

STATUS

After its establishment and listing, the Company has operated strictly in compliance with the PRC Company Law, the Securities Law and other relevant rules and regulations issued by the China Securities Regulatory Commission (the “CSRC”) in order to continuously improve the corporate governance, standardise its operation and to enhance the disclosure of the Company’s information.

- 1 With a view to optimise the mechanism of the meetings of shareholders, the Board and the Supervisory Committee, the Company prepared “The Rules of Shareholders’ Meetings”, “The Rules of Directors’ Meetings”, “The Rules for Independent Directors”, “The Rules for Supervisory Committee”, “The Rules for Information Disclosure”, “Working Regulations of General Manager”, and “Regulations for Internal Finance Management of the Company” and other managerial rules in accordance with “The Guidance of Memorandum for Listed Companies”, “Terms for Overseas Listed Companies’ Memorandum”, the “Listing Rules” and the “Standard for Corporate Governance for Listed Companies”. The Company’s Articles of Association has been amended so as to strengthen and embody the corporate governance.
- 2 In May 2002, the CSRC and the State Economic and Trade Commission (the “SETC”) jointly announced “The Notice about Establishing the Monitoring Mechanism over Modern Corporate System within Listed Companies”. According to the notice, the Company performed a thorough self-examination and submitted a summary report of examination to the CSRC, SSE and SETC.
- 3 Controlling Shareholder and the Company: GZPHL has standardised its operations and it would not act beyond the shareholders’ meeting and interfere directly or indirectly the Company’s decision making or operations. The controlling shareholder strictly followed the conditions and procedures specified in the Company’s Articles of Association and other relevant rules governing the nominations of candidates to be the Company’s Directors and Supervisors. The Company and its controlling shareholder worked separately in respect of business, human resources, assets, organisation and financing. Therefore, the Board, Supervisory Committee and internal organisation mechanism were able to function independently and appropriately. The Company’s connected transactions have been entered into on an arm’s length basis. Information on pricing determination and setting up and compliance of connected transaction agreements was adequately and timely disclosed.
- 4 Directors and the Board: the Directors were elected in accordance with the Company’s Articles of Association. The number of Directors and composition of the Board met the requirements of the relevant rules and regulations. Each Director was diligent and responsible. Directors actively took part in training courses, had strong knowledge in the relevant rules and regulations, and fully understood their rights, responsibilities and obligations. The Company has appointed independent Non-executive Directors and formed specialised committees to fully utilise the function of independent Non-executive Directors.
- 5 Supervisors and the Supervisory Committee: the number of Supervisors and the composition of the Committee are in compliance with the relevant rules and regulations. In doing their best to maintain the overall interests of the shareholders, the Supervisors fulfilled their duties in a diligent manner and monitored the legitimacy of performance of the Directors and management.

- 6 Interested parties: the Company respected and safeguarded the interests of the banks and other creditors, employees, customers and other interested parties and placed emphasis on environmental protection and social welfare activities so as to mutually promote the sustainable and healthy development of the Company.
- 7 Disclosure of information and transparency: the Company delegated the Company Secretary the responsibility for disclosing the Company's information, handling queries from shareholders, consulting on Company's matters, responding to letters from shareholders and posting out requested information. In accordance with the relevant rules and regulations and the Articles of Association, the Company continued to disclose information in an honest, diligent, objective, truthful, accurate, timely, and comprehensive manner. The Company also ensured that shareholders have fair access to information relating to the Company. In addition, the Company disclosed on a timely basis the detailed information regarding major shareholders, controllers of the Company and changes in share capital.

DUTIES OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent Non-Executive Directors have fulfilled their duties by actively protecting the overall interests of the Company and minority shareholders, and providing constructive advice towards the Company's development in accordance with the relevant rules and regulations. In fulfilling their duties, the Independent Directors were independent from the major shareholders, controlling person and other persons or companies with relevant interests in the Company.

SEPARATION OF BUSINESS, HUMAN RESOURCES, ASSETS, ORGANISATION AND FINANCIAL ARRANGEMENTS FROM ULTIMATE HOLDING COMPANY

- 1 Separation of business: the Company operates with an extensive business scope that is independent from the ultimate holding company.
- 2 Human resources: the Company is independent in human resources management including payroll. The General Manager, Vice General Manager, Company Secretary, Financial Controller, and other senior executives are remunerated by the Group and do not take up any position in any of the Company's fellow subsidiaries.
- 3 Assets: the Company is equipped with an independent manufacturing system, a supplementary manufacturing system and related equipments. It also has independent purchases and sales systems. There are currently 38 trademarks used by the Company, the titles of which belong to GZPHL. The Company has an agreement with GZPHL in relation to the use of trademarks. In addition, the Company owns 6 valid trademarks.
- 4 Organisation: the Company has established an independent and comprehensive organisational structure. The Board, Supervisory Committee and other departments are operating independently from the organisation of the ultimate holding company.
- 5 Finance: the Company has established an independent finance department, accounting system, and formulated independent financial management policy. In addition, the Company has maintained independent bank accounts which are used for its business activities.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT'S PERFORMANCE ASSESSMENT, INCENTIVE MECHANISM, AND RELEVANT REWARD SYSTEM

A Remuneration and Evaluation Committee, under the Board's direction, has been established and is responsible for investigating and approving performance evaluation standards and remuneration policies and schemes for the Directors, Supervisors and Senior Management. A long-term incentive scheme had been discussed and approved at the 1st extraordinary general meeting ("EGM") of 2002, and became effective in 2001. The scheme is available for the Directors (excluding Independent and Non-executive Directors), Supervisors (excluding external Supervisors), Senior Management, Middle Management, and key technicians. The reward system links the responsibilities, risk exposure and performance achievement of Senior Management and Key Technicians with the Company's long-term developments and helps promote sustainable development of the business.