

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

To govern the daily functioning of the Board of Directors of the Company, the Company has adopted its own Guidelines on Corporate Governance that closely followed the principles of good governance in Appendix 14 of the Listing Rules (available at [www.hkex.com.hk](http://www.hkex.com.hk)) (“CG Code”).

During the Period, the Company has complied with all code provisions in the CG Code and adopted the recommended best practices in the CG Code as and when 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”) set out in Appendix 10 of the Listing Rules.

Upon specific inquiries to all 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. ZHAN Xiaozhang (*Chairman*)

Mr. CHENG Tao (*Appointed on July 1, 2015*)

Ms. LUO Jianhu (*General Manager*)

Mr. DING Huikang (*Ended of Appointment Term on July 1, 2015*)

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

Mr. WANG Dongjie

Mr. DAI Benmeng

Mr. ZHOU Jianping

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

Mr. ZHOU Jun

Mr. PEI Ker-Wei

Ms. LEE Wai Tsang Rosa

During the Period, the Board held a total of ten meetings. Individual attendances by the directors (as indicated by the numbers of meetings attended/numbers of relevant meetings held) are as follows:

	<b>Attendance in person</b>	<b>Attendance by proxy</b>
Mr. ZHAN Xiaozhang (Chairman)	9/10	1/10
Mr. CHENG Tao (Appointed on July 1, 2015)	6/6	
Ms. LUO Jianhu (General Manager)	10/10	
Mr. DING Huikang (Ended of Appointment Term on July 1, 2015)	4/4	
Mr. WANG Dongjie	8/10	2/10
Mr. DAI Benmeng	7/10	3/10
Mr. ZHOU Jianping	8/10	2/10
Mr. ZHOU Jun	9/10	1/10
Mr. PEI Ker-Wei	9/10	1/10
Ms. LEE Wai Tsang Rosa	10/10	

During the Period, the Company held three general meetings of the shareholders. The meetings were chaired by Chairman, and all executive directors were present at the meetings.

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 the Audit Committee, the Nomination Committee, the 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.

# Corporate Governance Report

Pursuant to Rule 3.13 of the Listing Rules, the Company had specifically inquired with 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 or relevant relationships between members of the Board, including that between the Chairman and the General Manager of the Company.

Each newly appointed director receives induction on the first occasion of his or her appointment, so as to ensure that he or she has appropriate understanding of the business and operations of the Company and that he or she is fully aware of his or her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Directors are also regularly updated on the Group's business and industry environments where appropriate in the management's monthly reports to the Board as well as briefings and materials circulated to the Board before board meetings.

In addition, during the Period, the Company has arranged for all its executive and non-executive directors to undergo continuous trainings designed to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant. However, as the management considers that the independent non-executive directors of the Company are very experienced, knowledgeable and resourceful, the Company did not arrange any professional briefings or training programs for its independent non-executive directors and has decided to leave it to the independent non-executive directors to undergo appropriate training as they see fit.

## CHAIRMAN AND GENERAL MANAGER

During the Period, Mr. ZHAN Xiaozhang served as Chairman, and Ms. LUO Jianhu served as 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.

## NON-EXECUTIVE DIRECTORS

Terms for the non-executive directors of current session of the Board started on July 1, 2015 and will expire on June 30, 2018.

## SPECIAL COMMITTEES UNDER THE BOARD

The Board has set up the Audit Committee, the Nomination Committee, the Remuneration Committee, and the Strategic Committee. Roles and responsibilities for each committee are specified in its terms of reference, details of which can be found under the “Corporate Governance” section in the Company’s website.

The Audit Committee comprised of the three independent non-executive directors and two non-executive directors, namely Mr. ZHOU Jun, Mr. PEI Ker-Wei, Ms. LEE Wai Tsang Rosa, Mr. WANG Dongjie and Mr. ZHOU Jianping, of whom Mr. ZHOU Jun serves as the Chairman of the Audit Committee.

The Nomination Committee comprised of the three independent non-executive directors, one executive director and one non-executive director, namely Mr. ZHAN Xiaozhang, Mr. ZHOU Jun, Mr. PEI Ker-Wei, Ms. LEE Wai Tsang Rosa and Mr. DAI Benmeng, of whom Mr. ZHAN Xiaozhang serves as Chairman of the Nomination Committee.

The Company believes that diversification of board members is a key element to maintain the Company’s competitive advantage, improve business performances, and promoting the Company’s continued development. When setting up the board member composition, the Company takes into consideration a number of aspects that determine board member diversification, including but not limited to gender, age, culture, education background, professional experience, work and living background, knowledge and skill, etc. The Company’s Nomination Committee is responsible for assessing the board’s structure, number of members, as well as a diversified composition, providing recommendation or suggestion on candidates to serve as new directors of the Company to the board when needed. The assessment as well as recommendation or suggestion above would have fully taken into consideration any pros and cons to the diversification of board members.

The Remuneration Committee comprised of the three independent non-executive directors and two non-executive directors, namely, Mr. PEI Ker-Wei, Mr. ZHOU Jun, Ms. LEE Wai Tsang Rosa, Mr. DAI Benmeng and Mr. ZHOU Jianping, of whom Mr. PEI Ker-Wei, serves as Chairman of the Remuneration Committee.

The Strategic Committee comprised of the three executive directors, namely Mr. ZHAN Xiaozhang, Mr. CHENG Tao and Ms. LUO Jianhu as well as Mr. ZHANG Jingzhong, Mr. WANG Dehua, Mr. Tony ZHENG and several outside experts and advisors, of whom Mr. ZHAN Xiaozhang serves as Chairman of the Strategic Committee.

# Corporate Governance Report

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

	Attendance in person	Attendance by proxy	Attendance through communication
Mr. ZHOU Jun	4/5		
Mr. PEI Ker-Wei	4/5		1/5
Ms. LEE Wai Tsang Rosa	4/5		1/5
Mr. WANG Dongjie	4/5		1/5
Mr. ZHOU Jianping	3/5	1/5	1/5

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

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

	Attendance through communication
Mr. ZHAN Xiaozhang	1/1
Mr. ZHOU Jun	1/1
Mr. PEI Ker-Wei	1/1
Ms. LEE Wai Tsang Rosa	1/1
Mr. DAI Benmeng	1/1

During the Period, the Nomination Committee mainly discussed the candidates for senior management of the Company. Proposed candidates for senior management of the Company that were reviewed by the Nomination Committee were later reviewed and approved by the Board.

During the Period, the Remuneration Committee held a total of one meeting. Individual attendances by the members of the Nomination Committee (as indicated by the numbers of meetings attended/numbers of meetings held) are as follows:

	<b>Attendance through communication</b>
Mr. PEI Ker-Wei	1/1
Mr. ZHOU Jun	1/1
Ms. LEE Wai Tsang Rosa	1/1
Mr. DAI Benmeng	1/1
Mr. ZHOU Jianping	1/1

During the Period, the Remuneration Committee mainly discussed the remuneration and allowance packages for directors of the Board, supervisors of the Supervisory Committee and senior management of the Company. Proposed remuneration and allowance packages for directors of the Board, supervisors of the Supervisory Committee and senior management of the Company that were reviewed by the Remuneration Committee were later reviewed and approved by the Board.

During the Period, the Strategic Committee did not hold any meeting.

The Board is responsible for developing and reviewing the Company's corporate governance policies and practices, monitoring the Company's compliance with the Code and its disclosure within this report; the Board reviews and monitors the training and continuous professional development of Directors and senior management through the works of human resources department, and review and monitor the Company's policies and practices on compliance with legal and regulatory requirements through the works of legal and internal audit department.

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.

# Corporate Governance Report

## AUDITORS' REMUNERATION

During the Period, the Company had paid Rmb approximately 3.28 million and Rmb1.45 million to Deloitte Touche Tohmatsu Certified Public Accountants (the Hong Kong auditors) and Pan-China Certified Public Accountants Ltd. (the PRC auditors), respectively, for audit services conducted in 2014. Besides, the Company had paid Rmb890,000 to Deloitte Touche Tohmatsu Certified Public Accountants (the Hong Kong auditors) for other assurance service provided.

## SECRETARY TO THE BOARD

During the Period, the Secretary to the Board had complied with Rule 3.29 of the Listing Rules regarding undergoing relevant professional trainings.

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

As at December 31, 2015, none of the Directors, Supervisors and General Manager 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 Hong Kong Stock Exchange pursuant to the Model Code.

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

As at December 31, 2015, 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 Hong Kong Stock Exchange are set out below:

<b>Substantial shareholders</b>	<b>Capacity</b>	<b>Total interests in number of ordinary shares of the Company</b>	<b>Percentage of the issued share capital of the Company (domestic shares)</b>
Communications Group	Beneficial owner	2,909,260,000	100%

Substantial shareholders	Capacity	Total interests in number of ordinary shares of the Company	Percentage of the issued share capital of the Company (H shares)
JP Morgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/ approved lending agent	186,356,024(L)	12.99% (L)
		1,582,000(S)	0.11%(S)
		74,335,779(P)	5.18%(P)
BlackRock, Inc.	Interest of controlled corporations	169,469,960(L)	11.82%(L)
The Bank of New York Mellon Corporation	Investment manager/ approved lending agent	72,365,466(L)	5.05%(L)
		70,150,710(P)	4.89%(P)

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, 2015, 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 Hong Kong 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 179 of this report.

# Corporate Governance 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 Hong Kong Stock Exchange website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's own website ([www.zjec.com.cn](http://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

5/F, #2 Mingzhu International Business Center,  
199 Wuxing Road, Hangzhou, Zhejiang 310020

China

Tel: 86-571-87987700

Fax: 86-571-87950329

E-mail: [zhenghui@zjec.com.cn](mailto:zhenghui@zjec.com.cn)

During the Period, the last shareholders' meeting of the Company took place at 10:00 a.m. on Tuesday, December 22, 2015 at the headquarters of the Company. Details of this extraordinary general meeting of the shareholders were set out in the announcement dated December 22, 2015 on resolutions passed at the extraordinary general meeting of the shareholders.

The next annual general meeting of the Company is expected to be held in May, 2016 with exact date and resolutions for review to be specified in notice of annual general meeting when it is published.

The Company has an issued share capital of 4,343,114,500 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 AND RISK MANAGEMENT

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, and the management system on environment, occupational health and safety. 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 attaches great importance to risk management. As of the end of 2015, the Company established its risk management mechanism and relevant regulations, established risk management strategy and took risk control measures in response to major risks faced by the Company.

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 regular basis. During the Period, the Audit Committee focused on management of various projects, as well as compliance and risk control of margin financing and securities lending businesses. 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. The risk management of the Company was deemed to be effective and controllable.

## 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.