Zhang Zhi Xue <sup>Independent Director</sup> and Ms. Zhang Yang. Upon the establishment of the fifth session the Board, the new session of the committee has been formed and it comprises Mr. Ting Fook Cheung, Fred <sup>Independent Director</sup> (Chairman), Mr. Wang Hai Tao <sup>Independent Director</sup> and Mr. Chiu Chi Cheong, Clifton. The committee hereby submits the Annual Work Report as follows:

#### Annual Work Report of the Remuneration Committee

The Remuneration Committee has held three meetings in 2008, and all members attended the meetings. The work completed by the committee during this period includes:

1. Appraising and evaluating the Company's management operating performance for 2007;
2. Reviewing the execution of the remuneration plan for the Directors and senior management and proposing recommendations on rewards for senior management to the Board; reviewing the remuneration disclosure proposal for the Company's Directors, Supervisors and senior management for 2007;
3. Reviewing the Company's operating results targets for 2008 and the adjustment plan of operating targets due to changes in the external environment and in policies and regulations in the first half of 2008;
4. Reviewing the remuneration plan for the Directors of the fifth session of the Board of the Company based on a full consideration of the situations in China with reference to the remuneration levels in the market, coupled with the actual situation of the Company and the candidates, and submitting the plan to the Board and the general meeting for consideration.

As at the date of this annual report, the Remuneration Committee of the fifth session of the Board held its first meeting for 2009 and all members attended the meeting. The following matters were discussed and studied by the committee:

1. In accordance with the methods for appraising operating performance as approved by the Board, the committee inspected one-by-one various indicators and key tasks. It appraised and evaluated the operating performance of the Company's management in 2008 and reported to the Board on the appraisal opinions;
2. The committee discussed the key performance indicators and key tasks for 2009 proposed by the Company's management according to the annual work arrangements and budget, set out the Company's operating performance targets for 2009 and submitted to the Board for consideration;
3. The committee inspected the 2008 remuneration disclosure proposal for the Directors, Supervisors and senior management and believed that the content and format of the remuneration disclosure proposal satisfied the requirements of relevant regulations.

Members of the Remuneration Committee: Ting Fook Cheung, Fred; Wang Hai Tao and Chiu Chi Cheong, Clifton  
2 April 2009

#### 4. Nomination Committee

The Nomination Committee was established in November 2001. It comprises mainly Independent Directors. It is responsible for examining and devising the Company's human resources development strategies and planning; and conducting studies and making proposals in respect of nominees, nomination criteria and nomination procedures for the Company's Directors and members of the senior management. As at 31 December 2008, the members of the committee include Mr. Li Zhi Zheng <sup>Independent Director</sup> (Chairman), Mr. Zhang Zhi Xue <sup>Independent Director</sup> and Mr. Yang Hai. Upon the establishment of the fifth session of the Board, the new session of the committee has been formed and it comprises Mr. Wang Hai Tao <sup>Independent Director</sup> (Chairman), Mr. Ting Fook Cheung, Fred <sup>Independent Director</sup>, and Mr. Yang Hai.

The Nomination Committee has held two meetings in 2008, and all members attended the meetings. During the Year, the committee inspected the qualifications, professional qualities and nomination procedures of the candidates for Directors who were nominated by shareholders in accordance with the relevant requirements of the Company Law and the Company's governance rules. After preliminary selection, the committee proposed to the Board a candidate list comprising one Non-Executive Director and four Independent Directors, and inspected the qualifications and professional qualities of such candidates, especially those for Independent Directors. It proposed recommendations to the Board regarding the latter's work on electing the new session of the Board and matters related to the selection of Independent Directors.

#### 5. Risk Management Committee

The Risk Management Committee (the "RMC") was established in August 2004 and is responsible for improving and enhancing the Company's procedures and systems for managing its investment activities, and providing support to the Company's business decision-making and operations by performing risk analysis and controls in relation to individual investment projects. As at 31 December 2008, members of the committee include Mr. Poon Kai Leung, James <sup>Independent Director</sup> (Chairman), Ms. Zhang Yang and Mr. Li Jing Qi. Upon the establishment of the fifth session of the Board, the new session of the committee has been formed and it comprises Mr. Zhang Li Min <sup>Independent Director</sup> (Chairman), Ms. Zhang Yang and Mr. Lin Xiang Ke.

Two meetings of the RMC were held in 2008 and all members attended the meetings. Major tasks of the committee include:

- Reviewing the progress tracking report on Qinglian Project, obtaining timely updates on the latest progress of the budget control and progress management on Qinglian Project, as well as exchanging ideas and investigating major risks related to the project with the management;
- Reviewing the Company's Procedures for Risk Control Management and proposing relevant recommendations;
- Discussing with the management major risks that would be faced by the Company in the future and the coping measures;
- Clarifying the committee's work to be commenced with reference to the implementation of the Company's risk management for the next stage; facilitating an effective execution of the Company's risk management system through guidance and supervision; and preliminarily determining the committee's work focuses for 2009.

### D. Accountability and Audit Supervision

#### 1. Statement of Responsibilities towards the Financial Statements by the Board

This statement intends to clarify for our shareholders the responsibilities to be assumed respectively by the Directors and the auditors of the Company towards the financial statements. It should be read together with the statement of responsibilities by the auditors set out in the Independent Auditor's Report on page 107 of this annual report.

It is the Board's opinion that the financial statements were prepared on the basis of ongoing operations given that the resources available to the Company are sufficient enough for carrying out ongoing business operations in the foreseeable future. Appropriate accounting policies have been adopted in preparing the financial statements on pages 109 to 188. These policies have been applied throughout the preparation of the financial statements and supported by reasonable and prudent judgments and estimates, and in accordance with all accounting standards which the Board deems appropriate.

# Corporate Governance Report

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

## 2. Auditors

The financial statements contained in the Company's 2008 annual report were prepared in accordance with CAS and HKFRS respectively, and have been audited by PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. ("PwC Zhong Tian") and PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) ("PwC"), respectively.

PwC Zhong Tian was appointed as statutory auditors since 2004. It has been providing audit services to the Company for 5 consecutive years and has changed one of its endorsing certified public accountants during the Year. PwC as the Company's international auditors has been providing audit services to the Company for 13 consecutive years since 1996. Its partners in charge of the Company's audit were changed in 2003.

The remunerations of the auditors in the year 2008 are set out as follows:

(Unit: RMB '000)	Audit fees (Note 1)		Other fees (Note1)	
	2008	2007	2008	2007
PwC	2,170	1,950	—	—
PwC Zhong Tian	1,180	990	—	—

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

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

Note 3: The Company's subsidiaries Qinglian Company and Advertising Company engaged Carea Schinda Certified Public Accountants to perform audit services. The audit fees paid during the Reporting Period amounted to RMB65,000 (2007:RMB43,000).

The Audit Committee is responsible for conducting a comprehensive and objective assessment on the completion of the audit work for the Year and the practice quality of the auditors, and submitting a summary report on the audit work carried out by the auditors for the Year. It also reviewed the appointment, resignation or replacement of auditors, as well as assessing the quality of the auditors' services and the reasonableness of their audit fees and making recommendations to the Board in this regard. The appointment and replacement of auditors as well as the audit fees are proposed by the Board to the general meeting for approval or authorisation. The Audit Committee has conducted a summary evaluation on the 2008 auditing work by PwC Zhong Tian and PwC, and has made proposals to the Board on the appointment of the Company's auditors for 2009. For details, please refer to the content of "Annual Work Report of the Audit Committee" above.

## E. Internal Control

A comprehensive and practicable internal control system is the foundation of good corporate governance. The Board is responsible for developing and maintaining an internal control system of the Company to review the effectiveness of major control procedures for finance, operations, compliance and risk management, thereby protecting shareholders' interest and safeguarding the Group's assets.

In 2008, on the basis of ongoing reviews of the Company's internal control system, the Board issued a Self-assessment Report on the Internal Control of the Company which illustrated and explained the objectives of internal control of the Company, the basic elements of the internal control regime and its implementation, and the overall assessment results. The main content of the report is as follows:



### Self-assessment Report on the Internal Control of the Company

It is the responsibility of the Board and the management of the Company to establish sound internal control and implement the same effectively. The objectives of the Company's internal control are: to reasonably ensure that the operation and management of the Company are in compliance with laws and regulations, assets are safe, and financial reports and the relevant information thereof are truthful and complete, thereby enhancing operation efficiency and effectiveness and enabling the Company's realisation of its development strategies.

Given that internal control has its inherent limitations, it can only provide a reasonable assurance for achieving the aforesaid objectives. Also, whether internal control is effective or not may also vary with changes in the Company's internal and external environment as well as in its operating conditions. A check and supervision mechanism has been established for the Company's internal control, under which rectification measures will be taken immediately once a defect in internal control is identified.

In establishing and improving the internal control system as well as maintaining its effectiveness, the Company has considered five basic elements, namely the control environment, risk assessments, control activities, information and communication, and supervision. For 2008, the Board's self-assessments on each element of the Company's internal control system are as follows:

#### 1. The Control Environment

- The Company has established general meetings, the Board and the Supervisory Committee with clear governance structure and normative functioning.
- The Board is composed of Directors with adequate knowledge, skills and qualities, with a generally sound overall structure and division of duties.
- The management of the Company has set forth the value on integrity and stable development, whilst at the same time promoting integrity and ethical standards to staff by setting examples of their own deeds. Corresponding appraisal and reward and punishment systems are established.
- The Company has set medium/long-term strategic objectives with rational dissection to various levels, and established a strategic objective-based performance incentive regime.
- The Company has a rational organisational structure with corresponding authorisation documents. Allocation of authorities and responsibilities is basically rational.
- The Company has established work processes to identify the laws and regulations that must be complied with, and has recorded such compliance requirements in the know-how inventory of its communication platform with continuous updates.
- The Company has set up a relevant human resources management system. It timely adjusted position establishments and staff arrangements of various departments according to business development needs, enabling the Company to recruit and maintain an adequate number of competent staff.

- A long-term incentive regime is yet to be established by the Company. The Company will timely supplement and improve its human resources management and incentive systems and procedures according to changes in the regulatory environment and the Company's own development needs.

At the end of 2006, the Board decided to introduce in full scale an **Excellent Performance Management Model** to the Company in a three-year timeframe in order to enhance the Company's management standards across-the-board. In the first half of 2008, the Company entered in full scale the trial implementation stage of ISO 9000 Quality Management System. After half a year's system maintenance and continued improvement, the Company made significant progress in defining departmental duties, organising operations procedures and delegating management authorities. During the trial implementation, two internal audits were carried out and immediate rectifications were made to unqualified aspects. The Company was successfully awarded an external accreditation of ISO 9000 in July. On this basis, the Company continues to reinforce the implementation of the Excellent Performance Management Model, pursuing excellent performance in operation and management.

## 2. Risk Assessments

In accordance with the needs of risk management, the Company officially released the "Procedures for Risk Control Management" (《風險管理控制程序》) on the basis of enhancing the risk management system. Details of the duties and work procedures on risk management for various departments were laid down. In 2008, various departments and units of the Company prepared their annual risk management plans; identified and evaluated various risk items affecting the realisation of their respective annual targets; set up relevant coping measures on such risk items; and reviewed and evaluated the status of the implementation of their respective risk management plans at the end of the year. In addition, the Company conducted analyses of its internal operations and collection of external information on a regular basis in order to timely discover new changes and make adjustments and continued improvement to the risk management. The formulation and implementation of the Procedures for Risk Control Management is beneficial for the further rolling out and enhancement of the Company's risk management work.

## 3. Control Activities

The Company's control activities cover every aspect of the Company's value creation chain. As at August 2008, with reference to the 11 core values under the Excellent Performance Management Model as well as the requirements stipulated in the ISO\_9000 Quality Management System, the Company established and enhanced the corporate management documentation system including the "Rules on Corporate Governance" (《公司治理規則》), the "Employee Manual" (《員工手冊》), the "Quality Manual" (《質量手冊》), the "Procedures Document" (《程序文件》) and the "Work Document" (《工作文件》). Meanwhile, it designed and re-recognised 43 internal procedures control documents and work documents, covering essential management aspects of various operations, including investment management, project construction, maintenance and repair, toll collection management, know-how and communication management, financial management, human resources management, information disclosure management, subsidiaries management and internal audit. The audit department undertook specific audits on the scientific rationality and operational effectiveness of the designs of certain control activities, and no substantial shortcomings were discovered.

### Excellent Performance Management Model

The Company established a quality assurance system in accordance with the management principle under the ISO 9000 Quality Management System. Based on this, the Company fully introduced an Excellent Performance Management Model. In accordance with the assessment standards and core values of the model, the Company established a management operation system with its own characteristics. Highlights of the system included: **with the core value system as its orientation; with standardised and regulated work procedures as its basis; with management by knowledge and continued improvement as the driving force for the Company's sustainable and innovative development.**

In the second half of 2008, in accordance with "Internal Control of Enterprises – Basic Principles" (《企業內部控制基本規範》) jointly issued by the five ministries of the Central Government and in accordance with the requirements set out in various internal control application guidelines, the Company appointed an intermediate company, Deloitte Touche Tohmatsu, to re-examine and reorganise in detail the operations procedures relating to controls on the corporate level, the operational level and the information technology level, with a view to facilitating the Company to further improve the control documents relating to internal control procedures and internal control scheme design. At the moment, such work is proceeding according to schedule and is expected to be completed in the first half of 2009.

#### **4. Information and Communication**

##### **(1) Internal information and communication**

- The management managed to report timely to the Board on important or sensitive information or extraordinary matters regarding the Company.
- The Company convened regular weekly and monthly meetings for management members and convened President Working Meetings when necessary. Various regular reports and specific analysis reports of the Company regarding operations, project construction and financial management were submitted timely to the management and the relevant functional departments.
- In 2008, the Company upgraded its internal integrated information management platform, realising an electronic work place and enabling the sharing of organisational knowledge and information.
- In order to continue to enhance the level of staff satisfaction, the Human Resources Department conducted a staff satisfaction survey in 2008 to understand the needs of staff from different perspectives. Such survey provided first-hand information for enhancing staff cohesiveness.

##### **(2) External information and communication**

- The Company has devised the relevant systems and work guidelines regulating the Company's work on information disclosure, information flow and confidentiality. During the Reporting Period, the "Rules Governing Information Disclosure Matters" was effectively executed to ensure openness, fairness and impartiality of information disclosure. Meanwhile, the Company has enriched the content for voluntary information disclosure while promoting a full understanding of the operations and development prospects of the Company by investors and the public through the Company's website and the conduct of a wide variety of investor relations activities.
- The Company assigned specific staff to collect, process and analyse external information in order to compile reports for internal circulation. Meanwhile, the Company established an investor hotline and customer enquiry and complaint hotlines to conscientiously handle opinions and suggestions offered by investors and customers, and to identify possible management shortcomings therefrom.
- To fully align with the customer-oriented quality principle, the Company appointed Shenzhen Quality Assurance Centre (《深圳市質量保證中心》) to conduct a third-party customer satisfaction survey for the Company in 2008 with a survey report issued. Through a collection, collation and analysis of feedbacks from external customers, the report provided a strong basis for improving the Company's internal management and raising the level of customer satisfaction.

## 5. Supervision

### (1) Day-to-day management supervision

The Company has established a documentation system for management supervision. Specific chapters in the "Quality Manual" (《質量手冊》) have detailed the major work on the Company's organisation plan as well as the monitoring, testing, analysis and improvement on the implementation of the plan. The detailed implementation of the management supervision was regulated through documents including "Control Procedures for Internal Audit" (《內部審核控制程序》), the "Control Procedures for Management Assessment" (《管理評審控制程序》), the "Quality Control Procedures for Specific Projects" (《專項計劃的質量控制程序》), the "Control Procedures for Financial Assessment and Management" (《財務評審管理控制程序》) and the "Supervision System for the General Office" (《督辦管理制度》). The establishment of these documents has greatly facilitated the management's continuous supervision and assessment of the Company's production and operation processes.

As the Company's internal quality control department, the Standards Management Department of the Company is responsible for establishing and maintaining the Company's quality management regime, and it exercises real-time supervision on operation processes. The Standards Management Department completed two internal audits on the operational effectiveness of the management system in 2008 and carried out the interim and annual management assessments. The areas diagnosed in the two internal audits as "unqualified" have already been rectified. In addition, the Administrative Office of the Company conducted regular inspections on the follow-up and implementation of matters decided upon at meetings and on the progress of annual plans achievement in accordance with the Supervision System for the General Office.

### (2) Independent Supervision of the Audit Department

The Company's Audit Department under the Audit Committee of the Board has been established since August 2000 for the purpose of independently reviewing the effectiveness of the Group's operating management activities and the internal control system, and for the purpose of assuring the Company's transparency as well as its compliance with the regulations when disclosing information to the public. Depending on the materiality and the potential risks existing in the internal control systems of various businesses and processes of the Company, the Audit Department carries out evaluation and inspection of key operation aspects such as the Company's operation, construction, investment, corporate governance and financial management on a regular or as-needed basis, and provides monitoring and evaluation of the Company's internal control system and management efficiency. Internal audit staff are authorised to gain access to any information relating to the Company and to make enquiries to staff concerned, and the General Manager of the Audit Department will directly report to the Audit Committee on the work findings and views. After a consideration of such findings and views, the Audit Committee will make recommendations to the management of the Company and will submit periodic reports to the Board.

In early 2008, based on its own operational characteristics, management status and risks analysis results, the Company devised the annual internal control inspection and supervision plan. In accordance with the annual plan, the Audit Department of the Company carried out specific audits on certain control activities and selectively checked the scientific rationality and operational effectiveness of the control activities design. Audited items in 2008 included: post-project audit on Qinglian Project; specific audit on management of invested enterprises; specific audit on management fees; specific audits on toll income and financial management at toll stations; specific audit on management of project funds; and specific audit on financial statements and internal control of Advertising Company. The respective specific audit reports and relevant management recommendations were submitted to the Audit Committee for consideration and were furnished to the Board in the form of the Audit Committee's meeting memoranda. The evaluation and inspection results were effectively communicated to the parties being inspected and timely rectifications were made. Meanwhile, the Audit Department has reviewed all the periodic reports compiled by the Company in 2008. It has reviewed the preliminary drafts of the periodic reports with reference to compliance with statutory disclosure rules and completeness and accuracy of the disclosed matters; and submitted internal audit reports to the Audit Committee. The Audit Department also conducted selective checks on the Company's implementation of the Rules Governing Information Disclosure Matters during 2008.

The Audit Department conducted comprehensive evaluation on the internal control system on a periodic basis by filling in the assessment checklist (the design of which was based on the COSO internal control framework) and combining the supervision and inspection results of the aforementioned financial information disclosures and internal control activities. The Audit Department then submitted the conclusion report on internal control inspection to the Audit Committee and the Board after the annual and interim periods.

The Board of the Company has conducted self-assessment of all the aforesaid aspects of internal control in 2008. No material shortcomings were discovered in the design or implementation of the internal control of the Company. Through a basic assessment on the various key elements in the internal control system and through various internal audit and assessment work conducted in 2008, as well as the ongoing reviews carried out over the years, the Board of the Company is of the view that from 1 January 2008 to the end of the Reporting Period, the Company's internal control system and its implementation were basically sound and effective; were able to cater for the needs of the Company's corporate governance, operation, construction, investment, finance and administrative personnel management; and were able to provide reasonable assurance on compiling accurate and fair financial statements as well as thorough compliance with the relevant laws and regulations.

This report was considered and approved at the Company's third meeting of the fifth session of the Board on 2 April 2009. The Company and all members of the Board severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the content of the report. The Company did not engage any accountants to conduct verification and evaluation of the internal control situation of the Company for the year ended 31 December 2008.

The Board of Directors  
Shenzhen Expressway Company Limited  
2 April 2009

## F. Conclusion

Since its inception, the Company has established multi-tier governance rules based on the Articles of Association of the Company, including the Rules of Procedures for the Shareholders' General Meeting, the Rules of Procedures for the Board of Directors Meeting and the Rules of Procedures for the Supervisory Committee Meeting; Work Guidelines for Independent Directors, President and Secretary to the Board; terms of reference and work codes for each of the specialised committees; and management regulations for dealings in securities, information disclosure and investor relations. All the above rules and regimes aim to clearly define the duties, authorities and conduct standards of various parties, and they are being reviewed and amended on a continuous basis through practice. During the Reporting Period, the Company further enhanced the corporate governance rules and relevant management regimes, including formulating or amending the Internal Control Regime on Making Provisions for Impairment of Assets, the Code for Dealing in the Company's Securities, Work Guidelines for Independent Directors, the Regime for Independent Directors' Work on Annual Report, the Work Code on Audit Work of Annual Financial Report for the Audit Committee, and Work Guidelines for the President.

# Corporate Governance Report

The Company is committed to enhancing the effectiveness of the Board's operation based on a regulated operation so as to promote the stable and sustainable development of the Company. Meanwhile, the Company strives to enhance shareholder value, maintain exchanges of ideas and communication with investors as well as emphasising and respecting the interests of stakeholders. For further understanding of the principles followed by, and the detailed practice of, the Company when dealing with the relations with creditors, service providers, customers, staff, the government and the communities, please refer to the following sections of this annual report:

## Shareholders and Investor Relations

Content includes:

- ❖ Information on Share Capital
- ❖ Information on Shareholders
- ❖ General Meeting
- ❖ Information Disclosure and Investor Relations Activities
- ❖ Shareholder Return

## Corporate Social Responsibility Report 2008

Content includes:

- ❖ Corporate Values
- ❖ Basic Social Responsibilities
- ❖ Stakeholders
- ❖ Environmental Protection
- ❖ Pursuit of Innovation and Excellence

## Report of the Supervisory Committee

The Supervisory Committee, comprising shareholders and staff representatives, independently exercises its rights of supervision on the Company required by laws so as to protect the legal interests of shareholders, the Company and staff from being violated.

Content of the report includes:

- ❖ Duties and responsibilities
- ❖ Composition
- ❖ Annual Work Report