

1. CURRENT STATUS

The Company has committed ongoing efforts to improve its corporate governance structure, develop a modernised enterprise system and regulate its operation and institutions in strict accordance with the Company Law of the People's Republic of China (the "Company Law"), the Securities Law of the People's Republic of China, relevant laws and regulations promulgated by the Chinese Securities Regulatory Commission (the "CSRC") and the State Economic and Trade Commission, rules and regulations of the Shanghai Stock Exchange (the "SSE") and the Listing Rules. The Company has developed its Articles of Association (the "Articles"), "Rules of Proceedings for the Board of Directors", "Rules of Proceedings for the Supervisory Committee" and the "Operating Rules for the Board of Directors' Audit Committee" and operated properly in accordance with these regulations.

The Company has convened shareholders' meetings in strict accordance with the Binding Opinion for Shareholders' Meeting issued by the CSRC. Connected transactions of the Company have been conducted in accordance with commercial principles. Connected shareholders and directors have waived their voting rights in respect of the relevant resolutions, and such transactions have been endorsed by independent directors. Details of connected transactions and their implementations have been fully disclosed. The controlling shareholder has exercised its lawful rights as a capital contributor through shareholders' meetings, and has not sought to interfere with the Company's decision-making process and operating activities. Nominations of potential Directors and Supervisors were conducted by the controlling shareholder in strict accordance with the relevant laws and regulations, and conditions and procedures as stipulated in the Articles. The Company is independent from the controlling shareholder in terms of employees, assets, finance, organisation and business operations.

Directors of the Company have been elected in strict accordance with the procedures for appointing directors as stipulated in the Company Law and the Articles. The size and composition of the Board of Directors have been in full compliance with the relevant regulations. The Company has established a system of independent directors and has appointed three independent directors. The three independent directors have also formed an Audit Committee and fulfilled their obligations in accordance with the "Operating Rules for the Board of Directors' Audit Committee."

Supervisors of the Company have been elected in accordance with the relevant regulations, and the size and composition of its Supervisory Committee have also been in full compliance with the relevant regulations. The Supervisory Committee has developed the "Rules of Proceedings for the Supervisory Committee". The Company has established a system of independent supervisors and has appointed three independent supervisors.

1. CURRENT STATUS (continued)

The appointment and dismissal of the Company's senior management personnel have been conducted in an open and transparent manner in accordance with the relevant laws and regulations and the Articles. The Company has adopted an annual salary system for its directors and senior management. The system of performance appraisal is still under study.

The Company has designated the Secretary to the Board of Directors to be in charge of information disclosure. A designated department has been set up to be responsible for the reception of visiting shareholders and intermediaries, responding to enquiries, furnishing to the public information required to be disclosed and promoting the Company through the media.

2. PERFORMANCE OF DUTIES BY THE COMPANY'S INDEPENDENT DIRECTORS

The Company's Board of Directors consists of three independent directors, who were nominated by the Board and elected at the shareholders' meetings. They are completely independent from the Company and its major shareholders, and do not assume any other duties at the Company. The independent directors have carried out their duties in accordance with the relevant laws and regulations and the Articles including attending Board of Directors' meetings and taking part in the discussion and determination of significant matters; auditing connected transactions and furnishing independent opinions; and auditing the Company's financial reports as members of the Audit Committee.

3. SEPARATION OF EMPLOYEES, ASSETS, FINANCE, ORGANISATIONS AND BUSINESS OPERATIONS BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER

- (1) **Employees:** The Company is independent in labor, personnel and remuneration management. Senior management personnel such as General Manager and Deputy General Manager are on the Company's payroll without holding any important positions at Holding.
- (2) **Assets:** The Company owns its production systems, auxiliary systems and complementary facilities on an independent basis. Intangible assets such as industry property rights, trademarks and non-patent technologies are also owned by the Company, as are the systems for purchasing and marketing.
- (3) **Finance:** The Company is supported by an independent financial accounting department. Independent systems for auditing and financial management have been developed. The Company is using separate bank accounts from Holding.
- (4) **Organisation:** The Company has established a sound corporate organisation. The Board of Directors, the Supervisory Committee and other internal departments have been operating independently without any subordination to departments at the controlling shareholder.
- (5) **Business operations:** The Company operates an independently viable business on a proprietary basis. The controlling shareholder has not competed in the same business with the Company, nor is it allowed to do so.