

CORPORATE GOVERNANCE REPORT



I. Corporate Governance Practice

Sound corporate governance is a guarantee for healthy development of an enterprise and investors' confidence. To comply with the revised Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange, the Company accelerated the improvement of corporate governance towards a higher level, thus achieving its stable operations and healthy development.

On 1 January 2005, the Code of Corporate Governance Practice ("the Code") promulgated by the Stock Exchange duly came into effect to replace the then "Code of Best Practice" as set out in Appendix 14 of the Listing Rules on the same day. Based on the principle of good corporate governance as stipulated in the Code, the Company further regulated and improved the corporate governance of the Company towards a higher level. Saved for the establishment of Remuneration Committee as required by the Code and the number of board meeting convened was less than 4 times, the Company has observed the stipulations of Code of the Stock Exchange during the year. Practical compliance with the Code is detailed in the report of Corporate Governance.

II. Securities Transactions by Directors

During the year, the Company has adopted a code of behavior not less favourable than the standards as stipulated in Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions carried out by directors. Upon specific enquiries made to all directors, it was confirmed that the directors of the Company have complied with the Model Code in relation to securities transactions of the Directors and the standards of code of behavior as set out in Model Code and there was no violation to the Model Code.

III. Directors and Board of Directors

Directors of the Company are elected, replaced or removed at the general meeting. The shareholders of the Company are entitled to nominate candidates for directorship by poll vote. Directors have a term of 3 years and eligible for re-election upon the expiry of the term.

Directors' main duties are to exercise power of decision-making and management as endowed by the general meeting on the Company's development strategies, management framework, financing and investment plans, financial supervision and human resources.



The Company has 4 independent directors, representing one third of the total directorship. Independent directors also serve a term of 3 years and eligible for re-election upon the expiry of the term. Independent directors are professionals experienced in various industries in Hong Kong and the PRC including transportation, accounting, finance or corporate management. With a responsible attitude and extensive professional knowledge and experience, the independent directors have in good faith performed their independent duties of honesty and diligence in participating in discussion and decision-making on material events of the Company, reviewing the fairness and justness of connected transactions and capital transaction as well as giving their independent opinions and suggestions, whereby the overall interests of the Company and the lawful interests of the shareholders as a whole have been effectively safeguarded. Independent directors are playing an increasingly important role in the Board.

The current Board is composed of 12 members. It is the third term since the establishment of the Company (its composition is set out under "Profile of Directors, Supervisors and Senior Management" herein). The Board acts on behalf of the interests of shareholders as a whole and reports to the general meeting. It makes decisions on material events of the Company in strict compliance with relevant legal procedures and exercise supervision on the development and operating activities of the Company based on the need for operation and business development.

During the year, the Company convened a total of 2 Board meetings. Details of attendance are as follows:

Name	Board meetings (Times of attendance in person/ Times of meeting)
Directors	
Zhou Liming (Chairman)	2/2
Zhang Zhiying (Vice Chairman and General Manger)	2/2
Zhang Wensheng (Vice Chairman)	2/2
Gao Chun	2/2
He Gang	2/2
Liu Mingli	2/2
Zhang Yongnian (Company Secretary)	2/2
Zhang Yang	1/2
Independent Non-executive Directors	
Zang Dihua	2/2
Yim Chung Wu	0/2
Luo Xia	2/2
Feng Jian	1/2

Note: Directors who did not attend the meeting in person have entrusted other directors to attend and vote at the meeting.

Less than 4 board meetings of the Company were convened during the year, which is deviated from the provision of Article A.1.1 of Code of Practice. It is because the directors of the Company have from time to time solved the matters of significance or matters in relation to management issues during the process of management and operation. Any transaction that would materially affect the financial position of the Company was also reviewed by independent non-executive directors of the Company. The Audit Committee of the Company would also monitor the internal control structure and function of risk management on regular basis. Accordingly, two board meetings were convened by the Company during 2005.

Through the Board office of the Company, all directors of the Company are able to keep abreast of relevant information and the latest movements in laws, regulations, regulatory ordinances and other continuing obligations that directors of listed companies shall comply with, on a timely basis, for a comprehensive understanding of their duties and to rightly follow relevant statutory procedures and strictly comply with applicable laws and regulations.

CORPORATE GOVERNANCE REPORT (Continued)

IV. Chairman and General Manager

Positions of the Chairman and the General Manager of the Company are taken up by different persons, namely Mr. Zhou Liming and Mr. Zhang Zhiying. The Chairman takes charge in affairs of the Board, reviews the execution of the Board's resolution, formulates the Company's development strategies and capital operation whereas the General Manager is responsible for the implementation of strategies formulated by the Board and the Company's day-to-day operations and related decision-making. The definite responsibilities ensure a balance between power and obligations with clear-cut and efficient decisions and implementations by the Board and the management.

V. Remuneration of Directors and Supervisors

During the year, the Board has not set up a Remuneration Committee with specific statutory authority and obligations in accordance with the requirements of relevant provisions of the Code. Until now, remunerations of directors, supervisors and members of senior management are determined on the basis of related PRC policies or regulations, the Company's operation and applicable percentage of per capita income of the working population of Chengdu, a place where the Company is situated, and is subject to approval of the general meeting. To further improve the appraisal and remuneration management system of Directors, Supervisors and members of senior management and perfect the corporate governance as well as better secure the Company's normal operation and healthy development, the Board of the Company will set up a Remuneration Committee and formulate details of implementation as required by the Listing Rules as soon as practicable.

Information of the remuneration of directors and supervisors of the Company for 2005 are set out in Note 7 to the financial statements of this annual report.

VI. Remuneration of auditors

The 2004 Annual General Meeting of the Company approved the re-appointment of Sichuan Jun He Accountants ("Jun He") and Ernst & Young Certified Public Accountants ("Ernst & Young") as the domestic and international auditors of the Company respectively for 2005. Remunerations that the Group paid to the auditors for 2005 are as follows:

	<i>Unit : RMB</i>	
	2005	2004
	Auditing fees	Auditing fees
Jun He	320,000	320,000
Ernst & Young	1,333,000	1,285,000

Apart from the said fees, no other expenses were paid by the Company.



VII. Audit Committee

To effect the best corporate governance, the Company set up an Audit Committee in November 2004. Terms of reference of the Committee was formulated on the basis of suggestions set out in The Guide for Effective Operation of Audit Committee issued by Hong Kong Institute of Certified Public Accountants, which mainly include: reviewing and supervising the quality and procedure of the Group's financial reporting and financial control, reviewing and supervising the completeness and effectiveness of the Group's internal control and risk management system, considering the appointment of independent auditors, coordinating their related work and reviewing the efficiency and quality of their work, reviewing and supervising the effectiveness of internal auditing function.

The Audit Committee comprises 3 independent non-executive directors, namely Ms Luo Xia, Ms Zang Dihua and Mr. Feng Jian. The term of office for members of Audit Committee is the same as theirs as independent non-executive directors.

During the year, the Audit Committee convened 2 meetings. Ms Luo Xia served as the chairman of the Audit Committee. For details of attendance, please refer to the related table in this section. All resolutions passed at the meetings were duly recorded, retained and a written report was issued to the Board in accordance with relevant regulations.

Major work completed by the Audit Committee during the year includes:

- Reviewing the Group's annual report, interim report and financial report;
- Reviewing accounting policies adopted by the Group and issues related to accounting practice;
- Supervising internal auditing of the Company;
- Assisting the Board to evaluate on the effectiveness of financial reporting procedure and internal control system;
- Advice on material events or draw the attention of the management on related risks.

Attendance of Audit Committee:

Name	Times of attendance in person/ Times of meeting
Luo Xia	2/2
Zang Dihua	2/2
Feng Jian	2/2

CORPORATE GOVERNANCE REPORT (*Continued*)

VIII. Shareholders and General Meetings

Shareholders of the Company rank *pari passu* in all aspects. All shareholders, especially minority shareholders, are entitled to access to and decision-making on material events of the Company. No action in violation of the interests of the Company and its shareholders is allowed.

The substantial shareholders of the Company include Sichuan Highway Development (39.3%-owned equity) and Huajian Centre (25.7%-owned equity). The Company has separate personnel, assets, finance, organization and business from the substantial shareholders, and therefore owns entire business and independent operation capability. The substantial shareholders has acted properly and never exploited their special position to intervene, in *ultra vires* over the general meeting, in the decisions or the operation of the Company or advance an extra interest.

The Company has attached much importance to interaction and communication with shareholders, reporting its performance and operation to shareholders through numerous official channels, in particular, annual reports and interim reports. The Company also took Annual General Meetings or other shareholder's meetings as a good opportunity to enhance communication with shareholders. All directors and senior management attended the meetings as far as possible to answer shareholders' enquiries and discuss directly with shareholders about the Company's business and prospect. The Company has published the notices of the meeting on Hong Kong Economic Times and The Standard 45 days prior to the convening of the general meeting, and entrusted Hong Kong Registrars Limited with dispatch of proxy forms and reply slip to shareholders on the registers. Relevant procedures for shareholders' attendance and voting at annual general meeting are included in the notice of annual general meeting in the annual report, and will be included in any notice of such annual general meeting held in the future.

As the highest authority of the Company, the general meeting performs its functions and power in determining on material events of the Company under the laws. During the year, the Company convened an annual general meeting.



IX. Supervisors and the Supervisory Committee

The Supervisory Committee of the Company comprises of 4 members, which is in compliance with the laws and regulations.

The Supervisory Committee exercises the independent power to supervise the Company under the laws to protect shareholders, the Company and employees from violating their lawful interests.

During the year, the Supervisory Committee convened 2 meetings, with 100% attendance in person, and attended the Board meetings as observers. The Supervisory Committee has honestly performed its duties in supervising the Company's financial affairs and the legal compliance and rationality of Directors and senior management in their discharge of duties.

X. Internal Control

The Board is responsible to establish and maintain internal control system of the Company for the purpose of reviewing the relevant control system of finance, operation and regulatory so as to protect shareholders' interest and the Group's assets, and reviewing the effectiveness of the implementation. The Company's control framework mainly includes:

Audit Committee and internal auditing

The Audit Committee collects reports submitted by domestic and international auditors and studies any control matters that may arise from the reports.

To more effectively review the effectiveness of internal control system, the Company set up an internal audit department in April 2004. Its duties include:

- To review all activities and internal control work of the Company without any restrictions;
- To examine in detail all practical work, procedures, expenditures and internal control of all business entities and subsidiaries on regular basis; and
- To conduct special reviews on areas or issues that draw the management or Audit Committee's attention.

The manager of the audit department reports directly to the Supervisory Committee and Audit Committee on the results and his views on the work concerned, which will advise the management of the Company and report to the Board upon the Supervisory Committee and Audit Committee's review.

Transfer of power

The Board makes decisions for specific issues whereas the management is authorized to implement and manage the existing contract arrangements as well as manage day-to-day affairs of the Company. The Board will review from time to time the extent of authority in order to ensure that related staff has sufficient power to carry out related duties and achieve good effectiveness.

Undertaking of responsibilities

The Board bears ultimate responsibility for the Company's performance. Management personnel are responsible to manage daily operation of the Company and report the performance to the Board. To enhance the awareness of accountability of management personnel in various ranks, each department of the Company has its own terms of reference and specific obligations, and is responsible for the departments' own performance and its performance towards the Company's overall integrated business.

CORPORATE GOVERNANCE REPORT (*Continued*)

Financial control

The Company's operation budget will be verified annually by the Board and proposed at the general meeting for consideration and approval. The Company sets clear procedure for estimation, review and approval of major capital expenditure and recurrent expenditure. Material expenditure proposal beyond the scope of current approved budget or estimation will be decided by the Board. The Company also reports the operation performance to the Board on regular basis with reference to the operation budget. To further enhance the overall capital regulation and audit supervision of the Group, the Company has also strengthened the management of subsidiaries by appointing Chief Financial Controllers to subsidiaries to guide and supervise their financial activities.

The Company has set up internal management system and procedures for corporate governance, operation, finance, administration and personnel, and exercised comprehensive regulations over the objective, content, methods and duties of internal control. The Board has reviewed and assessed the compliance with the existing systems and effectiveness of internal control, and is of the opinion that there were no material defaults on control during the year.

XI. Financial Reporting

The Board was in strict compliance with the stipulations as set out in Listing Rules in relation to financial reporting and disclosure to carry out comprehensive evaluation and disclose the Company's performance, position and prospect for the year based on the detailed and accurate financial information and other data submitted by the management for the Board's approval. It also undertook the responsibility of preparing the Company's financial statements of the interim and annual reports of the year on a true and accurate basis.

XII. Relationship with Investors

In the light of the good faith principle, the Company strictly complies with and implements the Listing Rules to disclose discloseable information on a true, accurate, complete and timely basis and all other information that might have a significant impact on the decisions of shareholders and other concerned parties in an active and timely manner. Also, the Company takes effort in ensuring all shareholders with equal access to information. As such, the Company has honestly performed its statutory obligation in respect of information disclosure.

Investor relation management is a strategic managerial behavior to maximize corporate value. Accordingly, the Company has been always attaching much importance to it and regards it as a significant measure to improve corporate governance. Through information websites, overseas roadshows, teleconference and investors' call-in enquiries and visits, the Company takes initiatives for agreeable communications with investors to enable them to have a clear and in-depth understanding of the Company's business environment, operating strategies and prospects, whereby their sense of identity was strengthened. In delivering information to investors, the Company also listens for their advice and collects the feedback from them, aiming to form interactive and mutual beneficial relations between the Company and investors.

XIII. Conclusion

The Company is committed to enhancing corporate governance. By conclusion of the accumulated experience and lesson learnt by the Company, and with reference to the changes in regulatory mechanism, development trend of market and feedback from investors, the Company will continue to review and improve the practical corporate governance on a timely basis.

