

Corporate Governance Structure

I. CORPORATE GOVERNANCE

According to the requirements of the relevant laws and regulations, the Company continuously improves its legal governance structure and standardises its corporate operations to safeguard the interests of all the shareholders through formulating a series of regulations. Details are as follows:

1. Shareholders and General Meetings

The Company ensures that all shareholders enjoy their rights fully and have equal status and rights, in particular, medium to small shareholders and that all the shareholders have the rights to be informed as well as participating in significant matters.

The Company has formulated the “Rules and Standing Orders of General Meetings” with which it can call and convene general meetings in accordance with the relevant procedures and do its best to create opportunities for shareholders to exercise their rights fully.

The connected transactions of the Company followed the principles of fairness, willingness, consideration agreed, and for valuable consideration and conformed to commercial principles with signed written agreements. The basis of the consideration was fully disclosed and there is no connected transaction that will harm the interests of the Company. None of the connected shareholders has occupied or transferred the capital, asset and other resources of the Company.

2. Relationship between the controlling shareholder and the Company

The controlling shareholder of the Company does not make use of its special position to impair the legal interests of the Company and other shareholders, seek extra gain, interfere with the Company’s decision and production operation, nor appoint or dismiss senior management of the Company beyond the powers of the general meetings and the Board of Directors.

The controlling shareholder and the Company are operating independently of each other in terms of staff, asset, finance, structure, and business. They also undertake risks and responsibilities independently.

3. Directors and the Board of directors

The Company has a standard procedure for electing directors, and entered into service contract with the elected directors. In order to reflect the views of some of the medium to small shareholders, the Company is planning to pursue the cumulative voting system.

All members of the Board act in utmost good faith and sincerity in attending all board meetings, actively participated in the relevant training, strictly followed the commitments they have made publicly and carried out their duties honestly, faithfully and diligently.

The number and structure of the Board complied with the requirements of relevant laws and regulations. The Board has a reasonable professional structure and all of the directors possess knowledge, skills and qualities necessary for their duties and fulfil their responsibilities required by the relevant laws, regulations and Articles of Association.

The Company has formulated the “Standing Orders of the Board” which sets out the requirements for discussions at board meetings. Board meetings can be held regularly in accordance with the regulations. Records of board meetings are complete and true.

The Company has established the audit committee, the strategic development and investment committee and the human resources and remuneration committee, which will improve the scientific nature and efficiency of the Board's decision. Besides, the Company has established a system of independent directors earlier to protect the legal interests of medium to small shareholders.

4. Supervisors and Supervisory Committee

The Company has provided the essential conditions for the supervisors of the Company to perform their normal duties so as to enable the supervisors to fully understand the operating conditions of the Company and to provide adequate supervision over the finance of the Company and the legality and the compliance with the laws and regulations by the Company's directors, managers and other senior management during the performance of their duties.

The Company has formulated the "Standing Orders of the Board", the "Standing Orders of the Supervisory Committee", the "Standing Orders of the General Managers" and terms of reference of the professional committee of the Board which expressly stipulated the Rules and Standing Orders of supervisory committee meetings so that supervisory committee meetings can be held regularly in accordance with the regulations and ensures that records of which are complete and true. All supervisors possess necessary professional knowledge and working experience to diligently, independently and effectively exercise their supervisory duties.

5. Performance Evaluation and Incentive Reward Mechanism

On 15th June 2002, the Company approved the "Standing Orders of the Board" and the "Standing Orders of the General Manager" and established the standardised Performance Evaluation and Incentive Rewarding Mechanism for directors, supervisors and senior management. The Company also defined that the human resources and remuneration committee of the Board was responsible for performance evaluation, and was in the process of establishing standards and procedures of evaluation and the relevant incentive reward system.

6. Interested Party

The Company respects and protects the interests of banks and other creditors, employees, consumers and other relevant parties. It also establishes a corporate website to supply relevant operational information of the Company and possesses smooth internal communication channels, all of which will continue to promote a healthy development of the Company. While maximising interests of the shareholders and emphasising the social responsibility of the Company, the Company also participated in helping the poor and assisting students.

7. Information Disclosure and Transparency

The Company acts strictly in accordance with the laws, regulations and the Articles of Association and discloses information on a true, accurate, complete and timely manner to make sure all the shareholders have equal rights in receiving information.

The Company discloses the information relating to corporate governance in accordance with relevant requirements in disclosing timely detailed information concerning the majority shareholders and beneficial owners and changes in their shareholdings.

Corporate Governance Structure (cont'd)

II. INDEPENDENT DIRECTORS AND THEIR DUTIES

The Company has three Independent Directors that comply with the requirements of the Listing Rules of the Shanghai Stock Exchange and the Hong Kong Stock Exchange. They fulfil their duties honestly, faithfully and diligently in accordance with the requirements of the relevant laws, regulations and the Articles of Association. They participate in board meetings and General Meetings, undertake the posts of committee members in various special committees of the Board, provide independent advices on connected transactions and significant events and fulfil their duties in standardising corporate operations, safeguarding the rights of medium to small shareholders.

III. SEPARATION OF STAFF, ASSET, FINANCE, ORGANISATION AND BUSINESS BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER

The business, asset, organisation, staff and finance of the Company are mutually independent of all shareholders and other related parties.

1. Independence of the Company's business

The Company is principally engaged in the holding, operation and development of toll expressways and roads within and outside of Anhui Province. The Company does not have connected transactions with the AEHC in respect of operations like equipment acquisition, toll road operation and road maintenance. The Company develops its own business independently and is not subject to the lead or control of the AEHC and other shareholders.

2. Asset of the Company is complete

- The ownership of property between the Company and AEHC is clear. The assets injected by the AEHC were complete and all contributions were in place on time with the procedures of the relevant property change completed. The ownership of the assets acquired by the Company is clear, and the procedures of the relevant property change were completed. The ownership of property of companies established by the Company is clear and all contributions were in place on time in accordance with relevant laws and regulations.
- The Company has road operation system, supplementary road operation system and ancillary facilities independent of the AEHC. The roads owned by the Company, Gaojie Company and Xuanguang Company have legal documents in respect of legal operating rights approved by relevant departments.
- The Company has an independent material acquisition system and toll collection system. The purchases of major materials and products and toll collections exist independently.
- The AEHC did not misappropriate the capital, assets and other resources of the Company illegally.

3. Independence of staff

Save as those disclosed above in this report regarding senior management who received their remunerations from shareholders' companies or other related units, senior management work for and receive remunerations from the Company.

The appointments of directors, supervisors and senior management of the Company are elected and terminated in accordance with the PRC "Companies Law" and other laws, regulations and Articles of Association. The Company did not appoint or terminate any executives beyond the powers and rights of board meetings and general meetings.

The Company's staff is independent of the controlling shareholder and other related parties and is managed independently with the relevant social protection and remuneration.

4. Independence of finance

The Company has set up its own independent finance department with independent account verification and financial management systems. The Company has set up its own bank accounts and paid its taxes independently. It did not provide guarantee for related companies.

5. Independence of Organisation Structure

The Company's production operation and office structure are completely separated from the AEHC and joint operation does not exist. AEHC and any other units or individuals do not interfere with the organisation installed by the Company. A reporting relationship does not exist between the AEHC and its functional departments.

The Company establishes the organisational institution suitable for its own development by identifying the functions of each organisation and commencing production operation activities independently.

IV. ESTABLISHMENT AND IMPLEMENTATION OF APPRAISAL AND INCENTIVE MECHANISM AND RELATED REWARD SYSTEM FOR SENIOR MANAGEMENT

The Company has formulated the "Standing Orders of the Board", "Standing Orders of the Supervisory Committee", "Standing Orders of the General Manager" and the terms of reference for specialised committees of the Board to define clearly the appointment qualification, duties and appraisal standards and methods of senior management. The Company also established the human resources and remuneration committee to be in charge of the performance evaluation of senior management and formulated and implemented the medium and long incentive plan to provide corresponding reward measures to persons with excellent performance. Besides, the Company is actively explored long-term incentive mechanism of share options to be implemented in due course.

V. CODE OF BEST PRACTICE

The Directors are of the opinion that the Company has complied with the requirements of the "Code of Best Practice" as set out in Appendix 14 of the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange in 2002.