

Corporate Governance

Corporate Governance Practice Report

The Company believes that sound corporate governance enables the Company to achieve healthy and stable development, enhance its image in the industry and capital market and gain recognition and confidence of its development from investors, creditors, partners, society and so forth. The Company has always been committed to promoting sound governance structure, establishing and improving operational principles and improving the effectiveness of governance continuously.

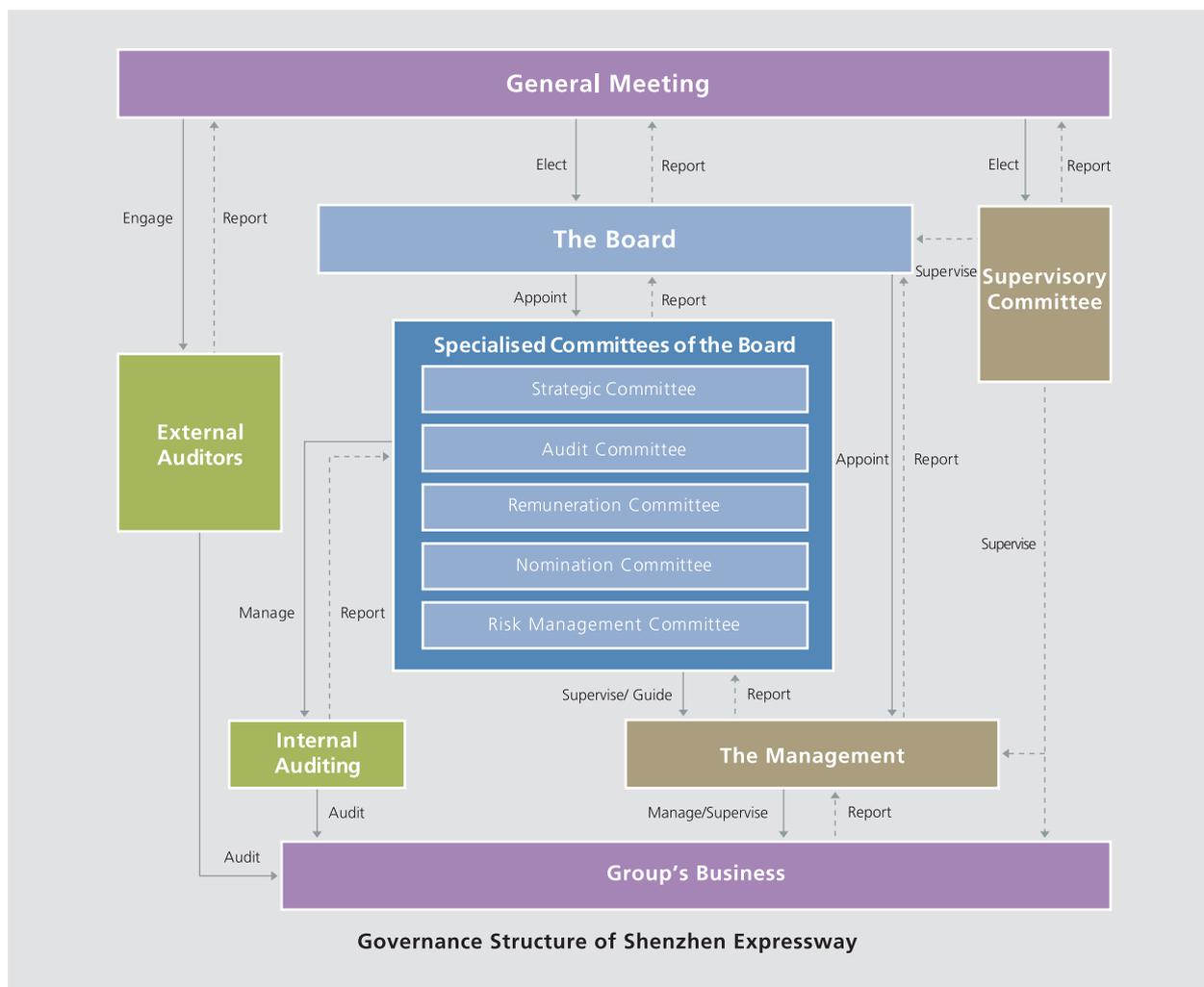
The Company is listed on both SSE and HKEx. Besides complying with the applicable laws and regulations, we have to comply with the requirements of the Code of Corporate Governance for Listed Companies of CSRC and the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules of the HKEx regarding the practice of corporate governance. During the Reporting Period, there was 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 and the Company has fully adopted the code provisions of the Code on Corporate Governance Practices. In addition, the Company has also adopted most recommended best practices of the Code on Corporate Governance Practices, which have gone beyond the requirements of the code provisions in certain aspects.

Compared to the code provisions of the Code on Corporate Governance Practices, the Company has better governance practice in the following aspects:

- ☑ 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 stipulation on the terms of office for Independent Directors of no more than 6 years;
- ☑ The establishment of the Nomination Committee and the Risk Management Committee under the Board, in addition to the Audit Committee and the Remuneration Committee, all being mainly comprised of Independent Directors and Non-executive Directors with each committee chaired by an Independent Director;
- ☑ Purchase of insurance on Directors' and senior officers' liabilities;
- ☑ The provision of independent channel for the Audit Committee to obtain information about fraudulent risks and the establishment of the Anti-fraudulent Work Regulation;
- ☑ The engagement of external auditors for auditing the internal control over financial reporting;
- ☑ The incorporation of the standards under Appendix 10 to the Listing Rules of HKEx into the much stringent Securities Transaction Code of the Company;
- ☑ Disclosure of the remunerations of all Directors, Supervisors and senior management on a named basis in the annual report;
- ☑ Preparation and publication of quarterly results announcements;
- ☑ Regular publication of the Social Responsibility Report.

I. Governance Structure and Rules

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. It has formulated multi-tier governance rules based on the Articles of Association, aiming to clearly define the duties, limit of authority and code of conduct. The current governance structure of the Company is shown as follows:



In 2011, the Company reviewed and revised such systems related to corporate governance as the terms of reference for the specialised committees and Rules on Performing Duties by the Secretary to the Board of Directors, and formulated and implemented Rules on Performing Duties by Financial Officer and The Quality Controlling Procedures for Evaluation of Internal Control. Upon the approval of the general meeting, minor amendments has been made to the Articles of Association during the year in compliance with the requirement of preparation of only one version of Financial Statements by the Company based on China Accounting Standards since the 2011 fiscal year. The Company planned to fully organise and review the Articles of Association and its schedules for making related rules and management process clearer and for consistency with the corporate governance practices in 2012.

The primary documents of the Company's Governance Rules, including the Articles and the schedules to the Articles (Rules of Procedures for the Shareholders' Meeting, Rules of Procedures for the Board of Directors and Rules of Procedure for the Supervisory Committee), Work Guidelines for Independent Directors, Work Details for the President and Terms of Reference for each specialised committee, are available for inspection or downloading in the column headed "Corporate Governance" on the Company's website.

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II. General Meetings and Shareholders

The general meeting is the institution vested with the supreme authority of the Company, where duties and powers are exercised in accordance with the laws to make decisions on significant matters of the Company. Subject to the stipulated procedures and requirements, shareholders of the Company individually or collectively holding 10% or more of the voting shares are entitled to request the Board to convene an extraordinary general meeting or a class shareholder meeting, while shareholders individually or collectively holding 5% or more of the voting shares are entitled to propose new motions at the annual general meeting. Detailed provisions in relation to specific procedures and arrangement for the convening, proposal and holding of and voting at the general meeting are set out in the Articles of the Company and the schedules to the Articles (Rules of Procedures for the Shareholders' Meetings).

The general meeting is one of the major channels for direct communication between the management and shareholders. Therefore, the Company encourages all shareholders to attend the general meeting and requests all directors and senior management to make their best efforts to attend. The Company will give a notice of any general meeting at least 45 days prior to the date of such meeting, and provide shareholders with any information necessary for them to attend and make decision at the meeting, including the agenda, description of procedures for shareholders' attending in person or by proxy and instructions for the completion of the forms, method of vote-counting, proposed resolutions for consideration as well as contact information for shareholders' enquiries. A shareholder who is unable to attend the general meeting in person may make decision based on such information and appoint his or her proxy (whether a shareholder of the Company or not) to attend and vote at the general meeting. At the annual general meetings, all shareholders are entitled to raise questions to Directors regarding issues about the Group's business operation and results. During the Reporting Period, the Chairman of the Company attended all general meetings, all chairmen of the specialised committees under the Board or their representatives attended the annual general meeting, and the members of independent directors committee attended the general meeting held for the consideration of the connected transaction(s), to answer shareholders' questions where necessary. During the year 2011, the Company held three general meetings. For details, please refer to Chapter VI of this annual report.

Details of the Company's Shares and substantial shareholders are set out in Chapter VII of this annual report. The Group has maintained separation and independence from the substantial shareholders and the controlling shareholders in terms of business, staff, assets, institution and finance, possessing independent and integral businesses and the capability of independent operation. The substantial shareholders or controlling shareholders of the Company have never been involved in any acts of by-passing the general meetings in ultra vires interference with the Company's decision-making or operations during the Reporting Period. Assets contributed by the promoters when the Company was established were separated and intact, and independently managed with distinct ownership, and change of ownership of non-monetary assets contributed had been completed. Currently, SIHCL and Shenzhen International, the controlling shareholders of the Company, hold 100% interests of the Coastal Expressway (Shenzhen Section) and 89.93% interests of Longda Expressway respectively. The Company has been entrusted to manage the project companies which own the said toll road assets, and relevant shareholders has undertaken to deem the Company as the only vehicle for the ultimate consolidation of its expressway business, so as to support the Company's business developments. Details and performance of the relevant undertakings are set out in Chapter VI of this annual report.

III. Board

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 powers according to the authorities granted at the general meeting in respect of the Company's development strategies, management structure, investment and financing, planning, financial control, human resources, and so forth. The Articles and the schedules to the Articles (Rules of Procedures for the Board of Directors) 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 is Yang Hai, while the President is Wu Ya De. The Chairman is responsible for taking charge and coordinating the operation of 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 the Board functions effectively and assuring good corporate governance practice and procedures for the Company. The President, with the support and assistance of the Board and other senior management members of the Company, is responsible for coordinating and managing the Group's business and operation, implementing the strategies laid down by the Board and making day-to-day operating decisions. The Articles of the Company and the schedules to the Articles (Rules of Procedures for the Board of Directors) as well as the Work Details for the President set out the authorities and duties of the Chairman and the President of the Company respectively.

2. Composition

The Board comprises 12 Directors. During the Reporting Period, the members of the Board are:

The current Board is the fifth session of the Company, with a term from 1 January 2009 to 31 December 2011. The current Board members came from various industry backgrounds with professional expertise in highway industry, project construction, accounting and auditing, finance and securities, law and administration, and some of them (including the Independent Directors) possess professional accounting qualifications or expertise in financial management. A majority of the members have experience in working for listed companies. The members of the sixth session of the Board as elected by the general meeting took office on 1 January 2012, and the members of the Board are:

The election and change of Directors and biographies of the Directors (including their professional experience and their principal positions in shareholder entities) are set out in Chapter VIII of this annual report.

Composition of the Fifth Session of the Board		
Executive Directors	Non-executive Directors	Independent Directors
Yang Hai (Chairman of the Board)	Li Jing Qi	Lam Wai Hon, Ambrose
Wu Ya De	Zhao Jun Rong	Ting Fook Cheung, Fred
	Tse Yat Hong	Wang Hai Tao
	Lin Xiang Ke	Zhang Li Min
	Zhang Yang	
	Chiu Chi Cheong, Clifton	

Composition of the Sixth Session of the Board		
Executive Directors	Non-executive Directors	Independent Directors
Yang Hai (Chairman of the Board)	Li Jing Qi	Wang Hai Tao
Wu Ya De	Zhao Jun Rong	Zhang Li Min
	Hu Wei	Au Sing Kui
	Tse Yat Hong	Lin Chu Chang
	Zhang Yang	
	Chiu Chi Cheong, Clifton	

3. Procedures

The Board holds one regular meeting each quarter and convenes ad hoc meetings when necessary. All Directors shall receive a written notice in respect of the date and the resolutions to be proposed 30 days before the regular meeting is convened, so as to ensure that they can propose issues to be discussed and to put forth in the agenda. Formal notices of all regular meetings shall be dispatched to all Directors at least 14 days before the meeting is convened, while notices of ad hoc meetings shall be dispatched at least 5 days before the meeting is convened. Any relevant documents containing the resolutions to be proposed to the Board for consideration shall be dispatched to all Directors at least 3 days before the meeting is convened. In 2011, the Board convened 9 plenary Board meetings to discuss and make decisions on issues covering the Group's operating and financial performance, planning and supervision, business development, investment and financing plans, management structure, information disclosure and nomination of Directors, details of which are set out in Chapter VI of this annual report.

Without material prejudice to or impairment of the overall capability to perform duties and authorities of the Board, the Board has granted Executive Directors certain authorities on such aspects as external investment, acquisition and disposal of assets, pledge of assets and so forth, so as to enhance the overall quality and efficiency of decision-making of the Company. The Company has also formulated the Rules of Procedures for the Executive Directors Meeting to strengthen the management of the Board on the authorised matters through establishing a regime on procedural management, documentation and regular reviews. In 2011, the Executive Directors held 5 meetings, on which they discussed and made decisions on matters regarding asset acquisition, entrusted construction of projects, management on investment and financing, human resource management and charity donations within their authorisation. Resolutions resolved by the Executive Directors have been submitted to the Board and Supervisory Committee in time.

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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 review and monitor specific matters of the Company within their designated terms of reference, and make corresponding recommendations to the Board. Before the consideration of issues such as the Company's strategies, financial reports, accounting policies, project investment and the nomination, appraisal and remuneration of the directors and senior management, the Company submits the relevant resolutions to the committees for consideration and discussion. In 2011, the specialised committees convened 13 meetings. For details on the operation of the committees, please refer to "Specialised Committees of the Board" below.

The Company's management is responsible for supplying the Board and the specialised committees with the relevant information and data necessary within a reasonable time for the consideration of various resolutions, as well as making appropriate responses or providing further information upon the Directors' reasonable enquiries, so that the Board can make rational and scientific decisions on the basis of adequate understanding of the required information. When necessary, the Directors may individually and independently contact the Secretary to the Board directly to obtain more detailed information and opinions. The Board, the Independent Directors and the specialised committees of the Board may engage professional institutions or professionals to provide professional advice for the exercise of their duties and authorities or business needs, and reasonable fees incurred shall be borne by the Company.

The Board strictly implements a voting power challenge system during the proceedings of the Board. In 2011, interested Directors abstained from voting in compliance with the voting power challenge system when the connected transactions of the Coastal Project and Longda Project were considered by the Board of the Company. In addition, Independent Directors also expressed their views on the compliance of the procedures and the fairness of the transactions.

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

IV. Directors

1. Appointment

Directors are elected or replaced at general meetings. Shareholders of the Company, the Board or the Supervisory Committee are eligible to nominate candidates for directorship. 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 election of Directors adopts the cumulative voting system. The voting on the election of Independent Directors shall be conducted separately from that of Non-Independent Directors. The Company's Rules of Procedures for the Board of Directors list the Company's requirements on the qualifications and basic qualities of Directors, the ways of nomination and the proposing procedures. 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 fifth session of the Board of the Company expired at the end of 2011. In this regard, the Company issued a voluntary announcement on 2 September 2011 explaining to all shareholders the arrangement for the handover of the Board and the matters related to nomination, including the election procedures for the new Board members, qualifications of the nominators, basic requirements for the qualifications of Directors and the required documents for the nominators and the nominees, to ensure the shareholders to have opportunities to exercise their nomination rights. On 29 December 2011, the Company convened an extraordinary general meeting and successfully elected the members of the sixth session of the Board. Details are set out in Chapter VIII of this annual report.

2. Performance of Duties in the Year

Attendance of Directors (including attendance by appointing other Directors as proxies) at the Board meetings in 2011 was 100%, while attendance in person was 92%. Attendance of members in person at the meetings of the specialised committees of the Board was 100%. The attendance of each Director at the Board meetings and specialised committee meetings during the Year is showed in the following table:

Directors	Attendance in person/Total number of meeting						
	Board	Attendance in person at Board meetings	Strategic Committee	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Yang Hai	9/9	100%	1/1	4*	2*	2/2	–
Wu Ya De	9/9	100%	1/1	4*	3*	1*	1*
Li Jing Qi	8/9 [#]	89%	1/1	–	–	–	–
Zhao Jun Rong	8/9 [#]	89%	1*	–	–	–	–
Tse Yat Hong	8/9 [#]	89%	1*	–	–	–	–
Lin Xiang Ke	8/9 [#]	89%	1*	–	–	–	2/2
Zhang Yang	8/9 [#]	89%	1*	–	–	–	2/2
Chiu Chi Cheong, Clifton	7/9 [#]	78%	1/1	5/5	3/3	–	–
Lam Wai Hon, Ambrose	8/9 [#]	89%	1/1	5/5	–	–	–
Ting Fook Cheung, Fred	9/9	100%	1*	2*	3/3	2/2	–
Wang Hai Tao	9/9	100%	1*	2*	3/3	2/2	–
Zhang Li Min	8/9 [#]	89%	–	5/5	–	–	2/2

#: 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.

*: Observed at the meeting.

During the Reporting Period, the Company's Directors took the initiative to understand the Company's operation and operating development, attended Board meetings and specialised committee 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.

3. Independent Directors and Their Independence

The Company has appointed a sufficient number of Independent Directors. 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. The Board has obtained written confirmations from all Independent Directors concerning their independence in accordance with the requirements under Rule 3.13 of the Listing Rules of HKEx. The Company believes that, for the year ended 31 December 2011, the Independent Directors of the fifth session of the Board have all complied with the relevant guidelines as stipulated in such rule and are regarded as independent.

In 2011, apart from attending Board meetings and specialised committee meetings seriously, the 4 Independent Directors of the Company have provided written independent opinions on matters such as the Company's external guarantees, changes in accounting estimates, connected transactions, nomination and remuneration of the directors, and convened two meetings with the external auditors to discuss the annual audit arrangement and problems identified in the audit.

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During the Year, Lam Wai Hon, Ambrose and Ting Fook Cheung, Fred, Independent Directors, voted against the resolution as considered by the Board on entering into a contract with People's Government of Longli County Guizhou Province to develop Guilong Project. Lam Wai Hon, Ambrose, an Independent Director, indicated that the performance of the contract might expose the Company to risks and prejudice to the future development of the Company and Ting Fook Cheung, Fred, an Independent Director, expressed that it would bring the Company with higher risks to perform the contract, and in particular when the external environment became worse, it would bring relatively adverse effect to the Company. Having comprehensively considered the current operating environment and risk control measures, the Board had the opinion that it would be a desirable attempt to conduct this project for the sake of the Company's business expansion and the overall development strategies of the Company, and thus the Board approved the project. The Company also fully appreciated the opinions expressed by the Independent Directors, and took measures to reduce and control the risks. Therefore, the Company subsequently introduced and worked with partners to develop the project. Details are set out in the announcement and information of the Company dated 12 August and 27 October 2011. Other than the matter as mentioned above, the Independent Directors gave no dissent to the matters discussed by the Board and did not propose to convene any Board meeting and general meeting or publicly collect voting rights from shareholders during the Reporting Period.

4. Remunerations of Directors

The Company has been disclosing the remunerations of Directors, Supervisors and senior management on a named basis. For details of the Company's remuneration policies, the appraisals and incentive regimes for senior management and the annual remunerations of the management, please refer to Section 3 Report of the Remuneration Committee in this Chapter.

5. Securities Transactions by Directors

The Securities Transaction Code of the Company has been adopted by the Board in accordance with Appendix 10 to the Listing Rules of HKEx entitled "Model Code for Securities Transactions by Directors of Listed Issuers" and the relevant requirements of domestic securities regulatory authorities as a written guideline to regulate dealings in the Company's securities by the Directors, Supervisors and relevant staff members, and timely updates have been made. The Securities Transaction Code of the Company has incorporated the standards under Appendix 10 to the Listing Rules of HKEx, and has gone beyond such standards to a certain extent.

After making specific enquiry to all the Directors, Supervisors and senior management, the Company confirms that none of them held or dealt with the securities of the Company and all of them have complied with the standards on securities transactions as stipulated in the aforementioned code during the Reporting Period.

6. Insurance on Directors' Liabilities

In accordance with the approval and authorisation of the general meeting, the Company has purchased liability insurance for the Directors, Supervisors and senior management since 2008.

7. Support for Performance of Duties

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. Each Director is provided with channels to independently contact and communicate with the Company's senior management and secretaries to specialised committees when necessary.

In 2011, the Company offered supports to the Directors for their performance of duties through:

- ◆ arrange the management to report at Board meetings on the progress of the Group's substantial matters;
- ◆ arrange annual reporting sessions to report to the Directors in details on the Group's operation and financial condition;
- ◆ arrange the Directors to visit the Guilong Project and Qinglian Project on site in June 2011 and October 2011 respectively to enable the Directors to have an understanding of the progress of the key works and specific works in a timely and deeper manner;
- ◆ prepare five issues of "Reference Document Summaries" and six issues of "Market News Briefings", to provide the Directors with the most updated regulatory policy documents and relevant reports and analyses on the securities market and the news media;

- ◆ arrange the Independent Directors and candidates for Independent Directors to participate in training sessions organised by securities regulatory authorities, and invite Company's legal advisor to hold lectures for the Directors on the updates of rules and regulations. In January 2012, after the new Directors had reported duties, the Company provided them with Director's Manual and arranged an orientation activities for them to enable them to have a comprehensive and systematic understanding of the basic operations of the Company and the domestic and overseas requirements and principles related to corporate governance.

V. Specialised Committees of the Board

Five specialised committees have been set up under the Board. Each committee has formulated its terms of reference which explicitly explain and define their duties and powers, and such terms of reference are subject to the approval of the Board. The terms of reference of each committee are available on the website of the Company for the access of investors and the public.

Members of the specialised committees are appointed by the Board. Each session has a term of three years, consistent with the term of the Board. Other than the Strategic Committee, the chairmen of other specialised committees are held by the Independent Directors. During the Reporting Period, the composition of each committee was as follows:

	Strategic Committee	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Chairman:	Yang Hai	Lam Wai Hon, Ambrose <small>Independent Director</small>	Ting Fook Cheung, Fred <small>Independent Director</small>	Wang Hai Tao <small>Independent Director</small>	Zhang Li Min <small>Independent Director</small>
Members:	Wu Ya De Li Jing Qi Chiu Chi Cheong, Clifton Lam Wai Hon, Ambrose <small>Independent Director</small>	Chiu Chi Cheong, Clifton Zhang Li Min <small>Independent Director</small>	Chiu Chi Cheong, Clifton Wang Hai Tao <small>Independent Director</small>	Yang Hai Ting Fook Cheung, Fred <small>Independent Director</small>	Lin Xiang Ke Zhang Yang

In January 2012, the Board organised a new session of specialised committees. The composition of each committee is as follows:

	Strategic Committee	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Chairman:	Yang Hai	Zhang Li Min <small>Independent Director</small>	Wang Hai Tao <small>Independent Director</small>	Wang Hai Tao <small>Independent Director</small>	Au Sing Kun <small>Independent Director</small>
Members:	Wu Ya De Li Jing Qi Chiu Chi Cheong, Clifton Lin Chu Chang <small>Independent Director</small>	Chiu Chi Cheong, Clifton Au Sing Kun <small>Independent Director</small>	Chiu Chi Cheong, Clifton Zhang Li Min <small>Independent Director</small>	Yang Hai Lin Chu Chang <small>Independent Director</small>	Zhang Yang Hu Wei

The Company has appointed appropriate management personnel to serve as the secretaries to the committees. All items passed at the meetings of the committees are recorded and on file. The chairmen of the committees are responsible for the report on the work of the committees at the Board meeting, and submission of relevant minutes for filing. The duties of each committee in 2011 are set out as follows:

1. Strategic Committee

The Strategic Committee was established in November 2001. It is responsible for studying the directions of the Company's strategic development, considering 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.

During the Reporting Period, the Strategic Committee held one meeting, at which the committee heard the specific report from the management on the work and proposal for the implementation of the strategic objective of the Company, and made a profound analysis and have discussions on such matters as the core business of the Company and the expansion into new industry.

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2. **Audit Committee**

The Audit Committee was established in August 1999. It comprises Non-executive Directors, with the majority being Independent Directors. The committee 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; coordinating the auditors' work and reviewing the efficiency and quality of their work and their appointments; and reviewing written reports furnished by internal audit officers as well as the management's feedback to such reports. As approved by the Board, the committee also took the responsibility of the control and daily management of connected transactions of the Company since 2011. The Audit Committee has the regime of holding independent meetings at the request of auditors, the Company's management or the Audit Department, so as to ensure independence and objectivity of reporting. During the year, the Audit Committee and the auditors held one independent meeting.

In 2011, the major tasks of the Audit Committee include periodical review of the financial statements, examination of connected persons list, supervision and evaluation of the internal control systems, coordination and evaluation of the work of auditors and making recommendations for appointments. The committee has submitted a specific report on progress of each task. For details, please refer to Section 2 Report of the Audit Committee in this Chapter.

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 senior management, and conducting appraisals thereof.

In 2011, the major tasks of the Remuneration Committee include appraisal of the management's operating performance during the previous year, examination of the management's operating targets for this year, review of the remuneration package and the disclosure of the Directors and senior management, and the submission to the Board of the proposed remuneration package for the Directors of the sixth session of the Board. The committee submitted a special report on the progress of each task and the Company's remuneration and benefit policy and performance appraisal system as of the date of this report. For details, please refer to Section 3 Report of the Remuneration Committee in this Chapter.

4. **Nomination Committee**

The Nomination Committee was established in November 2001. It comprises mainly Independent Directors. It is responsible for examining or 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 senior management.

In 2011, the Nomination Committee held two meetings, at which the committee reviewed the candidates for directorship and their qualifications, and discussed the setting up and composition of the new session of the specialised committees of the Board.

5. **Risk Management Committee**

The Risk Management Committee was established in August 2004 and comprises Non-executive Directors. The Committee is responsible for formulating policies on risk management, instructing the management to establish a risk management system, supervising the group's overall risk position, and analysing and monitoring the risk position of the Company's material projects.

In 2011, the Risk Management Committee held two meetings, at which the committee reviewed the annual risk review and management plans of the Company, and examined the modification of financial risk warning systems by the Company and the risk assessment on Guilong Project.

VI. Audit Supervision

The financial statements contained in the Company's 2011 annual report were prepared in accordance with CAS, and have been audited by PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. ("PwC Zhong Tian"). During and prior to the accounting year of 2010, the Company prepared two financial statements in accordance with HKFRS and CAS, respectively. Upon the acceptance of CAS by HKEx, the Company determined to prepare one version of financial statements according to CAS commencing from the accounting year of 2011, so as to improve the efficiency, reduce the cost for disclosure and enhance the consistency of the disclosed information. Upon the approval of general meeting, the Company appointed PwC Zhong Tian as the Company's statutory auditors for the year 2011, to perform such duties as performed by the Company's international auditor as provided in the Listing Rules of the Stock Exchange. PricewaterhouseCoopers ("PwC Hong Kong") resigned as international auditors for the Company on 17 May 2011. In addition, PwC Zhong Tian was appointed as the Company's auditor on internal control for the year 2011. PwC Zhong Tian was appointed as statutory auditors since 2004. It has been providing audit services to the Company for 8 consecutive years and has changed its endorsing certified public accountants in 2006, 2008, 2009 and 2011 respectively.

The remunerations of the Company's auditors (PwC Zhong Tian and any other entities under the common control, ownership or management, including but not limited to PwC Hong Kong) in the year 2011 are set out as follows:

(Unit: RMB'000)	2011	2010
Financial statements audit / review fees	2,980	3,400
Internal control audit fees	700	–
Specific service fees related to issue of securities	100	–
Others ⁽²⁾	484	304

Notes:

- (1) The auditors have submitted to the Company a written confirmation in respect of the total amount of the aforementioned remuneration.
- (2) JEL Company has been consolidated into the Company's financial statements since 1 July 2011. During the year 2010 and 2011, the company engaged PwC Hong Kong to perform audit service. The audit fees amounted to HKD400,000 and HKD400,000 respectively.
- (3) Qinglian Company and Advertising Company, the Company's subsidiaries, engaged Pan-China Certified Public Accountants Company Limited to perform audit services. The audit fees for the year 2011 amounted to RMB80,000 and RMB20,000 respectively (2010: RMB80,000 and RMB20,000).

The Audit Committee is responsible for conducting a comprehensive and objective assessment on the completion of the annual audit and the quality of professional services of the auditors, and made recommendations to the Board in respect of the appointment or replacement of auditors. The appointment or replacement of auditors as well as the determination of audit fees are proposed by the Board at the general meeting for the approval or authorisation. The Audit Committee has conducted a summary evaluation on the 2011 auditing work and has made proposals to the Board on the appointment of the Company's auditors for 2012. For details, please refer to Section 2 Report of the Audit Committee in this Chapter.

VII. Supervisory Committee

The Supervisory Committee is accountable to the shareholders' general meetings and independently exercises its supervising authority upon the Company in a lawful manner, to prevent the legal rights and interests of the shareholders, the Company and its staff from being infringed. The Supervisory Committee's main duties include examining the financial positions of the Company, supervising the Company's decisions and their operating procedures on material operational activities and connected transactions, supervising the acts of the Directors and senior management discharging their duties to ensure its lawfulness and compliance. The Articles and its appendix (the Rules of Procedure for the Supervisory Committee) of the Company set out the powers and authorities of the Supervisory Committee in details.

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The Supervisory Committee of the Company is composed of three Supervisors, including two shareholders' representative Supervisors and one staff representative Supervisor. The size and composition of the Supervisory Committee are in compliance with the requirements of the relevant laws and regulations. During the Reporting Period, the members of the Supervisory Committee were Zhong Shan Qun (Chairman of the Supervisory Committee), He Sen and Fang Jie. The current Supervisory Committee is the fifth session of the Company, with a term from 1 January 2009 to 31 December 2011. Upon the election of general meeting and annual staff representatives' meeting of the Company, the aforementioned individuals continue to hold the positions of Supervisors for the sixth session of the Supervisory Committee of the Company, with a term from 1 January 2012 to 31 December 2014, and Zhong Shan Qun, a Supervisor, was elected again as the chairman of the Supervisory Committee. For the biographies (including professional experiences and principal positions in shareholder entities), term of the Supervisors and the general election of Supervisors, please refer to Chapter VIII of this annual report.

In 2011, the Supervisory Committee held six meetings, and represented the shareholders to supervise the Company's finance and the performance of duties by the Directors and senior management to ensure its lawfulness and compliance. Details of the performance of duties by the Supervisory Committee are set out in Chapter X of this annual report.

VIII. Internal Control

The Board is responsible for developing and maintaining an internal control system of the Company to review the effectiveness of important control procedures for finance, operations, compliance and risk management, thereby protecting shareholders' interests and safeguarding the Group's assets.

Under the authorisation granted by the Board, the Audit Committee is responsible for continuous supervision and review of the soundness and effectiveness of the Company's internal control system, and reporting the same regularly. In August 2000, the Company established the Audit Department which is responsible to the Audit Committee. The Department is responsible for reviewing the Company's operating and management activities and the effectiveness of internal control system independently, and directly reporting to the Audit Committee.

To further fulfill the requirements of Internal Control of Enterprises-Basic Principles ("Basic Principles") and relevant Supplementary Guidelines jointly issued by five ministries including Ministry of Finance, the Company formulated the implementation plan for internal control in 2011, further specifying the tasks and targets for the establishment and improvement of internal control system, self-assessment and auditing. During the Reporting Period, all the main tasks progressed as scheduled, and the Company's internal control system was further strengthened.

In 2011, the Board evaluated the related internal control in the Group's financial report according to the Basic Principles. The scope of evaluation includes the Company, Advertising Company, Qinglian Company and Magerk Company, which was the three main subsidiaries of the Company, and covered main business and matters of these aforementioned companies. In the opinion of the Board, the Group has established internal control for the business and matters being incorporated in the scope of evaluation, and has implemented effectively to meet the Company's goal for internal control, and there was no material deficiency. In addition, PwC Zhong Tian appointed by the Company has audited the effectiveness of internal control relating to the financial reporting, and issued unqualified audit opinion.

During the course of self-assessment on the internal control system, the Company has considered five major basic aspects of internal control, namely control environment, risk assessments, control activities, information and communication, and supervision. The identification and evaluation results of each aspect are summarised as follow:

Control Environment	<p>Corporate governance structure is clear with regulated operation; the Board is composed of Directors with appropriate knowledge, skills and qualities, and has sound structure and division of duties.</p>
	<p>A President Accountability System under the leadership of the Board and a Delegated Representative System through authorisation were established; internal functional unites were properly set-up, with timely adjustment, division of duties and authorisation based on business development needs; relevant regulations on the avoidance of appointment of financial personnel were formulated and the organisational structure and division of duties of financial department are reasonable and is in compliance with the internal control system.</p>
	<p>Development strategies were formulated, and a comprehensive budget, quality, risk and performance management system was implemented with up-to -date management tools to ensure the achievement of the overall strategic goal.</p>
	<p>The management attached importance to the cultivation of corporate culture, set up fundamental direction of integrity and stable development, and formulated the “Employee Manual” and the “Anti-fraudulent Work Regulation” to regulate employees’ behaviors, integrity and conduct.</p>
	<p>National laws and regulations and policies are strictly complied with, the documents on the procedures for and implementation of human resources management were prepared, detailed procedures for employment, enrollment, training, appraisal, remuneration and benefits and demission of employees were developed.</p>
Risk Assessments	<p>Uniform Procedures for Risk Control Management were established to define the risk assessment model and the risk evaluation criteria, and qualitative evaluation was carried out to evaluate risks from two dimensionalities, i.e. probability and impact of the risks.</p>
	<p>On preparation of the annual work plans and special plans, those risk factors that may affect the achievement of the goals were comprehensively identified and assessed, and correspondent risk response measures and annual risk management plan were formulated, material risks on the corporation level was identified as the key area of the annual risk management, and the implementation of the risk management plan were reviewed and assessed in the middle and at the end of the year.</p>
	<p>In 2011, the annual indicators and intervals of the financial warning were reviewed and revised, the Group’s financial risks warning indicator system was monitored monthly and the results was reported to the Company’s management and Risk Management Committee of the Board.</p>
Control Activities	<p>A general internal control management system covering various segments and such key areas of management supporting those segments as investment, project construction, maintenance and repair, toll collection, financial management, know-how and information management, human resources, information disclosure, management of invested companies and internal audit was established.</p>
	<p>Such control measures as incompatible duties separation control, authorisation approval control, accounting system control, asset protection control, budget control, operation analysis control and performance assessment control were adopted, and the documentation of internal control management system was continuously improved and modified in line with the change of business development and relevant regulations, so as to ensure the compliance, rationality and applicability of the Company’s internal control management system.</p>
Information and Communication	<p>The management prepared and submitted to the Board a quarterly analysis report on the operating activities and timely reported to the Board on important or sensitive information and extraordinary issues regarding the Company.</p>
	<p>Meetings for management members were regularly convened so that they are able to timely understand the operation of the invested enterprises and the progress of constructions and the spending of the budget for each project.</p>
	<p>The Rules Governing Information Disclosure Matters of the Company was effectively implemented during the reporting period. The Company has set up the Responsibility, System for Major Errors in Information Disclosure in Annual Reports. During the Reporting Period, there was no major error in information disclosure in the Company’s Annual Report.</p>
	<p>A wide range of investor relation activities was held to promote a full understanding of the operations and development prospects of the Company by investors and the public; dedicated staff members were assigned to collect, process and analyze external information in order to prepare reports for internal circulation; an investor hotline and customer enquiry and complaint hotlines were set up to conscientiously handle opinions and suggestions made by investors and customers.</p>
	<p>Independent hotline, email box and mailbox for reporting fraud were set up, and posted in the internal and external websites of the Company.</p>

Corporate Governance

Internal Supervision	A documentation system for management supervision were established.
	The Standards Management Department was set up as an internal quality control unit to continuously examine the compliance of the internal control system of the Group; an "Internal Auditor" system was set up under which the internal auditor is responsible for routine examination and self-evaluation of the implementation of the internal control procedure.
	A supervision system on the internal control inspection was set up on the basis of Internal Control Manual and self-assessments on internal control were regularly carried out.
	During the Reporting Period, the Audit Department carried out a comprehensive review, walk-through test and sample test on the Internal Control Manuals of the Company, Qinglian Company, Advertising Company and Magerk Company. In respect of any internal control deficiency found in the tests, it timely offered feedback to the management for carrying out rectification.
	The Audit Department has reviewed all periodic reports prepared by the Company during the Reporting Period. It has reviewed the preliminary drafts of the periodic reports to ensure the compliance with statutory rules on disclosure and completeness and accuracy of the disclosed issues; and submitted internal review reports to the Audit Committee.

The purpose for the establishment of the internal control system is to manage the potential risks as it will be unrealistic to eliminate all of the risks. In view of the inherent limitations in the internal control system, the Company's internal control system only provides reasonable but not absolute assurance to the achievement of the Company's operation goals. Meanwhile, the Company also believes that the coverage of internal control should be in line with the Company's operating scale, business scope, competition condition and risks levels, and shall be timely adjusted to reflect the change of circumstances. It would be a persistent and continuous task to improve the internal control system, regulate the implementation of the system and strengthen the supervision and examination of the internal control.

IX. Conclusion

The Company clearly understands that its commitment to the enterprise concept of integrity and diligence, adherence to sound corporate governance principles, efforts to enhance transparency and independence of its operations and the establishment of an effective accountability system all contribute to ensure its stable development and enhance shareholders' value, while a scientific and regulated decision-making system, a supervisory system with check and balance and effective execution are fundamental to the healthy and sustainable development of the Company. Therefore, the Company will continue to review and enhance its governance structure, establish sound operational rules, and continuously improve management efficiency and corporate governance to ensure its stable development and enhance shareholders' value.

By order of the Board
Yang Hai
Chairman

Shenzhen, PRC, 28 March 2012