



## Cooperating Partners

For the expressway industry...between industry peers and colleagues, there are always cooperative relationships to a certain extent. Similarly, with strategic partners, we stress the cultivation of long-term win-win cooperative relations.

# Corporate Governance

During the 2004 fiscal year (the “Year”), the board of directors of the Company (the “Board of Directors”) held a total of four meetings, two of which were regular meetings. Ten days prior to the convening of the regular meetings or seven days prior to the convening of the ad hoc meetings, the Company issued notices of the meetings to all directors, supervisors and other attendees, so that they could reasonably arrange their schedule to attend the meetings.

All directors might at any time and for any matter (including matters relating to the application and implementation of corporate governance principles) consult the Company Secretary for opinions and request for his services. The Company Secretary keeps for the inspection by any directors during office hours a full set of minutes of the meetings of the Board of Directors and its committees under the Board of Directors. The minutes of the Board of Directors and its committees contain sufficiently detailed records of the matters discussed by the directors present at the meetings and the decisions reached by them, including any misgivings or oppositions expressed by any directors. In the event that the interests of any substantial shareholders in any matter to be discussed are, in the opinion of the Board of Directors, in significant conflict with the Company’s interests, the Board of Directors will refer the matter to a full physical meeting of the Board of Directors instead of resolving the matter by document or passing the matter down to its committees. The Company has undertaken appropriate insurance arrangements to protect its directors against any legal actions that they may face.

Within the Board of Directors, the chairman is an executive director and is responsible for leading the formulation of important guiding principles and policies of the Company. The general manager is another executive director and is responsible for implementing such guiding principles and policies. The division of duties and responsibilities between the chairman and the general manager is clearly defined and set out in writing.

The members of the Board of Directors are extensively knowledgeable about and experienced in developing strategies, financial affairs, and the legal aspects of the Company’s business. The Board of Directors comprises nine members, including four executive directors and the remaining five non-executive directors, three of whom are independent non-executive directors, representing one-third of the membership of the Board of Directors. Non-executive directors comprise over half of the membership of the Board of Directors and they are extensively experienced in business, financial affairs and legal matters. Their opinions are significant in the decision-making process of the Board of Directors.

The non-executive directors of the Company regularly attended the meetings of the Board of Directors and the Audit Committee, and actively participated in the handling of their affairs, contributing positively to the Company with their independent, constructive and well-founded opinions.

During the Year, the Company Secretary submitted the meeting agenda and sufficient, appropriate relevant meeting documents to the directors two days prior to the convening of each meeting of the Board of Directors, so that the directors might make informed decisions and perform their duties and responsibilities.

A disclosure on the remunerations of the directors and supervisors was made by the Company in the 2003 Annual Report, which was published on April 29, 2004. The Company had a set of regular procedures in place to implement the policies on the remunerations of the executive directors and to determine the remuneration of each director.

At the meetings of the Board of Directors convened during the Year, the directors considered financial information on the Company's performance and prospects, including the financial statements, the plan for profit distribution and dividend distribution, the implementation report on the 2003 proposed budget, the proposed financial budget for 2004, results announcements, the annual report and the interim report.

The Board of Directors has put in place formal arrangements regarding how to apply the principles on financial reporting and internal monitoring principles and how to maintain a proper relationship with the Company's auditors. The terms of reference of the Company's Audit Committee have been well-defined.

The Company has put in place a formal forward plan which sets out the matters which require specific decisions by the Board of Directors. For the matters set out in the forward plan, the management shall, before making any decision or enter into any agreement on behalf of the Company, give an account to the Board of Directors for approval.

The committees under the Board of Directors of the Company have in place specific terms of reference in writing, which clearly set out their functions, powers, and responsibilities of the committees.

During the Year, the chairman attended the annual general meeting and extraordinary general meetings, and motioned individual resolutions on materially independent matters.

In the notice of general meeting issued by the Company to the shareholders, the proceedings on passing resolutions by way of a poll are set out, which is in conformity with the provisions of the Listing Rules and the Articles of Association of the Company.

In order to effect good corporate governance, the Company has formulated and implemented its "Guidelines on Corporate Governance", "Working Rules of the Audit Committee" and "Working Rules of the Nomination and Remuneration Committee" in accordance with the relevant laws and regulations.

#### **DIRECTORS' SECURITIES TRANSACTIONS**

Since the Company formulated its "Code on Securities Transactions" on March 13, 2002, each of the directors of the Company had been implementing it strictly. After amendments were made to the Listing Rules by the Hong Kong Stock Exchange on March 31, 2004, the Company made corresponding amendments to its "Code on Securities Transactions", which are then on terms no less exacting than those set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 of the Listing Rules.

During the Year, pursuant to specific enquiries made with all directors, all directors confirmed that they met the standards of the Model Code regarding the securities transactions by the directors and the "Code on Securities Transactions" of the Company.

#### **THE BOARD OF DIRECTORS**

During the Year, the third session of the Board of Directors of the Company comprised nine members, four of whom were executive directors, namely Mr. Geng Xiaoping (the

Chairman), Mr. Fang Yunti, Mr. Zhang Jingzhong and Mr. Xuan Daoguang; two were non-executive directors, namely Ms. Zhang Luyun and Ms. Zhang Yang; and three independent non-executive directors, namely Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping.

During the Year, the Board of Directors of the Company held four meetings.

Set out below are the attendance rates of the directors of the Company at meetings of the Board of Directors during the Year:

<b>Members of the Board of Directors</b>	<b>Attendance Rate</b>
Geng Xiaoping (chairman)	4/4
Fang Yunti	4/4
Zhang Jingzhong	4/4
Xuan Daoguang	4/4
Zhang Luyun	4/4
Zhang Yang	4/4
Tung Chee Chen	4/4
Zhang Junsheng	4/4
Zhang Liping	4/4

The Board of Directors holds meetings periodically. Regular meetings are normally held every six months, and, if necessary, ad hoc meetings of the Board of Directors will be arranged. The Company Secretary is responsible for giving notice of meeting 10 days prior to a regular meeting of the Board of Directors, and issuing detailed documents to the directors two days before convening the meeting, so as to ensure that the directors may make informed decision on the matters to be discussed. All directors have access to the Company Secretary. The Company Secretary is responsible for ensuring compliance of the rules of proceedings of the meetings of the Board of Directors. The Board of Directors and the management shall make decisions on the matters of the Company within their respective terms of reference (for details, please see article 92 and article 105 under the Articles Association of the Company).

The Board of Directors has appointed three independent non-executive directors, at least one of whom possesses appropriate professional qualifications or accounting or related financial management expertise, in compliance with the relevant stipulations of the Rules 3.10(1) and (2) of the Listing Rules.

Pursuant to specific enquiries made with all independent non-executive directors, all such directors confirmed that they met the criteria of Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of independence.

The members of the Board of Directors of the Company (including the chairman and the general manager) are unrelated to the financial affairs, business affairs and matters of their family members.

#### **CHAIRMAN AND THE GENERAL MANAGER**

The roles of the chairman and the general manager of the Company have been separated and taken up by Mr. Geng Xiaoping and Mr. Fang Yunti respectively.

#### **NON-EXECUTIVE DIRECTORS**

The term of office of the non-executive directors of the third session of the Board of Directors is three years, commencing on March 1, 2003 and expiring on February 28, 2006.

#### **NOMINATION AND REMUNERATION OF DIRECTORS**

The Board of Directors of the Company has a nomination and remuneration committee (the "Nomination and Remuneration Committee"), which is principally responsible for making studies and proposals on the criteria and procedures for selecting directors, general manager and other senior management staff; identifying and assessing qualified candidates and making suggestions thereon; formulating, monitoring and auditing the remuneration policies for directors and senior management of the Company.

The Nomination and Remuneration Committee of the Company comprises three independent non-executive directors, namely Mr. Tung Chee Chen, the chairman, Mr. Zhang Junsheng and Mr. Zhang Liping.

## REMUNERATION OF AUDITORS

During the Year, a remuneration of US\$160,000, equivalent to approximately Rmb1,325,000, was paid to Ernst & Young (international auditors) for the audit services it provided to the Group in 2003; and a remuneration of Rmb800,000 was paid to Zhejiang Pan-China Certified Public Accountant (PRC auditors) for the audit services it provided to the Group in 2003. The two remuneration payments totaled Rmb2,125,000.

During the Year, a non-audit remuneration of Rmb80,000 was paid to Zhejiang Pan-China Certified Public Accountants for the special audit it conducted relating to the service areas business of the Group during the period from January to May 2003 (inclusive).

## AUDIT COMMITTEE

The Board of Directors of the Company has an audit committee (the "Audit Committee"), which is responsible for reviewing and supervising the procedures of the Company for financial reporting and internal control. The Audit Committee comprises five non-executive directors of the Company, two of whom are non-executive directors, namely Ms. Zhang Luyun and Ms. Zhang Yang, and the remaining three are independent non-executive directors, namely Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping. The chairman of the Audit Committee is Mr. Tung Chee Chen.

During the Year, the Audit Committee of the Company held a total of two meetings. Following are the attendance rates of the members of the Company's Audit Committee at meetings during the Year:

Members of the Audit Committee	Attendance Rate
Tung Chee Chen (chairman)	2/2
Zhang Junsheng	2/2
Zhang Liping	2/2
Zhang Luyun	2/2
Zhang Yang	2/2

On March 15, 2004, the third meeting of the second session of the Audit Committee of the Company was held, at which the Company's audited financial statement for the year 2003, the re-appointment of the domestic and international auditors, the 2003 internal audit work report, the 2004 internal audit plan, the appointment of deputy director of the internal auditing department and other matters were considered. On August 16, 2004, the fourth meeting of the second session of the Audit Committee of the Company was convened, at which the 2004 interim financial statement, the 2004 interim internal audit work report and other matters were considered.

During the Year, the Company was in compliance with the provisions of Rule 3.21 of the Listing Rules regarding the Audit Committee.

## SHAREHOLDING INTERESTS OF SENIOR MANAGEMENT STAFF

Owing to the restrictions of the laws and regulations of China and the relevant policies, senior management staff of the Company do not hold any equity interests in the Company. For Development Co, a 51% owned subsidiary of the Company, the senior management staff of the Company holds part of the equity interests. For details, please refer to the section headed "Report of Directors – Directors', Supervisors' and chief executive's interests in shares and underlying shares" below.

## SHAREHOLDERS' RIGHTS

Pursuant to the Articles of Association of the Company, the procedures for shareholders to convene an extraordinary general meeting are: two or more shareholders who hold an aggregate of shares in the Company representing 10% or more (with 10%) of the voting rights which can be exercised at the intended meeting may sign and submit to the Board of Directors one or several written requests (in the same format and content) to request the Board of Directors to convene an extraordinary general meeting and to lay down the agenda items for consideration at the meeting. Upon receipt of the abovementioned written request, the Board of Directors shall promptly convene an extraordinary general meeting.

## INVESTOR RELATIONS

The principal mission of our investor relations program is no different from that of other activities carried out by the Company, which is striving to serve the interests of our investors, large or small, with excellence. In this regard, we spare no effort to stress the importance of communication between the investment community and the management of the Company, with the belief that transparency serves the best interests of our investors and ourselves.

In addition to making regular disclosures of corporate information through press releases, announcements, and issue of corporate documents to keep the investment community informed, the Company also actively participated in investor conferences during the Year, and routinely organized roadshows to make itself more accessible to investors, with direct participation by senior members of the management of the Company. In doing so, we hope to have presented to the investment community a clear picture on the operational status as well as the future prospects of the Company, and to have made the management more responsive to the needs and concerns of its investors at the same time, allowing for a constructive two-way interaction to take place that is beneficial to all parties concerned.

On May 21, 2004 upon approval at the annual general meeting of the Company, amendments were made to parts of the Articles of Association. For details, please see the part of 2003 Annual Report on Corporate Governance.

The shares of the Company comprise domestic shares and H Shares. Of the domestic shares, Communications Investment Group and Huajian own 2,432,500,000 shares and 476,760,000 shares respectively, representing 56% and 11% of the entire equity interests respectively. The H Shares are owned respectively by Hong Kong and overseas investors in a total shareholding of 1,433,854,500 shares, representing 33% of the entire equity interests.

During the year, the latest general meeting was held on October 12, 2004 at the conference room on the 18th Floor, Zhejiang World Trade Centre, 122 Shuguang Road, Hangzhou, Zhejiang Province. At the meeting, the shareholders' proxies considered the matter of the distribution to shareholders by the Company of an interim dividend of Rmb0.04 for the year 2004, and adopted the resolution with 3,427,287,419 affirmative votes (representing 100% of the voting right held by shareholders present at the meeting).

On May 23, 2005, the Company will convene an annual general meeting at which the financial statement for the year 2004, profit distribution and dividend distribution plan for the year 2004, the financial budget for the year 2005 and other matters will be considered.

As at December 31, 2004, the market capitalization of the shares of the Company in public hands was valued at HK\$7,671,121,575.

## MANAGEMENT FUNCTIONS

Article 92 and article 105 of the Articles of Association of the Company set out the management functions of the Board of Directors and the management separately. Details of the Company's Articles of Association may be obtained under "Corporate Governance" in the Company's website [zjec.com.cn](http://zjec.com.cn).