

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted its own Guidelines on Corporate Governance that closely followed the principles of good governance in Appendix 14 (“Appendix 14”) of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (“Stock Exchange”).

During the financial year 2009 (the “Period”), the Company had fallen short of giving notice of at least 14 days in one of the regular board meetings held due to uncertainties associated with resolutions to be proposed at the meeting.

Other than the above, the Company met all provisions in the Code on Corporate Governance Practices (the “Code”) in Appendix 14, and adopted the recommended best practices contained in the Code whenever applicable.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Rules on Securities Dealings (“Rules on Securities Dealings”) for the directors, supervisors, senior management personnel and other employees of the Company on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) in Appendix 10 of the Listing Rules.

Upon specific inquiries to all the directors of the Company (the “Directors”), the Directors have confirmed their respective compliance with the required standards for securities transactions by directors as set out in the Model Code and the Rules on Securities Dealings during the Period.

## BOARD OF DIRECTORS OF THE COMPANY (THE “BOARD”)

The executive directors of the Company during the Period were:

Mr. CHEN Jisong (*Chairman*)  
Mr. GENG Xiaoping (*Chairman, retired*)  
Mr. ZHAN Xiaozhang (*General Manager*)  
Mr. FANG Yunti (*General Manager, retired*)  
Mr. JIANG Wenyao  
Mr. ZHANG Jingzhong

The non-executive directors of the Company during the Period were:

Ms. ZHANG Luyun  
Ms. ZHANG Yang

The independent non-executive directors of the Company during the Period were:

Mr. TUNG Chee Chen  
Mr. ZHANG Junsheng  
Mr. ZHANG Liping

During the Period, the Board held a total of six meetings: one by the fourth session of the Board, and five by the fifth session of the Board. Individual attendances by the directors (as indicated by the numbers of meetings attended/numbers of relevant meetings held) are as follows:

|  |     |
|--|-----|
| Mr. CHEN Jisong ( <i>Chairman</i> )                | 5/5 |
| Mr. GENG Xiaoping ( <i>Chairman, retired</i> )     | 1/1 |
| Mr. ZHAN Xiaozhang ( <i>General Manager</i> )      | 5/5 |
| Mr. FANG Yunti ( <i>General Manager, retired</i> ) | 1/1 |
| Mr. JIANG Wenyao                                   | 6/6 |
| Mr. ZHANG Jingzhong                                | 6/6 |
| Ms. ZHANG Luyun                                    | 6/6 |
| Ms. ZHANG Yang                                     | 6/6 |
| Mr. TUNG Chee Chen                                 | 6/6 |
| Mr. ZHANG Junsheng                                 | 6/6 |
| Mr. ZHANG Liping                                   | 6/6 |

The Board is charged with duties as well as given powers that are expressly specified in the articles of association of the Company, the scope of which includes, amongst others: to determine the business plans and investment proposals of the Company; to prepare the financial budget and final accounts of the Company; to determine the dividend policy of the Company; to appoint or dismiss senior managerial officers of the Company as well as to determine their remuneration; and to draw up proposals for any material acquisition or sale by the Company.

To assist the Board effectively discharge its duties, the Board has set up three special committees: the Audit Committee, the Nomination and Remuneration Committee, and the Strategic Committee.

While the Board fully retains its power to decide on matters within its scope of duties and powers, relevant preparation and drawing up of plans or proposals were usually delegated to the management.

The Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules regarding the appointment of independent non-executive directors, with three independent non-executive directors appointed, at least one of whom possessing the appropriate professional qualification or accounting or related financial management expertise.

Pursuant to Rule 3.13 of the Listing Rules, the Company had specifically inquired all three independent non-executive directors and received their respective confirmation of independence during the Period. The three independent non-executive directors have all confirmed their compliance with requirements regarding independence under Rule 3.13 of the Listing Rules. The Company still considers the independent non-executive directors to be independent.

There were no financial, business, family or other material/relevant relationships between members of the Board, including that between the Chairman and the General Manager of the Company.

## CHAIRMAN AND GENERAL MANAGER

During the Period, Mr. CHEN Jisong and Mr. GENG Xiaoping (retired) were Chairman of the Company, while Mr. ZHAN Xiaozhan and Mr. FANG Yunti (retired) were General Manager of the Company. The roles of Chairman and General Manager are fully segregated as expressly set out in the articles of association of the Company.

## NON-EXECUTIVE DIRECTORS

The non-executive directors of the Company are appointed for a period of three years, from March 1, 2009 to February 29, 2012.

## NOMINATION AND REMUNERATION OF DIRECTORS

The Board has a Nomination and Remuneration Committee, mainly responsible for reviewing and making recommendations for the selection standards and procedures for Directors, General Manager and other senior management of the Company; identifying qualified candidates and making reviews and recommendations thereon; and determining, supervising and monitoring the implementation of the remuneration policies for the Directors and senior management personnel. For the details of its terms of reference, please refer to the “Corporate Governance” section in the Company’s web site.

The Nomination and Remuneration Committee comprised of five non-executive directors, namely, Ms. ZHANG Luyun, Ms. ZHANG Yang, Mr. TUNG Chee Chen, Mr. ZHANG Junsheng, and Mr. ZHANG Liping, with Ms. ZHANG Luyun as the Chairwoman of the committee starting from March 1, 2009.

During the Period, the Nomination and Remuneration Committee met for one meeting to review and recommend candidates for the fifth session of the Board and the Supervisory Committee, including the recommended remunerations thereof.

### AUDITORS' REMUNERATION

During the Period, the Company had paid HK\$3,800,000 (Rmb3,310,000 equivalent) and Rmb820,000 to Deloitte Touche Tohmatsu Certified Public Accountants (the Hong Kong auditors) and Pan-China Certified Public Accountants Ltd. (the PRC auditors) for audit services conducted in 2008, respectively. The auditors had provided no other non-audit services to the Company.

### AUDIT COMMITTEE

The Board has an Audit Committee which is mainly responsible for providing advice to the Board regarding the appointment, reappointment and removal of external auditors; the supervision of the integrity of the Company's financial statements and annual reports and accounts, half-yearly and quarterly reports, and the review of important opinions in relation to financial reporting as set out in statements and reports, and the review of the Company's financial control, internal control and risk management system. For the details of its terms of reference, please refer to the "Corporate Governance" section in the Company's web site.

The Audit Committee comprised of five non-executive directors, three of whom are independent non-executive directors, namely Mr. TUNG Chee Chen, Mr. ZHANG Junsheng and Mr. ZHANG Liping, and the remaining two are non-executive directors, namely Ms. ZHANG Luyun and Ms. ZHANG Yang, with Mr. TUNG Chee Chen as the Chairman of the committee.

During the Period, the Audit Committee held a total of four meetings. Individual attendances by the members of the committee (as indicated by the numbers of meetings attended/numbers of meetings held) are as follows:

|                    |     |
|--------------------|-----|
| Mr. TUNG Chee Chen | 4/4 |
| Mr. ZHANG Junsheng | 4/4 |
| Mr. ZHANG Liping   | 4/4 |
| Ms. ZHANG Luyun    | 4/4 |
| Ms. ZHANG Yang     | 4/4 |

In the meetings held during the Period, the Audit Committee conducted, amongst others, review of financial statements for the quarterly, interim and annual results, the effectiveness of the system of internal control and the reporting thereof to the Board, as well as recommendation on the re-appointment of external auditors.

During the Period, the Company has complied with Rule 3.21 of the Listing Rules regarding the composition of the audit committee.

During the Period, the Directors have all confirmed their responsibility for preparing the accounts, and that there were no events or conditions which would have a material impact on the Company's ability to continue to operate as a going concern basis.

## DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at December 31, 2009, the interests of the Directors, Supervisors and Chief Executives in the share capital of the Company's associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code are set out below:

### Interest in the shares of Zhejiang Expressway Investment Development Co., Ltd.\*

| Name                | Position   | Contribution<br>of capital<br>(Rmb) | Nature of interest | Percentage of the<br>registered capital<br>of associated<br>corporation |
|---------------------|------------|-------------------------------------|--------------------|---|
| Mr. JIANG Wenyao    | Director   | 1,980,000                           | Same as above      | 1.65%   |
| Mr. ZHANG Jingzhong | Director   | 1,650,000                           | Same as above      | 1.38%   |
| Mr. FANG Zhexing    | Supervisor | 1,050,000                           | Same as above      | 0.88%   |

\* a 51% owned subsidiary of the Company

Save as disclosed above, as at December 31, 2009, none of the Directors, Supervisors and Chief Executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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### INTERESTS AND SHORT POSITIONS OF OTHER PERSONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at December 31, 2009, the interests and short positions of other persons in the shares and underlying shares of the Company according to the register required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange are set out below:

| Substantial shareholders | Capacity         | Total interests<br>in number of<br>ordinary shares<br>of the Company | Percentage of the<br>issued share capital<br>of the Company<br>(domestic shares) |
|--------------------------|------------------|--|--|
| Communications Group     | Beneficial owner | 2,432,500,000  | 83.61%   |
| Huajian                  | Beneficial owner | 476,760,000  | 16.39%   |

| Substantial shareholders | Capacity  | Total interests<br>in number of<br>ordinary shares<br>of the Company | Percentage of the<br>issued share capital<br>of the Company<br>(H Shares) |
|--------------------------|---|--|---|
| JP Morgan Chase & Co.    | Beneficial owner,<br>investment manager and<br>custodian corporation/<br>approved lending agent | 184,070,297(L)   | 12.84%  |
|                          |   | 144,501,750(P)   | 10.08%  |
| BlackRock, Inc.          | Interest of controlled<br>corporations  | 117,315,361(L)   | 8.18%   |
| Ballie Gifford & Co.     | Investment manager  | 108,170,275(L)   | 7.54%   |
| Invesco                  | Investment manager  | 104,564,000(L)   | 7.29%   |

*The letter "L" denotes a long position. The letter "P" denotes interest in a lending pool.*

Save as disclosed above, as at December 31, 2009, no other persons had any interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

## SHAREHOLDERS' RIGHTS

Pursuant to the Articles of Association of the Company, two or more shareholders who in aggregate hold 10% or more of the voting rights of all the shares of the Company having the right to vote may write to the Board to request the convening of an extraordinary general meeting and specifying the agenda of the meeting. Upon receipt of the request in writing, the Board shall convene the extraordinary general meeting as soon as possible. Shareholders who hold in aggregate 5% or more of the voting rights of all the shares of the Company having the right to vote are entitled to propose additional motions in annual general meeting, provided that such motions are served on the Company within 30 days after the issue of the notice of annual general meeting.

Written requests, proposals and enquiries may be sent to the Company at the following address:

Zhejiang Expressway Co., Ltd.  
12/F, Block A, Dragon Century Plaza  
1 Hangda Road  
Hangzhou, Zhejiang 310007  
The People's Republic of China  
Attention: Company Secretary

## INVESTOR RELATIONS

There were no changes made to the Articles of Association of the Company during the Period.

During the Period, the last shareholders' meeting of the Company took place at 3:00 p.m. on Tuesday, September 29, 2009 at 12/F, Block A, Dragon Century Plaza, 1 Hangda Road, Hangzhou, Zhejiang Province, the People's Republic of China. Shareholders voted by way of poll, and approved the interim dividend of Rmb6 cents per share in respect of the six months ended June 30, 2009, with 3,600,634,182 shares voted in the affirmative (representing 100% of the total shares held by shareholders present at the meeting) and no share voted in the negative.

The next annual general meeting of the Company is expected to be held on May 10, 2010 to consider the resolutions in respect of, among others, the reports of the directors and of the supervisory committee for 2009, the audited financial statements for 2009, a final dividend for 2009, the final report for 2009 and the financial budget for 2010, as well as the re-appointment of external auditors.

The Company's shares comprised of domestic shares and H shares. The domestic shares were held by Zhejiang Communications Group Co., Ltd as to 2,432,500,000 shares and by Huajian Transportation Economic Development Center as to 476,760,000 shares, representing approximately 56% and 11% of the total issued capital of the Company, respectively. The remaining 1,433,854,500 shares are H shares, representing approximately 33% of the total issued capital of the Company. As at the date of this report, and to the best of the Directors' knowledge, 100% of the H shares of the Company are held by the public.



## INTERNAL CONTROLS

The Company has set up an internal monitoring system that aims to protect assets, preserve accounting and financial information, and ensure the accuracy of financial statements. The system is capable of taking necessary steps to react to possible changes in our businesses as well as external operating environments. Throughout the operating process, the Company's various rules are being continuously enhanced, fulfilled and are deemed effective.

## Corporate Governance Report

The Company's Audit Committee is charged with the duties of reviewing internal controls, directing monitoring activities. Aside from reviewing the annual reporting by external auditors, the committee also reviews the effectiveness of internal control system and risk management mechanism through reviewing the internal special audit report on the Company's various core businesses prepared by internal audit department on a quarterly basis. In particular, the Audit Committee raised the need for assessing key risk areas regarding the Company's securities business operation, and directed the internal audit department to carry out the assessment as well as the monitoring of continued internal control enhancement by relevant units.

During the Period, the directors of the Company had carried out a review on the effectiveness of the Company's internal control system, covering all material aspects of internal control, including financial control, operational control, compliance control and risk management functions. There were no major breaches in the internal control system that may have had an impact to shareholders' interests, and the internal control system was deemed to be effective and sufficient.

## MANAGEMENT FUNCTIONS

The management functions of the Board and the management are expressly stipulated in the Articles of Association of the Company.

Pursuant to the Articles of Association of the Company, the management of the Company is assigned the functions to be in charge of the production and business operation of the Company and to organize the implementation of the resolutions of the board of directors, to organize the implementation of the annual business plan and investment program of the Company, to prepare plans for the establishment of the internal management structure of the Company, to prepare the basic management systems of the Company, and to formulate basic rules and regulations of the Company, etc.