

# Structure of Corporate Governance

## 1. THE CONDITIONS OF CORPORATE GOVERNANCE

In strict compliance with the Companies Law, Securities Law and the requirements on laws and regulations related to China Securities Regulatory Commission, the Company devotes a lot of efforts to improve the corporate governance structure of the Company under the system of legal person, so as to establish modern enterprise system and achieve standardization on the operations of the Company. Pursuant to the requirements of the “Principles of corporate governance of listed companies” as promulgated by the China Securities Regulatory Commission and State Economic and Trade Commission on 7th January 2002, the Company would, subject to the approval from the Annual General Meeting 2001 to be held on 16th April 2002, amend the Articles of Association and adopted the Job Guidelines for the General Manager in the managers’ conference of the Company. At the same time, the Company will consider and approve the Rules for governing the procedures for operating the shareholders general meeting, the Rules for governing the procedures for operating the board meeting and the Rules for governing the procedures for operating the Supervisory Committee in the Annual General Meeting 2001. These rules strictly comply with the relevant provisions of China Securities Regulatory Commission, Shanghai Stock Exchange and Hong Kong Stock Exchange. The main content is as follows:

- (1) For the shareholders and the general meeting: the Company shall ensure that all shareholders, especially major and minority shareholders are ranked *pari passu* with each other. This will ensure that all shareholders can fully exercise their own rights. The Company has formulated the rules for governing the procedures for operating the shareholders’ general meeting, and is thus capable to convene and hold shareholders’ general meeting, and choose the place of meeting as to accommodate as many shareholders as possible to attend and exercise their voting rights in strict compliance with the provisions of the Standard Opinion. The connected transactions of the Company are fair and reasonable and the bases for determining the price are adequately disclosed.
- (2) For the relationship between the controlling shareholders and the listed companies: standardization on the conduct of the controlling shareholders, so as not to bypass the shareholders’ general meeting and intervene in the companies’ decisions and operations. The Company and the controlling shareholders shall be independent on “Five Aspects” including staff, assets, finance, organization and business. The Board of Directors, Supervisory Committee and the internal departments of the Company shall function independently.
- (3) For the directors and the Board of Directors: The Company shall strictly comply with the provisions of the Articles of Association on election and appointment of directors. It will further enhance the election and appointment of directors and devote efforts to the implementation of cumulative voting system. The number of directors and composition of the Board of Directors of the Company shall comply with the laws and regulations. The Board of Directors of the Company formulated the rules of procedure for the Board. All directors of the Company shall attend the board meetings and shareholders’ general meetings in a serious and responsible manner, actively participate in training, aware of the relevant laws and regulations, and understand the rights, duties and responsibilities as a director. The Company established the system of independent director under the relevant provisions. The Board of Directors consists of three independent directors, constituting one-third of the board members. Committees for remuneration and audit were also established.

## **1. THE CONDITIONS OF CORPORATE GOVERNANCE** *(Cont'd)*

- (4) For Supervisors and Supervisory committee: There are six supervisors in total. The number and composition of supervisors comply with the laws and regulations. The Supervisory Committee of the Company formulated the rules of proceedings for the Supervisory Committee. The Supervisors of the Company shall perform their duties in a serious manner. They shall supervise on behalf of the shareholders the Company's financial conditions, and the compliance with the laws and regulations by the Company's Manager and other senior management during performing their duties.
- (5) For the appraisal, motivation and control mechanism: The Company is establishing open and fair appraisal standards and motivation and control mechanism for Directors, Supervisors and Managers. The management is recruited on an open basis that adequately reflect open, equal and fair principles.
- (6) For the interested parties: The Company can fully respect and safeguard the legal rights of other interested parties such as banks and other creditors, staff, consumers to promote the viable and healthy development of the Company.
- (7) In connection with information disclosure and transparency: The Company assigns the Secretary of the Board of Directors to be in charge of information disclosure, reception of visiting shareholders and consultation. The Company shall strictly comply with the laws, regulations and the Articles of Association to disclose true, accurate and complete information in a timely manner. It ensures that all shareholders have equal opportunities to access the information. The Company can disclose the details of connected transactions, information of substantial shareholders and the actual controlling party of the Company on time under the relevant provisions.

Since its establishment, the Company functions pursuant to the Company Law, Securities Law and the relevant laws and regulations promulgated by the China Securities Regulatory Commission, and operates in accordance with the relevant rules of proceedings and the Principles of corporate governance of listed companies promulgated by the China Securities Regulatory Commission on 7th January 2002, with an aim to maximize its profits and protect the benefits of major and minority shareholders.

## **2. AN OVERVIEW ON THE PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS**

The Company established the system of independent directors in accordance with Rules governing the listing of securities on the Stock Exchange of Hong Kong Limited. There are three independent directors in the Board of Directors, constituting one-third of the total number of board members. Each of the independent director is familiar with the conditions of the Company's business and operations, attend board meetings and shareholders' general meetings in a serious and responsible manner and give independent opinions. They have been actively participated in training so as to understand the rights, duties and responsibilities of an independent director. According to the provisions of Guiding opinions in respect of establishing independent directors' system by listed companies as promulgated by the China Securities Regulatory Commission. As the existing independent director Mr Li Weibin is the partner of the Company's legal advisors in Hong Kong, Li & Partners, and Mr Guan Weili has been the Company's independent director for more than six years, they are not eligible to be the Company's independent directors. Accordingly, Messrs Li Weibin and Guan Weili will submit a proposal to the Company's Board of Directors to resign as the Company's independent director. In order to further strengthen the system of independent director and enhance the Company's structure of corporate governance, the Company's Board of Directors will nominate candidates as the Company's new independent directors.

## **3. SEPARATION OF POWERS BETWEEN THE COMPANY AND CONTROLLING SHAREHOLDERS WITH RESPECT TO THE MATTERS INCLUDING STAFF, ASSETS, FINANCE, ORGANIZATION AND BUSINESS**

- (1) Separation of staff: The Company is independent from the controlling shareholders on aspects such as labour, personnel and salaries management. It sets up an independent labour and personnel functions department. Senior management staff such as general manager, deputy general manager, chief accountant, secretary of the Board of Directors receive their salaries from the Company and do not take up any important positions other than directors in the entities of the controlling shareholders.
- (2) Right to assets: All assets relating to the production and operation of the Company will be owned by the Company.
- (3) Financial independence: The Company has set up an independent financial and accounting department, and established independent account and audit system and financial management system. It has opened separate accounts in banks.
- (4) Organizational independence: The Company established organizational structure absolutely independent from controlling shareholders with a separate place of business.
- (5) Separation of business: The Company is independent from controlling shareholders in the conduct of its business, with independent capability on business and decision making.

## **4. THE APPRAISAL AND MOTIVATION MECHANISM FOR SENIOR MANAGEMENT**

The Board of Directors of the Company assesses the performance indicators and standards of senior management. The Company will establish the relevant reward system in appropriate time and launch the motivation mechanism for directors, supervisors and senior management.