

Structure of Corporate Governance

1. THE CONDITIONS OF CORPORATE GOVERNANCE

In strict compliance with the Company Law, Securities Law and the requirements on laws and regulations required by the CSRC, 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 a modern enterprise system and achieve standardization on the operations of the Company. Pursuant to the requirements as promulgated by the CSRC on 28th August 2003, the Company appended and amended the relevant documents. During the extraordinary general meeting of 2003 held on 20th December 2003, the Articles of Association, as supplemented and amended, "The Rules Governing the Procedures for Operating the Shareholders' General Meeting" and "The Rules Governing the Procedures for Operating the Meeting of the Board of Directors" were considered and approved.

The above-mentioned Articles of Association, together with the various rules, fulfilled the relevant provisions of the CSRC, the Shanghai Securities Exchange and The Stock Exchange of Hong Kong Limited and other relevant provisions and which also govern the acts of the Company. Meanwhile, the Company will timely amend the Articles of Association and the various rules in accordance with the actual situation and the change in relevant laws, regulations and constitution.

- (1) As to the shareholders and the Shareholders' General Meetings: The Company shall ensure the ranking of all shareholders, especially the middle and minority shareholders are equal, and that they shall be allowed to fully exercise their duties. The Articles of Association has expressly set out the authority of the Board of Directors. The Company has prepared the "Rules Governing the Procedures for Operating the Shareholders' General Meeting", and has been capable to convene and hold the Shareholders' General Meetings in accordance with the "Standard Opinion for Shareholders' General Meeting". It allows the shareholders to exercise their voting right. It standardizes connected transactions, strictly complies with the approval and disclosure procedures of connected transactions and ensures that the connected transactions are fair, impartial and open.
- (2) As to the controlling shareholders and the listed companies: The activities of the controlling shareholder are governed and shall not interfere with the decision-making and operation of the Company without going through the Shareholders' General Meetings. It does not apply the funds of the Company or request the Company to provide guarantee for itself or other parties. The Company is totally separated from the Controlling Shareholder with respect to personnel, assets, finance, structure and operation. The Board of Directors, Supervisory Committee and functional departments for operation and management have been capable to operate independently.
- (3) As to the Directors and Board of Directors: The Company has strictly complied with the provisions under the Articles of Association on election of directors. During the reporting period, the Company underwent the election of directors for the next Board. The newly appointed directors undertook to comply with the relevant laws and regulations, the Articles of Association and the relevant rules governing the procedures for operating general meetings. They also undertook to perform their duties effectively and make scientific decisions.

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

- (4) As to the Supervisors and the Supervisory Committee: The number and composition of the Supervisory Committee have complied with the requirements as provided in the relevant laws and regulations, the Articles of Association and the relevant rules governing the procedures for operating general meetings. They also undertook to devote a lot of efforts and seriously fulfil their duties to supervise the major events, finance, directors, managers and other senior officers in accordance with legal requirements.
- (5) As to the mechanisms governing the appraisal and motivation: The Company established the Remuneration and Appraisal Committee under the Board of Directors and determined the policies for the relevant appraisal and motivation mechanisms. At present, it is actively exploring the effective methods and ways to improve the appraisal and motivation for the achievements and performance of the Directors, Managers and other senior management officers. The appointment of the Managers is open, transparent and complies with the laws and regulations and requirements for the benefit of the Company.
- (6) As to the related parties: The Company fully respects and safeguards the legal interests of the related interests parties such as the banks, other creditors, staff, customers and suppliers for the sustainable and healthy development of the Company.
- (7) As to information disclosure: The Company authorizes the Secretary to the Board and Securities Affairs Representative for information disclosure, handling the visit and enquiry from shareholders and investors, and reporting the relevant matters to the CSRC and the relevant stock exchanges in a timely and accurate manner. The regular and special reports as disclosed by the Company for the year truly, accurately, timely and completely disclosed the information of the Company. The Company's website has added the "investors' relation" section which is maintained and updated by its designated staff.

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

The Company established the system of independent directors in accordance with "The Rules Governing the Independent Directors of the Listed Company" issued by the CSRC and the Listing Rules issued by the Hong Kong Stock Exchange in 2002. The Board of Directors comprises three independent directors, representing one-third of all the members of the Board. The term of Mr. Chan Boon Teong expired on 19th December 2003. At the extraordinary general meeting of the Company held on 20th December 2003, Mr. Ko Po Ming was elected as an independent non-executive director of the Company. Each of the independent directors is familiar with the conditions of the business and operations of the Company. They have attended meetings of the Board and the shareholders' general meetings in a serious and responsible manner, and have given independent and professional opinions. They have participated in relevant training proactively so as to understand the rights, duties and responsibilities of an independent director. In addition, due to the changes of independent directors, a resolution was considered and passed at the first meeting of the third Board convened on 20th December 2003, pursuant to which a new audit committee and a remuneration and appraisal committee of the Company comprising the independent directors of Mr. Gao Zongze, Mr. Wang Xiangfei and Mr. Ko Po Ming, were formed.

3. SEPARATION OF POWERS BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER WITH RESPECT TO THE MATTERS INCLUDING STAFF, ASSETS, FINANCE, ORGANISATION AND BUSINESS

- (1) Separation of staff: The Company is independent from the Controlling Shareholder on aspects such as labour, personnel and salaries management. It has set up an independent labour and personnel functions department. The Chairman took up the position as the director of Tianjin Municipal Investment Company Limited which was the controlling shareholder. Apart from that, all senior management staff such as general manager, deputy general manager, financial controller, secretary to the Board of Directors receive their salaries from the Company and they have not taken up any important positions other than directors in the entities of the controlling shareholder.
- (2) Right to assets: All assets relating to the production and operation of the Company are owned by the Company and independent from the controlling shareholder. The Company did not provide any guarantee to its controlling shareholder. The Company has complete control and the right of using its assets. There are no circumstances of its assets and capital being occupied by the controlling shareholder which would adversely affect the interest of the Company.
- (3) Financial independence: The Company has set up an independent financial and accounting department, and established an independent account and audit system and financial management system. It has opened separate accounts in banks.
- (4) Organisational independence: The Company established an organizational structure which is absolutely independent from the controlling shareholder. It established the Shareholders' General Meetings, the Board of Directors, the Supervisory Committee and the General Manager. The operation and management of the Company are subject to an accountability system of the General Manager under the authorization of the Board of Directors. The Company has a separate place of business.
- (5) Separation of business: The Company is independent from the controlling shareholder in the conduct of its business, with independent capability on business and decision making.

4. THE APPRAISAL AND MOTIVATION MECHANISM FOR SENIOR MANAGEMENT

The middle management officers are employed and selected from a pool of candidates. The senior management officers are employed in accordance with the employment terms and selection procedures as provided in the Articles of Association. The achievements and performance of the directors and senior management officers are evaluated in accordance with the usual appraisal system by the human resources department of the Company. At the end of each year, the Remuneration and Appraisal Committee under the Board of Directors will conduct an overall assessment. The Company will continue to explore into the establishment of an effective mechanism, so as to fully motivate all directors, supervisors and senior management officers.