

Structure of Corporate Governance

1. THE CONDITIONS OF CORPORATE GOVERNANCE

During the reporting period, the Company strictly complied with the requirements under the Company Law, Securities Law of the PRC and the relevant rules and regulations of the CSRC and the provisions under the Rules Governing the Listing of Securities on Hong Kong Stock Exchange (the "Listing Rules") and "Code on Corporate Governance for Listed Companies". The Company devoted a lot of effort to improve its corporate governance structure and established a contemporary corporate system so as to standardise the operation of the Company.

The Directors, supervisors (the "Supervisors") and senior management officers of the Company seriously learned about the latest provisions under the Listing Rules and Rules Governing the Listing of Shares on Shanghai Stock Exchange as amended in 2004. Pursuant to the amendments to the above regulations and also to the requirements as provided in the circular of Certain Provisions on Strengthening the Protection of the Rights and Interests of General Public Shareholders promulgated by the CSRC on 7th December 2004, the Company had improved and amended the Articles of Association and its related documents. The Articles of Association are the principles governing the behavior of the Company, which are amended timely in accordance with the change in actual situation and the system of relevant laws, rules and regulations.

- (1) As to the Shareholders and the Shareholders' general meetings: the Company shall ensure the ranking of all Shareholders, especially the middle and minority of the 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 of the Company in accordance with the "Standard Opinion for Shareholders' General Meeting". It allows the Shareholders to exercise their voting right. It standardises connected transactions, strictly complies with the approval and disclosure procedures of connected transactions and ensures that the connected transactions are fair, impartial and open. At the same time, pursuant to the website voting requirements as provided in the circular of Certain Provisions on Strengthening the Protection of the Rights and Interests of General Public Shareholders, the Company established a website voting system for the Shareholders' General Meetings and proceed after approval from the Board.
- (2) As to the Controlling Shareholder 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 of the Company. 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 of the Company have been capable to operate independently.

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

- (3) As to the Directors and the Board: the number and composition of the Board have complied with the requirements as provided in rules and regulations. During the reporting period, the Company underwent the election of Directors for the next Board. The 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 rational decisions.
- (4) As to the Supervisors and the supervisory committee of the Company: the number and composition of the supervisory committee of the Company 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 fulfilled their duties to supervise the major events, finance, directors, managers and other senior officers in accordance with the legal requirements.
- (5) As to the audit committee of the Company: the audit committee of the Company consists of three independent non-executive Directors. The audit committee of the Company is mainly responsible for supervising the completeness of the financial statements and regular reports of the Company and providing opinions on major issues; conducting inspections and ensuring an effective control system is established by the Company; and recommending the Board in respect of the appointment and removal of the auditors of the Company. During the reviewing period, the Company convened two meetings by the audit committee, wherein the annual report for 2003 and the interim report for 2004 of the Company were reviewed and the working report was presented respectively.
- (6) As to the mechanisms governing the appraisal and motivation: the Company established the remuneration and appraisal committee under the Board. It is mainly responsible for giving advice to the Board on the remuneration policies and structure for Directors and senior management of the Company and conducting appraisals and evaluations on the working performance of executive Directors in accordance with the development objectives of the Company and the working condition. The Company established the related performance appraisal and incentive control mechanisms and policies. The Company is now engaged in the improvement of the remuneration and incentive systems.
- (7) As to various stakeholders: the Company fully respects and safeguards the legal interests of various stakeholders parties such as the banks, other creditors, staff, customers and suppliers for the sustainable and healthy development of the Company.

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

- (8) As to information disclosure: The Company authorises the secretary to the Board and securities affairs representative of the Company 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. At the same time, pursuant to the requirements as provided in the circular of Certain Provisions on Strengthening the Protection of the Rights and Interests of General Public Shareholders, the Company established an Investor Relations Management System approved by the Board.

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

(1) Attendance of independent non-executive Directors at the Board meetings

Name of independent non-executive Directors	Number of attendance required in the Board meetings during the year	Attendance in person	Attendance by proxy	Absent	Notes
Ko Poming	10	9	1	0	Gao Zongze was appointed to vote on his behalf
Wang Xiangfei	10	10	0	0	—
Gao Zongze	10	10	0	0	—

The Company established the system of independent non-executive Directors in accordance with "The Rules Governing the Independent Directors of the Listed Company" issued by the CSRC and the Listing Rules issued by Hong Kong Stock Exchange in 2002. The Board comprises three independent non-executive Directors, representing one-third of all the members of the Board. Each of the independent non-executive 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 non-executive Director. In addition, three independent non-executive Directors, namely Mr. Gao Zongze, Mr. Wang Xiangfei and Mr. Ko Poming, are major members constituting the audit committee and the remuneration and appraisal committee of the Company.

The Company has received the annual confirmation letter issued by each of the independent non-executive Directors in respect of their independence in accordance with Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

2. AN OVERVIEW ON THE PERFORMANCE OF DUTIES BY INDEPENDENT NON-EXECUTIVE DIRECTORS *(Cont'd)*

(2) Issues being disagreed by the independent non-executive Directors with the Company

During the reporting period, independent non-executive Directors did not disagree with the resolutions proposed in the meeting of the Board of Directors and other meetings apart from those of the Board of Directors held in the year.

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 business: The Company is independent from the Controlling Shareholder in conducting of its business, with independent capability on business and decision making.
- (2) 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 ("TMICL") which was the Controlling Shareholder. Apart from that, all senior management officers 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.
- (3) 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 and other related companies. The Company did not provide any guarantee for its Controlling Shareholder and any other companies. 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.
- (4) Organisational independence: The Company established an organisational 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 of the Company. The operation and management of the Company are subject to an accountability system of the general manager under the authorisation of the Board. The Company has a separate place of business.

3. SEPARATION OF POWERS BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER WITH RESPECT TO THE MATTERS INCLUDING STAFF, ASSETS, FINANCE, ORGANISATION AND BUSINESS *(Cont'd)*

- (5) 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. THE APPRAISAL AND MOTIVATION MECHANISM FOR SENIOR MANAGEMENT

The senior management officers are employed in accordance with the employment terms and selection procedures as provided in the Articles of Association. A system of annual income was implemented and their income was based on their operational and management result performance, responsible duties and risk exposure. Their performance-based annual income was determined by the Remuneration and Appraisal Committee of the Company upon year-end appraisal arrangement.