

Corporate Governance

1. In accordance with the relevant laws, rules and regulations, the Company has continued to improve the corporate governance. During the reporting period, the 2003 AGM revised partly the provisions of the Company's Articles of Association and the articles of the Rule of Proceedings for Shareholders' General Meetings of the Company based on Document No.56 and the revised Listing Rules which is effective on 31 March 2004, so as to standardize the internal operation further and ensure the shareholders can exert rights.

In accordance with the regulations of the Company's Articles of Association, the EGM held on 26 August 2004 adopted accumulative voting system for the first time to elect some director members of the fourth term Board.

In order to improve corporate governance, the Board considered and passed the resolution on adjustment of organizing affiliated expert committees and amending relevant responsibilities of the committees.

The Board also agreed to adopt the Model Code as contained in Appendix 10 to the Listing Rules and extended the scope of application of the Model Code to the Senior Management of the Company.

2. During the reporting period, the internal control system evolved smoothly. The Company's special taskforce of internal control system implemented all-rounded and full-process controls on all process cycles concerning investment, production, operation and finance. As a result, the operational, financial and rule-abiding risks have effectively been on guard. Considered and approved in the 21st meeting of the fourth term of the Board, the Handbook of Internal-Control has been put in force formally since 1 January 2005.
3. Information on the fulfillment of responsibilities by the Independent Directors:

The Independent Directors' attendance of the Board Meetings

Name	Times Due	Times in Person	Times by Proxies	Absence
Li Zhong-he	9	9	–	–
Wang Hua-cheng	9	7	2	–
Yi Ren-ping	9	8	1	–
Qian Zhi-hong	9	9	–	–

The Independent Directors have provided constructive opinion and advice on the Company's development, operation and management on the basis of their knowledge of the Company. The Independent Directors have reviewed the Company's connected transactions, election of the Directors and appointment of Senior Management and expressed their independent comments during the reporting period. The Independent Directors protect the interest of the whole Company and legitimate rights and interests of minority shareholders.

During the reporting period, the Independent Directors did not propose any demurrals on resolutions.

4. The relationship between controlling shareholders and the Company:

The controlling shareholders exercise their legal rights as investors via the shareholders' general meetings legally and do not interfere directly or indirectly in the decision-making or operating activities of the Company. The controlling shareholders did not use the Company's funds or request the Company guarantee themselves or other parties. The Company has independent procurement and sales system and senior management and staff are full-time employees and remunerated. The Company's assets are fairly stated and with clear ownership. Independent finance department and independent accounting & financial system have been set up. The Board, the Supervisory Committee and the internal departments of the Company are operating independently according to the relevant laws. The Company is independent of its controlling shareholders in terms of personnel, assets, finance, organizations and operations.
5. Performance evaluation, stimulating and binding mechanism: Under the guidance of the annual operation and management targets set by the Board, Remuneration and Assessment Committee of the Company effectively appraised the performance of senior management. The Company has been working hard to establish evaluation criteria and a stimulating and binding mechanism for senior management.

