

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 2011 (the “Period”), the Company had 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. ZHAN Xiaozhang (*General Manager*)
 Mr. JIANG Wenyao
 Mr. ZHANG Jingzhong
 Mr. DING Huikang

The non-executive director of the Company during the Period was:

Ms. ZHANG Luyun

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 four meetings. Individual attendances by the directors (as indicated by the numbers of meetings attended/numbers of relevant meetings held) are as follows:

	Attendance in person	Attendance by proxy
Mr. CHEN Jisong (<i>Chairman</i>)	4/4	
Mr. ZHAN Xiaozhang (<i>General Manager</i>)	4/4	
Mr. JIANG Wenyao	4/4	
Mr. ZHANG Jingzhong	4/4	
Mr. DING Huikang	3/4	1/4
Ms. ZHANG Luyun	4/4	
Mr. TUNG Chee Chen	3/4	1/4
Mr. ZHANG Junsheng	2/4	2/4
Mr. ZHANG Liping	4/4	

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 to 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. ZHAN Xiaozhang were the Chairman and the General Manager of the Company, respectively. The roles of Chairman and General Manager are fully segregated as expressly set out in the articles of association of the Company.

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NON-EXECUTIVE DIRECTORS

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

Due to a delay in the nominating process for potential candidates to a new session of the Board after February 29, 2012, the current members of the Board, including the non-executives directors, will continue to discharge their duties and responsibilities as members of the Board in accordance with relevant rules, regulations and articles of association of the Company until a new session of the Board is elected.

The Board considers the arrangements above to be necessary for purpose of continuity, but recognizes that it deviated from the Code Provision A.4.1 of Code on Corporate Governance Practice under Appendix 14 to the Listing Rules which requires that non-executive directors be appointed for specific terms subject to re-election by shareholders.

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 non-executive directors, namely, Ms. ZHANG Luyun, Mr. TUNG Chee Chen, Mr. ZHANG Junsheng, and Mr. ZHANG Liping, with Ms. ZHANG Luyun as the Chairwoman of the committee since March 1, 2009.

During the Period, there were no changes to the members of the Board or senior management of the Company; hence the Nomination and Remuneration Committee had not held any meetings.

AUDITORS’ REMUNERATION

During the Period, the Company had paid HK\$3.8 million (approximately Rmb3.21 million 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 2010, respectively. The auditors did not provide 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 the non-executive directors, of whom Mr. TUNG Chee Chen, Mr. ZHANG Junsheng and Mr. ZHANG Liping are independent non-executive directors, and Ms. ZHANG Luyun is non-executive director, with Mr. TUNG Chee Chen as the Chairman of the committee.

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

	Attendance in person	Attendance by proxy
Mr. TUNG Chee Chen	4/5	1/5
Mr. ZHANG Junsheng	3/5	2/5
Mr. ZHANG Liping	5/5	
Ms. ZHANG Luyun	5/5	

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, 2011, 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

As at December 31, 2011, 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 in number of ordinary shares of the Company	Percentage of the issued share capital of the Company (domestic shares)
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Communications Group	Beneficial owner	2,909,260,000	100%
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Substantial shareholders	Capacity	Total interests in number of ordinary shares of the Company	Percentage of the issued share capital of the Company (H Shares)
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JP Morgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/ approved lending agent	129,934,219 (L)	9.06%
		105,007,592 (P)	7.32%

BlackRock, Inc.	Interest of controlled corporations	121,334,367 (L)	8.46%
		4,259,206 (S)	0.29%

Deutsche Bank Aktiengesellschaft	Investment manager	88,711,734 (L)	6.18%
		1,321,688 (S)	0.09%

Invesco Hong Kong Limited	Investment manager/ advisor of various accounts	86,562,000 (L)	6.04%
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Veritas Funds Plc	Beneficial owner	74,170,000 (L)	5.17%
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The Real Return Group Limited	Interest of controlled corporations	71,820,000 (L)	5.01%
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The letter "L" denotes a long position. The Letter "S" denotes a Short Position. The letter "P" denotes interest in a lending pool.

Save as disclosed above, as at December 31, 2011, 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 through contact details listed on page 126 of this report.

INVESTOR RELATIONS

The Board is committed to ensuring that all shareholders and the investment community have equal and timely access to information about the Company so as to enable their accurate

assessment of the Company's fair value. Such information is available through channels including financial reports, shareholder meetings, statutory announcements, the HKEx website (www.hkexnews.hk) and the Company's own website (www.zjec.com.cn).

Activities such as investor and analyst briefings, one-on-one meetings, conference calls, roadshows, and press conferences are held regularly by senior management of the Company, particularly after results announcements.

Great importance is also attached to maintaining clear and effective communications channels with investors as part of the Company's bid to enhance its transparency and to promote the understanding of its business in the investment community. Any parties who wish to learn more about the Company may do so via the contact details listed below:

Mr. Tony ZHENG

Company Secretary

12/F, Block A, Dragon Century Plaza

1 Hangda Road Hangzhou, Zhejiang 310007

China

Tel: 86-571-8798 7700

Fax: 86-571-8795 0329

E-mail: zhenghui@zjec.com.cn

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During the Period, the last shareholders' meeting of the Company took place at 3:00 p.m. on Thursday, October 13, 2011 at 12/F, Block A, Dragon Century Plaza, 1 Hangda Road, Hangzhou, Zhejiang Province, the People's Republic of China. Details of this extraordinary general meeting of the shareholders were set out in the announcement dated October 13, 2011 on resolutions passed at the extraordinary general meeting of the shareholders.

The next annual general meeting of the Company is expected to be held on May 28, 2012 to consider the resolutions in respect of, among others, the reports of the directors and of the supervisory committee for 2011, the audited financial statements for 2011, a final dividend for 2011, the final report for 2011 and the financial budget for 2012, as well as the election of members of the Board, members of the supervisory committee, and the appointment of external auditors.

The Company's shares comprised of domestic shares and H shares. The domestic shares are held by Zhejiang Communications Investment Group Co., Ltd as to 2,909,260,000 shares, representing approximately 67% of the total issued capital of the Company. 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.

There were no changes made to the articles of association of the Company during the Period.

INTERNAL CONTROLS

The Company has set up an internal monitoring system that aims to protect assets, preserve accounting and financial information, as well as to ensure the accuracy of financial statements, including the establishment of departments and units, setting out responsibilities, execution of management systems and quality control mechanisms. 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 internal control measures are being continuously enhanced, fulfilled and are deemed effective.

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. During the year, the Audit Committee focused on the compliance of the Company's internal control measures, as well as risk control mechanism relating to proprietary trading practices with corporate bonds. The internal audit department carried out specific audit into these compliance issues and monitored relevant rectifications, ensuring the effectiveness of the Company's management systems.

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.

