

# Report on Corporate Governance Practices

The Company was incorporated on 8 October 2006 and became listed on the Hong Kong Stock Exchange on 15 December 2006. The Company is committed to upholding the principles of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Board of Directors understands good corporate governance is crucial to enhancing investors' confidence in the Company as well as sustaining continued business growth of the Company. For year 2006, the Company complied with all code provisions of the Code on Corporate Governance Practices throughout the period from the Company's listing date to 31 December 2006.

## The Board of Directors

### (1) Composition of the Board of Directors

The Company's Board of Directors consists of seven Directors, including three Executive Directors and four Independent Non-executive Directors. Current members of the Board are as follows:

Chairman of the Board: Zhou Jichang

Vice-chairman of the Board and President: Meng Fengchao

Executive Directors: Zhou Jichang, Meng Fengchao, Fu Junyuan

Independent Non-executive Directors: Lu Hongjun, Yuan Yaohui, Chao Tien Yo, Koo Fook Sun, Louis

The Company has appointed a sufficient number of Independent Non-executive Directors in compliance with the recommended best practices in the Code on Corporate Governance Practices which suggest independent non-executive directors shall represent at least one-third of the board of a listed company.

The Company has received the annual confirmation on independence from each of the Independent Non-executive Directors for the year 2006 and the Company considers each Independent Non-executive Director is independent. In 2006, the Chairman conducted interviews with each of the Non-executive Directors individually to understand their opinions and to seek their advice on the operation of the Board and the Company.

Pursuant to the Articles of Association of the Company, the term of office of Directors (including Independent Non-executive Directors) is three years which is renewable upon re-election and re-appointment and each Independent Non-executive Director shall not serve that position for more than six years continuously in order to ensure his independence.

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### (2) Board Meetings

In 2006, the Company held four board meetings. The table below sets out the details of board meeting attendance of each Director in 2006.

Director	Number of board meetings attended	Attendance Rate
Zhou Jichang	4	100%
Meng Fengchao	4	100%
Fu Junyuan (Note 1)	2	50%
Lu Hongjun	4	100%
Yuan Yaohui	4	100%
Chao Tien Yo	4	100%
Koo Fook Sun, Louis	3	75%

Note:

1. Mr. Fu Junyuan was not able to attend two board meetings when he was on business trips as assigned by the Company. He, however, voted through proxy at both meetings.

# Report on Corporate Governance Practices (Continued)

## The Board of Directors (Continued)

### (3) Responsibilities and operation of the Board of Directors

The principal responsibilities of the Board of Directors are, among other things, making decisions on business strategies, business plans, material investment plans, formulating annual financial budget, proposing profit distribution plan, appointing and dismissing the President of the Company, implementing shareholders' resolutions. There are currently four committees established under the Board, being Strategy Committee, Audit Committee, Remuneration and Appraisal Committee, and Nomination Committee. Each committee has its operation rules and reports to the Board regularly.

The roles of the Chairman of the Board and chief executive officer of the Company are performed by separate persons and the division of power between the Board and senior management strictly complies with the Company's Articles of Association and relevant regulations. The Chairman of the Board is responsible for ensuring that the Directors perform their duties properly and ensuring discussions on material matters on timely basis. Pursuant to the Company's Articles of Association, the President is responsible to the Board of Directors and is delegated the authority to, among other things, oversee the operation and management of the Company, implement Board decisions, carry out investment plans, and establish internal management system.

### (4) Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for securities transactions by its Directors and Supervisors. After specific enquiries to all Directors and Supervisors of the Company, the Company confirms that the Directors and Supervisors complied with the standards set out in the Model Code for the year ended 31 December 2006.

### (5) Committees under the Board

#### a) Strategy Committee

The major duties of the Strategy Committee include, among other things, to review proposals and to make recommendations to the Board regarding the Group's strategic development plan, annual budgets, capital allocation plan, significant merger and acquisition, significant financing plan. The Committee consists of Mr. Zhou Jichang, Mr. Meng Fengchao, and Mr. Fu Junyuan, and is chaired by Mr. Zhou Jichang.

No meeting was held by the Strategy Committee in year 2006 as the Company only became regulated by the Code on Corporate Governance Practices since 15 December 2006 when the Company was listed on the Hong Kong Stock Exchange.

#### b) Audit Committee

The major duties of the Audit Committee include, among other things,

- to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them; and
- to oversee the Company's financial reporting system and internal control procedures, including but not limited to, review of financial controls, internal control and risk management systems, consideration of action of any findings of major investigations of internal control matters as delegated by the Board or at its own initiative and management's response thereto, and review of the Group's financial and accounting policies and practices.

The Audit Committee consists of Mr. Koo Fook Sun, Louis, Mr. Lu Hongjun and Mr. Chao Tien Yo. All of the members of the Audit Committee are Independent Non-executive Directors. Mr. Koo Fook Sun, Louis, who has many years of experience in investment banking and professional accounting, is the chairperson of the Audit Committee.

No meeting was held by the Audit Committee in year 2006 as the Company only became regulated by the Code on Corporate Governance Practices since 15 December 2006 when the Company was listed on the Hong Kong Stock Exchange.



# Report on Corporate Governance Practices *(Continued)*

## **The Board of Directors** *(Continued)*

### **(5) Committees under the Board** *(Continued)*

#### **c) Remuneration and Appraisal Committee**

The major duties of the Remuneration and Appraisal Committee include, among other things,

- to make recommendations to the Board on the Company's policy and structure for remuneration of Directors and senior management and on the establishment of a formal and transparent process for developing policy on such remuneration;
- to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of relating to the remuneration of non-executive Directors; and
- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration and Appraisal Committee consists of Mr. Lu Hongjun, Mr. Koo Fook Sun, Louis and Mr. Yuan Yaohui, and is chaired by Mr. Lu Hongjun. All of the members of the Remuneration and Appraisal Committee are Independent Non-executive Directors.

The Remuneration and Appraisal Committee held one meeting in 2006 to determine the specific remuneration package for Executive Directors and make recommendation to the Board of the remuneration of Non-executive Directors. All members of the Remuneration and Appraisal Committee attended the meeting.

#### **d) Nomination Committee**

The major duties of the Nomination Committee include, among other things, to study the recruiting standard and procedure in respect of nomination of Directors and President and to review the credential of Director or President candidates and make recommendation to the Board.

All current Directors of the Board were nominated by CCCG, being the promoter and then sole shareholder of the Company in September 2006, in preparation of the incorporation of the Company. The Directors were nominated by the criteria such as personal integrity, work experience relating to the Company's core business, track record of performance, professional background, familiarity with corporate governance of listed companies, etc.

The Nomination Committee consists of Mr. Zhou Jichang, Mr. Meng Fengchao and Mr. Fu Junyuan, and is chaired by Mr. Zhou Jichang.

No meeting was held by the Nomination Committee in year 2006 as the Company only became regulated by the Code on Corporate Governance Practices since 15 December 2006 when the Company was listed on the Hong Kong Stock Exchange.

## **Supervisory Committee**

The Supervisory Committee is responsible for supervising the Board and its members and senior management as safeguard against any potential abuse of authorities by the Board and the senior management so as to further protect the interests of the Company and its shareholders as a whole. The Supervisory Committee of the Company consists of three members, Mr. Liu Xiangdong, Mr. Xu Sanhao and Mr. Wang Yongbin (representative of the employees). The terms of office for supervisors is three years which is renewable upon re-election.

In 2006, the Supervisory Committee held two meetings, at which the Committee reviewed the Company's financial position, legal compliance of business operations and work performance of the senior management .

# Report on Corporate Governance Practices (Continued)

## Auditors' Remuneration

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (collectively the "External Auditors") are appointed as the international and domestic auditors of the Company, respectively. PricewaterhouseCoopers Zhong Tian CPAs Limited Company is also appointed as the auditors of ZPMC, a subsidiary of the Company.

Fees for the audit of the financial statements of the Group for the year ended 31 December 2006 paid to the External Auditors are approximately RMB41 million.

The Company incurred approximately RMB105 million for the services provided by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company in connection with the Global Offering of the Company's H shares in 2006. Except for the above-mentioned service relating to our Global Offering, the External Auditors did not provide any non-audit services to our Group.

The Board proposes to re-appoint the External Auditors as the international and domestic auditors of the Company for the year 2007, which is subject to shareholders approval at the forthcoming annual general meeting.

## Internal Control

In preparation for the Company's initial public offering in 2006, the Board engaged a consulting firm to conduct internal control assessment, which covers, among other things, financial, operational and compliance controls and risk management functions. Based on that report, the Directors reviewed the effectiveness of the system of internal control of the Group.

## Accountability of the Directors in relation to Financial Statements

The Directors are responsible for overseeing the preparation of the financial statements for each fiscal period. In preparing the financial statements for the year ended 31 December 2006, the Directors have selected appropriate accounting policies and applied them consistently and made prudent and reasonable judgment and estimates so as to give a true and fair view of the state of affairs of the Group and of the results and cash flow for that fiscal year.

## Investor Relations

The Company insists on the importance of communications with investors and the Directors believe that regular and open communications with investors will enhance shareholders' confidence in the Company and benefit the Company's operation.

In 2006, the Company adopted internal working procedures to ensure accurate and timely information disclosure in accordance with the requirements under the Listing Rules. The Company has also established a dedicated department for investor relations. The Company maintains efficient communication channels with investors. In 2007, the Company will continue further improving communication with investors.

