



Corporate Governance Report

Corporate Governance Practices

The Board of Directors (the "Board") of the Company believes that good corporate governance is fundamental to the success of the Company. The Company has accordingly adopted various measures to emphasize a quality Board, effective internal control, strict compliance with relevant regulatory requirements and operation transparency.

From April 27, 2006 (the "IPO date") to December 31, 2006 (the "Period"), the Board believes that the Company was fully compliant with all code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board reviews and monitors the corporate governance practices on a regular manner with the aim of promoting a good standard of corporate governance practices.

Model Code for Securities Transactions by Directors

The Board adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the Group's code of conduct for Directors' securities transactions. All Directors of the Company confirmed that they complied with the Model Code in their securities transactions throughout the Period covered by this annual report.

The Board

The Board is responsible for formulating the overall development strategy of the Group, monitoring its financial performance and overseeing the management of the business. The Board aims at maximizing shareholders' value in the process of discharging its duties and responsibilities. When determining the Group's business

objectives and development direction, the Board takes into account the latest economic and market situations. Daily operations and management of the Group are entrusted to the management team. The division of power and responsibilities between the Board and Senior management is in strict compliance with the Articles of Association of the Company. Other duties of the Board include deciding on the Group's investment scheme, preparing the Group's profit distribution and loss recovery proposals, formulating the Group's capital operation proposals, and implementing resolutions approved at shareholders' meeting.

As at the date of this annual report, the Board consists of nine directors, including six executive directors and three independent non-executive directors:

Executive Directors

Mr. Zhou Zhiyan (Chairman)
 Mr. Yan Qi
 Mr. Hu Kang
 Mr. Chen Hui
 Mr. Xia Sicheng
 Mr. Huang Wennong

Independent Non-Executive Directors

Mr. Chan Chun Hong, Thomas
 Mr. Zhou Feida
 Mr. Liu Huangsong

All independent non-executive directors have confirmed their independence to the Company as required under Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive directors are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.



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Because the Company was listed on 27 April 2006, the Board convened three Board meetings during the Period. The attendance of each director is summarized as follows:

Directors	Number of meetings	Actual attendance
Mr. Zhou Zhiyan	3	3
Mr. Yan Qi	3	3
Mr. Hu Kang	3	3
Mr. Chen Hui	3	3
Mr. Xia Sicheng	3	3
Mr. Huang Wennong	3	3
Mr. Chan Chun Hong, Thomas*	3	3
Mr. Zhou Feida*	3	3
Mr. Liu Huangsong*	3	3

**Independent non-executive directors*

The number of Board meetings disclosed in the above form only includes those held after the IPO date.

The Board will meet regularly, at least four times a year. Each Board member is offered to submit resolution proposals before each Board meeting. The Board meeting notification is sent out to all the directors at least 14 days before each meeting, which gives them sufficient time to review the resolution proposals. Draft and final versions of minutes of the Board meetings are sent to all the directors in a timely manner for their comments and records respectively after the meeting is held.

Each Board member has the right to inspect minutes of the Board meetings, to consult the Company Secretary on regulatory and compliance matters and to seek external professional advice when necessary. The Company Secretary continuously advises all directors on continuing obligations under the Listing Rules and other applicable laws and regulations to ensure the Company's compliance with such requirements and to ensure an excellent corporate governance of the Company.

Nomination of Directors

The Board has not established the Nomination Committee, all current directors were nominated by the promoter. Before the Nomination Committee is established, the Board is responsible for the nomination of new directors and the re-election of existing directors. All nominations need to be approved at the general meeting of shareholders. Since the Company was only listed in April 2006, the Board did not carry out any work to determine the policy for the nomination of directors in the year of 2006.

Chairman and Chief Executive Officer

Pursuant to CG Code provision A2.1, roles of the chairman and chief executive officer should be segregated and should not be performed by the same individual.



The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Chairman of the Board is responsible for ensuring that the directors perform their duties and discuss all important matters on a timely basis, and for ensuring that the Board operates effectively. The Chairman is also responsible for conducting interview individually with each non-executive director to understand his opinion and advice on the operation of the Group and the duties of the Board. At present, Mr. Zhou Zhiyan is the chairman of the Board. Mr. Hu Kang is the chief executive officer of the Company, who is fully responsible for the day to day operations of the Group and execution of instructions from the Board. The Company is of the opinion that duties and responsibilities between the Board and the management team have been well separated and there exists no problem of over-centralization of management power on any particular person.

Tenure of Non-Executive Directors

All current non-executive directors of the Company were appointed with tenure of three years, and can be re-elected and re-appointed with office tenure extended accordingly.

Remuneration of Directors

The Company established a remuneration committee on March 31, 2006 with written terms of reference as suggested under the CG Code. The remuneration committee is mainly responsible for determining the policies in relation to the overall compensation policy and structure for directors, supervisors and senior management of the Company. Executive directors, however, do not participate in determination relating to their own remuneration. Pursuant to the Articles of Association of the Company, the remuneration package must be approved by general meeting of shareholders.

The committee is currently consisted of three independent non-executive directors. It is chaired by Mr. Zhou Feida and with Mr. Chan Chun Hong and Mr. Liu Huangsong as members.

Remuneration Committee convened one meeting in 2006. The attendance is as follows:

Name of Members	Number of meetings	Actual attendance
Mr. Zhou Feida	1	1
Mr. Chan Chun Hong, Thomas	1	1
Mr. Liu Huangsong	1	1

During the Period, Remuneration Committee reviewed and approved the proposed 2007 remuneration package of Board members and key management personnel of the Company. The remuneration of Directors and senior executives is determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other local and international companies and prevailing market conditions. Please refer to note 8 to the financial statements for detailed information on the emolument policy.

Audit Committee

The Board established an audit committee in compliance with the CG Code. The committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's reviewed and audited interim and annual financial statements, to monitor compliance with statutory requirements, and to review the scope, extent and effectiveness of the Group's internal control function.



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It currently comprises three independent non-executive directors, namely Mr. Chan Chun Hong (Chairman), Mr. Zhou Feida and Mr. Liu Huangsong. The audit committee held one meeting during the Period with 100% attendance.

Name of Members	Number of meetings	Actual attendance
Mr. Chan Chun Hong, Thomas	1	1
Mr. Zhou Feida	1	1
Mr. Liu Huangsong	1	1

During the meeting, the Audit Committee approved the unaudited interim condensed consolidated financial statements of the Group, discussed with external auditor regarding the legitimacy of the applied accounting principles and practices and overviewed the list of the internal control findings discovered during the engagement.

Auditors' Remuneration

During the Period, remuneration to the auditors of the Company, Ernst & Young and its affiliate, is summarized as follows:

For services provided	Amount paid/payable (RMB in million)
Auditing Service	4.4

Directors' Responsibilities for Accounts

The directors acknowledge their responsibilities for the preparation of accounts for each financial period which gives a true and fair view of the affairs of the Group, the operating results and cash flows for that period. In preparing these accounts for twelve months ended 31 December 2006, the directors have selected suitable accounting policies and applied them consistently; have made judgments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The directors are

responsible for keeping proper accounting records with reasonable accuracy at any time.

Auditors' Reporting Responsibilities

The responsibilities of the auditors are set out on page 38.

Internal Control

The Board has overall responsibility for the Group's system of internal control and the assessment and management of the risks.

In meeting its responsibility, the Board set up internal control department underneath the Audit Committee to help monitor and improve the internal control policies and procedures put in place for risk identification, aversion and management. The Group's system of internal control includes a defined management and organizational structure with operating policies and procedures, limits of responsibility and delegated authority. The system is designed to safeguard corporate assets, to maintain proper accounting records, to ensure the compliance with relevant laws and regulations and to manage various risks of the Group. Rather than to completely eliminate the risk of failure in operating activities and in achieving the business objectives of the Group, the system is designed to provide reasonable, but not absolute assurance against material misstatement of the operating results, financial information, losses or fraud.

The Board, through the Audit Committee, has conducted an annual review of the effectiveness of the system of the internal control of the Company and its subsidiaries. During the Period, the internal control department conducted a business process level review of existing internal control policies and procedures within the Group, developed a standard internal control model based on the guidelines described



under the framework of the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO") and put it into place among all the controlling subsidiaries. As a result, the Board is aware of the current condition of the internal control of the Company and its subsidiaries. Even though no significant areas of concern were found, the internal control department and the management team of the subsidiaries will strive for higher standard of internal control function continuously.

Business plans and budgets are prepared annually by the management teams and are subject to review and approval by the Board. Monthly financial reporting meeting is held on group level to analyze the difference between actual operating results and the budget. Reforecast for the current year is prepared on a quarterly basis. When setting budget and reforecast, the management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risk.

The internal control department currently concentrates on strengthening the Group's business process level control policies and procedures. Depending on the nature of business and risk exposure of

individual business segment, the scope of work performed by the internal control department will expand to strategic plan review, fraud investigation and productivity efficiency review.

Information Disclosure & Investor Relationship

The Company has endeavored to keep the transparency of the Group on a high level and has communicated with investors and shareholders through different channels since the IPO.

Through the Company's website (<http://www.pmcsh.com>), the investors can obtain the latest news regarding the Company's development plans and announcements.

An investor relationship team has been established to handle the phone inquiry, meeting and factory visit requests from investors, it is also responsible for organizing annual investment conferences and road shows abroad. During the Period, the involvement of the senior management allows investors to have a better understanding of the Company's strategy and development plans.

In the future, the Company will strive to provide better service for the investment industry by enhancing current investor relation activities.

By the order of the Board

Zhou Zhiyan

Chairman

Shanghai, PRC

March 30, 2007

