

Corporate Governance





The Company always aims to ensure stable business development and enhance value for shareholders through its commitment to the corporate values of integrity and diligence. It is our firm belief that such an aim would be achieved by persistent adherence to sound corporate governance principles, efforts to enhance transparency and independence of the Company's operations and the establishment of an effective accountability system.

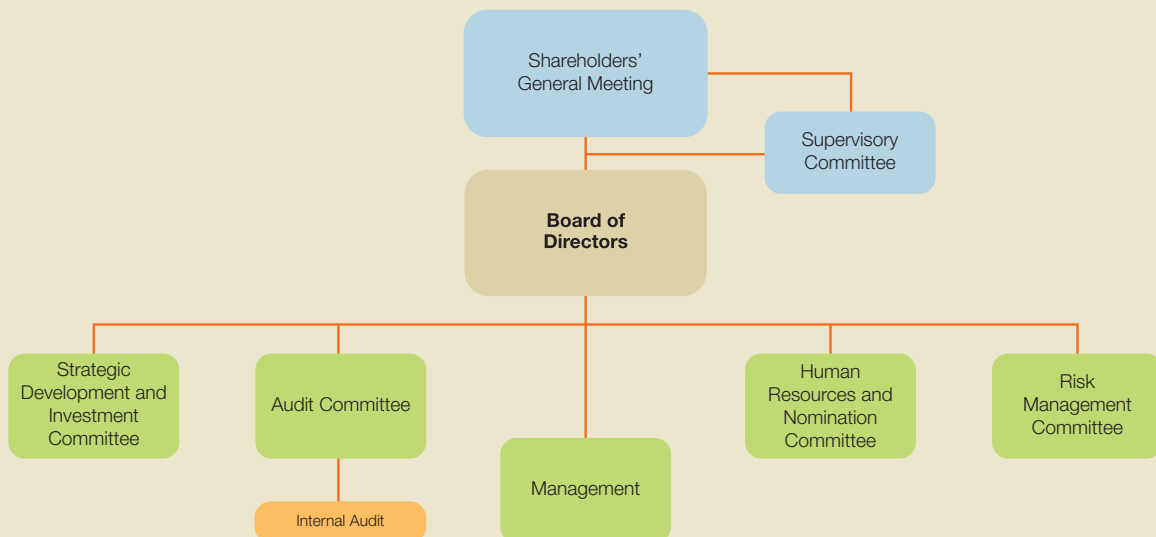
Board of Directors

The Board is composed of twelve Directors, including four Independent Non-executive Directors. The Board is in its third session since the establishment of the Company. The terms of office of the current Directors are from 1 January 2003 or the respective dates of their appointments to 31 December 2005.

The principal duties of the Board is to exercise management and decision-making power as conferred by the Shareholders' General Meeting (the "General Meeting") in respect of corporate development strategies, management structures, investment and financing, planning, financial control and human resources and so forth.

Directors are elected or replaced at the General Meeting, where the election is conducted by way of cumulative voting. Shareholders of the Company, the Board or the Supervisory Committee are eligible to nominate candidates for directorship in writing. The directors serve for a term of three years and may offer themselves for re-election. The office of Independent Non-executive Director shall be undertaken by appointees not related to the Company's management and substantial shareholders in any aspect. Independent Non-executive Directors are eligible for re-election subject to a maximum term of six years.

The roles of the Chairman and the General Manager are distinctively separated and the positions are undertaken by different persons. The Chairman is responsible for overseeing the operation of the Board and monitoring the implementation of the Board's resolutions, whilst the General Manager is responsible for managing and overseeing the Group's business operations, implementing the strategies laid down by the Board and making day-to-day operating decisions with the support and assistance of the Board and senior management of the Company.



Members of the Board are from different industry backgrounds with expertise in corporate management, finance and accounting, investment banking, highway management and construction and human resources management. Brief biographies of the Directors are set out on pages 78 to 81 of this annual report.

Two Directors (being 1/6 of the total number of Directors) undertook specific management duties for the Company in 2004, enabling the Board to exercise close assessment and monitoring of the Company's management process.

The Board currently has four Independent Non-executive Directors, representing 1/3 of the total number of Directors. The incumbent Independent Non-executive Directors of the Company have extensive professional experience, and they all participated in the Board in a highly conscientious and responsible manner. They have played an important check-and-balance role to safeguard the interests of the Company and the shareholders as a whole by ensuring that reporting on the Company's financial or other matters is properly conducted at the Board, and by furnishing independent views and advice to the Board and independent shareholders in respect of significant matters and connected transactions of the Company.

The Company held eight board meetings in 2004 to discuss the Group's development strategies, investment projects and the operational and financial performance of the Company. The Board meetings proceeded efficiently and arrived at prompt and prudent decisions. There was an 100% attendance rate (including attendance by appointing other Directors as proxies) for all Board meetings in 2004, details of which are set out on page 19 of this annual report.

Through the Company Secretary, the Directors obtain timely information and updates relating to statutory, regulatory and other ongoing obligations that directors of a listed company must comply with, ensuring understanding of their duties and assuring thorough implementation of procedures of the Board and due compliance with applicable laws and regulations. The Directors, as well as the

Specialised Committees of the Board, may seek the advice of independent professional institutions in the course of exercising their powers, performing their duties or fulfilling any business requirements. Reasonable expenses incurred in this connection will be borne by the Company.

Matters pertaining to Directors' remuneration are determined at the General Meeting. Details of directors' remuneration are set out under the section headed "Remuneration of the Directors, Supervisors and Senior Management" on pages 66 to 68 of this annual report.

Specialised Committees of the Board

Four Specialised Committees have been set up under the Board, each with particularly defined terms of reference to monitor specific areas of the Company's business:

Audit Committee

Established in August 1999 in line with best practices in corporate governance with its terms of reference drawn from proposals set forth in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants, the Audit Committee is principally responsible for reviewing and monitoring the quality and procedures of the Group's financial reporting; evaluating the soundness and effectiveness of the Company's internal control regimes; reviewing the appointment of independent auditors and coordination and reviewing the efficiency and quality of their work; and reviewing all written reports furnished by internal audit officers as well as management feedback to such reports.

The Audit Committee currently comprises Mr. Ho Pak Cho, Denis Morgie* (chairman), Mr. Chiu Chi Cheong, Clifton and Mr. Poon Kai Leung, James*. In accordance with the Company's Regulations on the Operation of the Board of Directors (《董事會工作條例》), members of the Audit Committee shall serve for a term of three years and at least one new member must be appointed upon the expiry of each term.

* Independent Non-executive Director

The Audit Committee held six meetings during 2004, presided over by Mr. Ho Pak Cho, Denis Morgie, the chairman. Details of attendance are set out on page 19 of this annual report. With a view to enhancing the independence of the external auditors, some of these meetings were only attended by the committee and the external auditors. All matters passed at the committee meetings have been properly recorded and filed in accordance with relevant rules. Following each meeting, the chairman submitted a report to the Board on significant matters discussed, and also reported the status and progress of the committee's work at least once every six months.

Major tasks accomplished by the Audit Committee during the Year included the following:

- Reviewing the annual, interim and quarterly reports and financial statements of the Group, as well as management recommendations furnished by the external auditors and the responses from the Company's management;
- Reviewing the accounting policies and practices adopted by the Group and related matters;
- Recommending to the Board the establishment of a risk management committee to assist the Board in undertaking risk management duties;
- Recommending the formulation of Rules Governing the Selection and Appointment of Independent Financial Advisers (《獨立財務顧問選聘管理辦法》) to ensure that all connected transactions of the Company are fair, impartial and open, offering full protection to the interests of minority shareholders;

- Assisting the Board to conduct independent evaluation of the effectiveness of the Group's financial reporting procedures and internal control systems;
- Monitoring the Company's internal audit;
- Furnishing opinions or reminding the management of related risks in respect of significant matters of the Company.

Strategic Development and Investment Committee

Established in November 2001, the Strategic Development and Investment Committee ("SDIC") is principally responsible for examining and reviewing the directions of the Company's strategic development, formulating the Company's strategic plans, monitoring the implementation of strategic planning, and facilitating timely adjustments to the Company's strategies and governance structure.

Strategic Development and Investment Committee



Human Resources and Nomination Committee



Audit Committee

SDIC currently comprises Mr. Chen Chao (chairman), Mr. Wu Ya De, Mr. Chiu Chi Cheong, Clifton and Mr. Li Zhi Zheng*.

One SDIC meeting was held during 2004. At the meeting, the analysis report on the Company's development strategies was reviewed and views were furnished to the Board for defining the Company's medium to long term development strategies and objectives. The terms of reference of SDIC were also reviewed and revised. Details of attendance are set out on page 19 of this annual report.

Human Resources and Nomination Committee

Established in November 2001 as the Human Resources and Remuneration Committee and subsequently renamed Human Resources and Nomination Committee ("HRNC") in January 2003, HRNC is responsible for reviewing or devising the Company's human resources development strategies and planning; examining and reviewing the Company's human resources policies, remuneration policies and incentive regime, and making proposals in respect of the appraisal, appointment/removal and nomination of directors and members of the senior management.

HRNC currently comprises Mr. Li Zhi Zheng* (chairman), Mr. Chen Chao and Mr. Zhang Zhi Xue*. HRNC held three meetings during 2004, all of which were presided over by Mr Li Zhi Zheng with full attendance by all committee members. Details of attendance are set out on page 19 of this annual report.

Major tasks accomplished by HRNC during the Year included the following:

- Reviewing the Company's regime for the nomination of directors and revising corresponding sections in the Rules on Corporate Governance (《公司治理規則》);
- Reviewing and furnishing comments on the restructuring plan for staff remuneration and welfare proposed by the Company's management;
- Making proposals and initiating discussions to improve the organisation structure for the senior management team;

* Independent Non-executive Director

- Reviewing nominations of senior management members to be appointed by the Board;
- Giving guidance to staff training programmes, especially in relation to senior management;
- Reviewing and revising the Company's performance management system based on the principle of integrating corporate performance and personal performance;
- Providing advice regarding the management of company representatives appointed to the enterprises invested by the Company.

Risk Management Committee

Established in August 2004, the Risk Management Committee ("RMC") is principally responsible for supervising the Company's overall risk management and keeping such risks under reasonable control in accordance with the Company's general risk management policies. It seeks to ensure that risks of various nature associated with the Company's operating activities are effectively managed. At the initial stage of RMC's establishment, the major tasks of RMC are to improve and enhance the Company's procedures and systems for managing its investment activities and to provide support for the Company's business decisions and operations by performing risk analysis and controls in relation to individual investment projects.

RMC currently comprises Mr. Poon Kai Leung, James* (chairman), Mr. Zhong Shan Qun and Ms. Zhang Yang. One RMC meeting was held during 2004. At the meeting, the two investment projects proposed to the Board by management were reviewed and recommendations were furnished to the Board. Details of attendance are set out on page 19 of this annual report.

Attendance at meetings of the Board/Supervisory Committee and Specialised Committees

(attendance in person/number of meetings):

| Name | Board/ Supervisory Committee | Audit Committee | HRNC | SDIC | RMC |
|--|------------------------------------|--------------------|------|------|-----|
| Directors | | | | | |
| Chen Chao | 8/8 | — | 3/3 | 1/1 | — |
| Wu Ya De | 8/8 | — | — | 1/1 | — |
| Zhang Rong Xing | 6/8 [#] | — | — | — | — |
| Chiu Chi Cheong, Clifton | 6/8 [#] | 6/6 | — | 1/1 | — |
| Zhong Shan Qun | 8/8 | — | — | — | 1/1 |
| Tao Hong | 7/8 [#] | — | — | — | — |
| Lin Xiang Ke | 7/8 [#] | — | — | — | — |
| Zhang Yang | 7/8 [#] | — | — | — | 1/1 |
| Independent Non-executive Directors | | | | | |
| Ho Pak Cho, Denis Morgie | 5/8 [#] | 6/6 | — | — | — |
| Li Zhi Zheng | 7/8 [#] | — | 3/3 | 1/1 | — |
| Zhang Zhi Xue | 8/8 | — | 3/3 | — | — |
| Poon Kai Leung, James | 4/8 [#] | 5/6 | — | — | 1/1 |
| Supervisors | | | | | |
| Wang Ji Zhong | 6/6 | — | — | — | — |
| Yang Qin Hua | 6/6 | — | — | — | — |
| Yi Ai Guo | 6/6 | — | — | — | — |

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

Control Mechanisms

Supervisory Committee

The Supervisory Committee exercises independently the power of supervision upon the Company in accordance with the law to protect the lawful rights of the shareholders, the Company and its staff against any infringement. The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations. The Supervisory Committee held six meetings during 2004 to carry out supervision on behalf of the shareholders in respect of the Company's financial matters and the lawfulness and compliance on the discharge of duties by the Directors and senior management. The Supervisory Committee attended all Board meetings and diligently performed its supervisory duties. Details of attendance of the Supervisory Committee meetings are set out on the above table of this page.



Supervisory Committee

Internal Control and Audit

The Board is responsible for developing and maintaining an internal control system of the Company to protect shareholders' interest and to safeguard the Group's assets by reviewing the control procedures for financial, operational and supervisory matters. Such internal control system is implemented by the management upon the authorisation of the Board and the effectiveness of the internal control system is reviewed by the Audit Committee from time to time.

The Company's internal audit department has been operating since August 2000 for the purpose of reviewing the internal control system in a more effective manner. Depending on the materiality of potential risks existing in the internal control systems of various businesses and processes of the Company, the internal audit department carries out inspection, supervision and evaluation of the Company's financial information disclosure, operations and internal control activities on a regular or as-needed basis, with the purpose of ensuring transparency in information disclosure, operational efficiencies and effectiveness of the corporate control regimes. It furnishes independent and objective evaluations and recommendations in the form of audit reports. Internal audit officers are authorised to access any data relating to the Company and to make enquiries to staff concerned, and the audit manager will directly report to the Audit Committee on the findings and views, on the basis of which the Audit Committee will make recommendations to the management and submit regular reports to the Board.

The Company always pays great efforts in internal control and to that end the Company has developed corresponding internal management systems and procedures in areas including corporate governance, operation, construction, finance, administration and personnel management and so forth. In December 2004, the Company's Internal Control System document was reviewed and approved by the Board. This document contains a comprehensive overview and description of the objectives, content, methods and duties of the internal control system, and will facilitate ongoing examination and evaluation of the Company's compliance with existing rules and regulations and of the effectiveness of internal control.

Financial Controller

The Financial Controller oversees all financial matters of the Company and is accountable to the General Manager. The Financial Controller is responsible for preparing financial statements in accordance with the PRC and Hong Kong accounting standards and in compliance with relevant provisions of HKEX, CSRC and SSE. The Financial Controller is also responsible for organising the preparation of the Company's annual budget plans and annual accounts and monitoring the implementation of annual financial and operational plans. The Financial Controller is also required to collaborate with the Board in the formulation of relevant internal control systems and to make recommendations thereof to the Board.

Shareholders, Investor Relations and Other Stakeholders

The Company strives to ensure that all shareholders, especially the minority shareholders, are able to fully exercise their rights on an equal basis.

General Meetings

The General Meeting is vested with the supreme authority of the Company, where powers are exercised in accordance with the law to determine significant matters of the Company. The Annual or Extraordinary General Meeting provides a channel for direct communication between the Board and the shareholders. The Company puts high regard to the General Meetings. The notice on the convening of a General Meeting is issued 45 days prior to the date of the meeting, and all Directors and members of the senior management are requested to make their best effort to attend. All shareholders are encouraged to attend General Meetings and make their voice heard.

Substantial Shareholders

As substantial shareholders of the Company, XTC Company (with a 30.03% interest) and SGH Company (with a 20.99% interest), conduct their activities in a regulated manner. They have never been involved in any acts of by passing the General Meeting in ultra vires interference, whether directly or indirectly, with the

Company's policy decisions or operations. The Company and the substantial shareholders are independent from each other in terms of staffing, assets, finance, institution and business.

Information Disclosure and Investor Relations Management

The Company Secretary is responsible for information disclosure of the Company and reception of visiting shareholders and investors. The Company also set up a public relations department in 2004 to enhance the management of investor relations. The Company has formulated the Rules Governing Information Disclosure (《信息披露管理制度》) and the Information Management System (《信息管理制度》) to ensure openness, fairness and impartiality in information disclosure and to enhance transparency.

The Company is making constant efforts to enhance its management of investor relations. For the Company's philosophy, communication channels and accomplishments during the Year in the area of investor relations, please refer to pages 22 to 23 of this annual report.

Other Stakeholders

While dedicated to seeking sound rewards for shareholders, the Company is also committed to its customers, in terms of provision of quality services, and to its staff, by making available opportunities for career development. With strong commitment to shareholders, investors, staff, customers, suppliers and the community at large and always acting with integrity and in good faith, the Company pledges to contribute to the society while pursuing profit growth, by managing and growing its business within the bounds of local laws and environmental regulations, improving its standard of corporate governance and actively participating in social welfare and environmental concerns. We firmly believe that the sustainable development of a company cannot be achieved in isolation from a healthy social environment. Noble corporate behaviour is also instrumental for enhancing a company's competitiveness, and it is our duty and obligation to help improve the society and environment on which our very existence depends.

Rules on Corporate Governance

The Rules on Corporate Governance (《公司治理規則》) are being implemented with full force in all aspects of the Company's operation, following the conclusion of the drafting and editing process in 2001. The handbook of the Rules on Corporate Governance contains the Articles of Association of the Company, Regulations on the Operation of Shareholders' General Meetings (《股東大會工作條例》), Regulations on the Operation of the Supervisory Committee (《監事會工作條例》), Regulations on the Operation of the Board of Directors (《董事會工作條例》), Regulations on the Operation of the General Manager (《總經理工作條例》) and terms of reference for the Audit Committee, SDIC and HRNC. The Company's Articles of Association were also revised in 2004 to assure compliance with relevant provisions laid down by domestic and foreign regulatory authorities in the context of the Company. Additions and revisions regarding the nomination of directors have been made to Regulations on the Operation of the Board of Directors to enhance its guiding effect. We have also formulated the terms of reference for RMC, while the Rules on Corporate Governance are being supplemented and updated from time to time.

Conclusion

The corporate governance regime adopted by a company is an indication of the standard in managing and operating its business. Sound corporate governance contributes to the healthy development of a company and enhances investors' confidence in the Company. To be effective in corporate governance, relevant measures must be reviewed on a regular basis to ensure that they are in tandem with market trends and requirements of regulatory authorities. It is a long-term goal of the Company to achieve unwavering corporate system leadership, through establishing and improving upon a modernised corporate system. As such, we will continue to enhance corporate governance as part of our efforts to ensure stable development and increase shareholders' value.