

The Company are committed to improving its corporate governance standards by implementing stringent corporate governance measures and enhancing accountability and transparency, with a view to bringing higher return for the shareholders. It is the Company's belief that adopting a good corporate governance system and a world-class governance model is essential for the development of the Company into a competitive international petrochemical enterprise.

Code of Corporate Governance

For 2005, the Group complied with all the principles and provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for code provision C.2 and for the following deviation:

Code provision A.2.1: Roles of chairman and chief executive officer should be separate; responsibilities of chairman and chief executive officer should be clearly established and set out in writing.

Deviation: Mr. Rong Guangdao is the chairman and president of the Company.

Reason: Mr. Rong Guangdao has extensive experience in large-scale petrochemical production and management. Mr. Rong is the most suitable candidate to serve the positions of the chairman and the president for the Company. For the time being, the Company is unable to identify another person who possesses better or similar abilities and talent as Mr. Rong to serve each of the positions.

Set out below are the corresponding practices of the Company in relation to the relevant Code requirements for the reference of the shareholders.

A. Directors

i. The Board of directors (the "Board")

The Board of the Company shall meet at least once per quarter. In 2005, nine Board meetings were held, of which two meetings were conducted by the 4th session of the Board and seven by the 5th Board. For details of attendance of the directors, please refer to the attendance record set out in page 33. Before each Board meeting, the secretary to the Board will consult each director for matters to be tabled to the relevant meeting. Any matters so raised by the directors will be included in the agenda of the relevant regular Board meeting. With effect from 2005, all notices and draft agenda of all regular and other Board meetings will be sent to all directors no later than 14 days before the date of the meeting.

All directors maintain communication with the Company Secretary, who is responsible for ensuring compliance of Board procedures and advising the Board on matters concerning corporate governance and regulatory compliance. The Company Secretary is responsible for preparing and maintaining minutes of Board meetings and meetings of Board committees, and for the delivery of the same to the directors within a reasonable period from the conclusion of the respective meetings. Such minutes are open for inspection by any director / member of Board committees. Directors are entitled to seek independent professional advice at the Company's expense.

If a substantial shareholder or a director has a conflict of interest in a material matter, for which a Board meeting should be held, the directors concerned shall abstain from voting and shall not be counted in the quorum present at such Board meeting.

ii. Chairman and Chief Executive Officer

Chairman of the Company is responsible for providing the directors with all such information concerning the performance of Board duties. The Chairman of the Company is committed to improving the quality and timeliness of the information provided to the directors. The Chairman of the Company plays an important role in promoting good corporate governance within the Company. One of the important roles of the Chairman of the Company is to lead the Board, encourage the directors to carry out their duties in a sincere manner with mutual support and close cooperation and make active contribution to the production, operation, reform and development of the Company. The Chairman should be primarily responsible for drawing up and approving the agenda for each Board meeting. Another major responsibility of the Chairman is to develop effective measures to facilitate the development of the Company. Major governance initiatives in 2006 include: reduction of costs and expenses with strict cost control; promote reform and development by fine-tuning and optimizing the Company's value chain, emphasis on human resources with an aim of building a team of high calibre staff.

iii. Board composition

With effect from 2005, the Company discloses the composition of its Board by position (including chairman, executive directors, independent non-executive directors and non-executive directors) in all its publications. The Company has four independent non-executive directors, representing one third of the total number of directors. To allow the shareholders a more thorough understanding about our directors and composition of our Board, the profiles of each Board member and their respective roles and responsibilities are made available on the website of the Company.

iv. Appointments, re-election and removal

All of the directors of the Company (including non-executive directors) should be appointed for a specific term. According to the Articles of Association of the Company, directors shall be elected by shareholders at a general meeting for a term of three years, and shall be eligible for reelection upon expiry of their terms of office. However, the term of an independent director may not exceed a total of six years. All new directors of the Company shall be subject to approval by shareholders at the first general meeting after their appointment.

v. Responsibilities of directors

To ensure his / her understanding of the operations and businesses of the Company, every newly appointed director would receive a comprehensive induction after his/her appointment, which would include a briefing on the Group's business, duties and responsibilities of a director, as well as other legal requirements. In addition, all non-executive directors would receive information provided by the management regularly, including strategic plans, business reports and analyses on economic activities, and so forth. As such, the non-executive directors are able to perform their duties effectively. The functions of non-executive directors include the following: participating in board meetings to bring an independent judgement; taking a lead at the Company's Board Meeting where potential conflicts of interests arise; serving on the Board committees if invited; and scrutinising the issuer's performance.

The Company secretary is responsible for ensuring that all directors have received the latest updates required by the Listing Rules and other legal requirements.

vi. Supply of and access to information

To facilitate the directors to perform their duties more effectively and to make informed decisions, the agenda of all meetings of the Board or Board committees together with all relevant documents will be sent to each Board member three days before the date of the relevant meeting. The directors may have formal or informal meetings with the senior management before any Board meeting. The directors and member of Board committees are entitled to access to papers and minutes of Board / Board committee meetings.

B. Remuneration of Directors and Senior Management

i. The level and make-up of remuneration and disclosure

The Company established the Remuneration and Appraisal Committee in 2001, with two-thirds of the members being independent non-executive directors. The exact terms of reference were set out in “Rules of Procedures for the Remuneration and Appraisal Committee of Sinopec Shanghai Petrochemical Company Limited” posted on the website of the Shanghai Stock Exchange (www.sse.com.cn). In March 2003, the Remuneration and Appraisal Committee submitted to the Board proposals on remuneration to the directors, supervisors and senior management of the Company. The proposals were implemented following the approval by shareholders at the general meeting. The Committee could seek advice from independent professionals if required in accordance with the applicable procedures at the expense of the Company.

C. Accountability and Audit

i. Financial Reporting

All directors regularly receive from the management comprehensive reports covering strategic proposals, operations update, financial objectives, plans and initiatives. The Board presents a balanced, clear and understandable assessment of the affairs and prospects of the Group in annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules.

ii. Audit Committee

The Company established its audit committee as early as June 1999. The establishment of the audit committee reflects the commitment of the Company in improving the transparency of its financial reporting system and financial arrangements. The Company attaches great importance to the due preparation of minutes of the audit committee's meetings. The drafts of meeting minutes are prepared by the secretaries of the respective meeting and sent to all committee members within a reasonable time after the meetings. The drafts and final versions are sent for members' comments and filing purpose, respectively. The composition and terms of reference of the audit committee were set out in “Rules of Procedures for the Audit Committee of Sinopec Shanghai Petrochemical Company Limited” posted on the website of the Shanghai Stock Exchange(www.sse.com.cn). The committee could seek advice from independent professionals in accordance with the applicable procedures at the expense of the Company.

D. Delegation by the Board

i. Management functions

The Board and the management of the Company are subject to clearly defined terms of reference set out in the Articles of Association of the Company.

ii. Board Committees

Currently the Board of the Company has two committees, namely the Audit Committee and the Remuneration and Appraisal Committee, for which terms of reference have been prescribed. The Board committees reported to the Board after every meeting in respect of their work progress and results of discussion.

E. Communication with Shareholders

i. Effective Communication

The Board is committed to maintaining smooth communications with the shareholders. All executive directors, independent non-executive directors and chairmen of the audit committee and compensation committee attended the 2004 annual general meeting so as to directly communicate with the shareholders.

ii. Voting by Poll

The Company regularly informs its shareholders on the procedures of voting by way of a poll. The procedure for demanding voting by way of a poll was contained in the notice of annual general meeting and the enclosed circular. Explanation of the relevant procedures has also been provided at the annual general meeting. An external auditor will be retained as the scrutineer at each general meeting.

Directors' securities transactions

For the directors' securities transactions, the Company has adopted a code of conduct not less exacting than the required standards specified by the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules regarding the transaction of shares of the Company by the directors. Having made specific enquiries from all directors of the Company, it is confirmed that all directors have complied with the Model Code throughout the whole year of 2005.

Board of Directors

(1) Composition of the Board

The Board consists of 12 directors, including six executive directors, two non-executive directors and four independent non-executive directors, among whom there is one Chairman and one Vice Chairman. The personal particulars and terms of offices of the Directors are set out under the section headed "Directors, Supervisors and Senior Management from page 16 to 23 of this annual report.

In 2005, the Board of the Company held nine meetings, among which the 4th session of the Board held two meetings and the 5th session of the Board seven. Attendance of each director is set out below:

Name of director	Position	Number of meetings held in the term of office	Number of attendance in person	% of Attendance
Lu Yiping	Executive Director and Chairman (the 4th session of the Board)	2	1	100% (attendance by proxy: 50%)
Rong Guangdao	Executive Director (the 4th & 5th session of the Board) and Chairman (the 5th session of the Board)	9	7	100% (attendance by proxy: 22%)
Du Chongjun	Executive Director and Vice Chairman (the 4th & 5th session of the Board)	9	9	100%
Han Zhihao	Executive Director (the 4th & 5th session of the Board)	9	9	100%
Wu Haijun	Executive Director (the 4th & 5th session of the Board)	9	8	100% (attendance by proxy: 11%)
Gao Jinping	Executive Director (the 4th & 5th session of the Board)	9	9	100%
Shi Wei	Executive Director (the 5th session of the Board)	7	7	100%
Liu Wenlong	Non-executive Director (the 4th session of the Board)	2	1	100% (attendance by proxy: 50%)
Zhang Baojian	Non-executive Director (the 4th session of the Board)	2	1	100% (attendance by proxy: 50%)
Lei Dianwu	Non-executive Director (the 5th session of the Board)	7	5	100% (attendance by proxy: 29%)
Xiang Hanyin	Non-executive Director (the 5th session of the Board)	7	5	100% (attendance by proxy: 29%)
Gu Chuanxun	Independent Non-executive Director (the 4th session of the Board)	2	2	100%
Wang Xingyu	Independent Non-executive Director (the 4th session of the Board)	2	2	100%
Wang Yongshou	Independent Non-executive Director (the 4th session of the Board)	2	2	100%
Chen Xinyuan	Independent Non-executive Director (the 4th & 5th session of the Board)	9	9	100%
Sun Chiping	Independent Non-executive Director (the 5th session of the Board)	7	7	100%
Jiang Zhiquan	Independent Non-executive Director (the 5th session of the Board)	7	7	100%
Zhou Yunlong	Independent Non-executive Director (the 5th session of the Board)	7	7	100%

Pursuant to the Articles of Association, all directors shall be notified ten days prior to the convening of any regular Board meetings. In practice, the Company has strictly complied with the requirement of Rule A.1.3 of Appendix 14 to the Listing Rules, and notices of regular Board meetings of the Company were issued at least 14 days prior to the meetings.

The Company Secretary is responsible for delivering detailed information (including information on each Board committee) in respect of the Board meeting no later than five days before the meeting, so as to ensure that all directors have thoroughly understood the matters to be discussed at the meeting.

For extraordinary Board meetings held by way of correspondence according to the needs of the Company's management, the relevant information was sent to all directors through email and fax, allowing sufficient time for the directors to consider the relevant matters. The Company Secretary gave prompt reply to enquiries raised by the directors and took appropriate actions in order to assist the directors and ensure their compliance with the applicable requirements of the Company Law, the Articles of Association and the Listing Rules.

The minutes of each Board meeting was signed by the attending directors and the recorder and kept for inspection by the directors when required.

The Company adopted the policy that when there were matters involving material conflict of interests, such as a connected transaction, to be considered at a Board meeting, the connected directors abstained from voting.

(2) Appointment and Dismissal of Directors

The term of office of a director of the Company is three years, renewable upon re-election after expiry. The term of office of an independent non-executive director may not exceed six years. The Company enters into a service agreement with the director for a term of three years (the term of an appointment to fill a casual vacancy will be less than three years). The appointment and dismissal of directors shall be approved by shareholders at the general meeting. The appointment and dismissal of directors in 2005 are set out on pages 25 to 26 in section headed "Change of Directors, Supervisors and Senior Management" of this annual report.

(3) Functions of the Board

The Board is primarily responsible for formulating and supervising the strategic development of the Company; determining the objectives, strategies, policies and business plans of the Company; reviewing and monitoring the operation and financial performance; as well as formulating appropriate risk management policies, thereby ensuring the achievement of the Company's strategic objectives.

Subject to the Articles of Association, the Board shall convene at least four regular meetings every year. The convener of the Board meetings shall be responsible for determining the topics to be considered. In practice, the Board convenes a minimum of four meetings each year.

(4) Qualifications and Independence of Independent Directors

The four independent non-executive directors of the Company possess extensive experience as well as academic and professional qualifications in management, accounting and finance respectively, ensuring the Board's ability in protecting the interests of shareholders as a whole. During the reporting period, independent directors contributed significantly to improving the Company's corporate governance structure and protecting the interest of minority shareholders.

For example, independent non-executive director Mr. Chen Xinyuan currently serves as the Dean, Professor and advisor to doctoral students at the Faculty of Accounting of Shanghai University of Finance & Economics. He is very familiar with financial reporting and accounting, given his years of experience in the academic aspects of accounting and notable achievements in accounting research. He is also experienced in business management. The Company confirms that it has received from each independent director a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, confirming to the Company annually in respect of his independence. The Company considers all independent directors to be independent.

(5) Measures for Ensuring the Directors' Performance of Duties

All directors of the Company receives a comprehensive induction upon appointment. Updates on new laws and regulations and internal publications of the Company are also provided to the directors from time to time. The Company has also arranged relevant continuing professional training for the directors, so that they would fully acknowledge their responsibilities under the relevant laws and requirements such as the Listing Rules, as well as the current operations of the Company.

When the directors of the Company were required to express their opinions on the matters of external guarantee, financing and connected transactions of the Company, the Company would appoint a professional in the relevant field, such as an auditor, sponsor or legal adviser to provide independent professional advice, in order to assist the directors in carrying out their duties.

Chairman and Chief Executive Officer

Mr. Rong Guangdao is both the Chairman and President of the Company.

Rong Guangdao, aged 50, is the Chairman, President and Deputy Secretary of the Communist Party Committee of the Company. Mr. Rong joined the Complex in 1973 and has held various positions, including Deputy Director of the No.1 Chemical Plant and Deputy Director and Director of the Ethylene Plant. In April 1994 he was appointed Vice President of the Company, and in June 1995 he was elected Director of the Company. In October 2003, Mr. Rong was appointed President of the Company. In May 2004, Mr. Rong was elected Chairman of the China Jinshan Associated Trading Corporation. In June 2004, Mr. Rong was elected Vice Chairman of the Board of the Company. In April 2005, he became a Vice-Secretary of the Party Committee of the Company. In June 2005, Mr. Rong was elected as the Chairman of the Company. Mr. Rong has many years of experience in organizing and managing large-scale petrochemical production, human resource management and corporate strategic development. In 1985, Mr. Rong graduated from the Automated Instrument Department of the Shanghai Petrochemical College for Workers and Staff Members. In 1997, he obtained an MBA from China Europe International Business School. He is a senior engineer.

Mr. Rong Guangdao has extensive experience in large-scale petrochemical production and management, and is very familiar with Shanghai's petrochemical industry as well as the operation of the Company. Given his abundant experience, Mr. Rong is the best person to serve as both the Chairman and the President of the Company. For the time being, the Company is unable to identify another person who possesses similar abilities and talent as Mr. Rong to serve one of the two positions.

Board Committees

Two committees were set up by the Board, namely the Remuneration and Appraisal Committee and the Audit Committee. Specific rules of procedures for each committee stipulating its duties and authorities have been laid down. The meetings of these committees have been conducted by reference to the procedures of the Board meetings (including requirements on the issue of meeting notice, minutes and records). As the Board has not yet set up a Nomination Committee, the Board is responsible for nomination of directors and senior management members.

1. Remuneration and Appraisal Committee

(1) Role and Functions of the Remuneration and Appraisal Committee

The principal duty of the Remuneration and Appraisal Committee is to formulate and review the remuneration policies and proposals for the directors and senior management, and to stipulate performance appraisal standards of and conduct performance appraisal of the directors and senior management of the Company.

"Rules of Procedures for the Remuneration and Appraisal Committee" have been published on the designated websites for information disclosure of the Company.

(2) Members of the Remuneration and Appraisal Committee

The Committee comprised three directors, among whom two were independent non-executive directors and one was executive director.

Chairman: Gao Jinping, Executive Director

Members: Chen Xinyuan and Zhou Yunnong, Independent Non-executive Directors

(3) Meetings of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee convened at least one meeting each year. In 2005, the Committee convened one meeting with attendance as follows:

Members of Remuneration and Appraisal Committee	Position	Attendance in Person	Attendance by Proxy	% of Attendance
Gao Jinping	Executive Director	1	0	100%
Chen Xinyuan	Independent Non-executive Director	1	0	100%
Zhou Yunnong	Independent Non-executive Director	1	0	100%

(4) Procedures and Basis for the Determination of Remuneration of Directors and Senior Management

Relevant proposals on remuneration will be put forward by the Remuneration and Appraisal Committee to the Board taking into account the performance of the directors and with reference to the general standards of other listed companies in the sector. The allowance of the directors will be determined upon approval of the relevant proposal by the Board and the general meeting.

The Remuneration and Appraisal Committee reviews the implementation of the remuneration evaluation and formulate annual remuneration budget every year. It also appraises the performance of senior management personnel of the Company each year, and determines their remuneration according to the appraisal results.

(5) Work Report of the Remuneration and Appraisal Committee during the Year

The Remuneration and Appraisal Committee reviewed the remuneration policy on directors, conducted annual appraisal with directors and the senior management, and revised the original rules of procedures which were subsequently published upon the approval by the Board.

2. Audit Committee

(1) Role and Functions of the Audit Committee

The Audit Committee is principally responsible for advising the Board on the appointment and dismissal, remuneration and terms of engagement of external auditors; supervising the Company's internal audit system and its implementation; reviewing the financial information of the Company and its disclosure, including verifying the completeness of financial statements, annual reports, interim reports and quarterly reports of the Company; reviewing the major opinions stated in the financial reports of the Company's statements and reports; reviewing the financial control, internal control and risk management systems of the Company; and examining the material connected transactions of the Company.

"Rules of Procedures for the Audit Committee" have been published on the designated websites for information disclosure of the Company.

(2) Members of the Audit Committee

The Committee comprised three independent non-executive directors.

Chairman: Chen Xinyuan (accounting expert)

Members: Sun Chiping and Zhou Yunnong

(3) Meetings of the Audit Committee

The Audit Committee convenes at least two meetings each year. In 2005, the Committee convened three meetings with attendance as follows:

Members of Audit Committee	Attendance in Person	Attendance by Proxy	% of Attendancy
Wang Yongshou (the 4th session)	1	0	100%
Gu Chuanxun (the 4th session)	1	0	100%
Wang Xingyu (the 4th session)	1	0	100%
Chen Xinyuan (the 5th session)	2	0	100%
Sun Chiping (the 5th session)	2	0	100%
Zhou Yunnong (the 5th session)	2	0	100%

(4) Work Report of the Audit Committee during the Year

The Audit Committee reviewed with the management the accounting principles and standards adopted by the Company and discussed matters regarding auditing, internal control and financial reporting, including a review of the audited annual report for the twelve months ended 31 December 2004. The original rules of procedures were revised and published upon an approval by the Board.

3. Nomination of Directors

The Board identifies suitable candidates for directors or senior management within the Company or in the human resources market after it has evaluated the requirements for any new directors or senior management personnel. Candidates for independent directorship may be nominated by the Board or by shareholders jointly or severally holding 1% or more of the issued shares of the Company. Candidates for non-independent directorship may be nominated by the Board or by shareholders jointly or severally holding 5% or more of the issued shares of the Company. Candidate for presidency shall be nominated by the Board, Company Secretary by the Chairman, and other senior management personnel by the President.

The person who nominate a candidate for directorship shall seek the nominee's consent before submitting the nomination. He / she shall acquire a thorough understanding of the occupation, qualifications, office, detailed work history and all concurrent posts of the respective nominee, as well as provide the relevant information in writing to the Company. A candidate shall undertake to the Company in writing, stating his / her consent to the nomination and warranting to disclose his / her information in a true and complete manner and to fulfill his / her duties in good faith upon appointment. A candidate for directorship and senior management shall be subject to the approval by, or directly nominated or recommended by, China Petroleum and Chemical Corporation, the controlling shareholder.

The Board shall convene a Board meeting to evaluate the qualifications of the candidates for directorship and senior management according to the needs of the Company. Candidates for directorship shall satisfy the relevant basic requirements set out in the Articles of the Association of the Company. A candidate for senior management shall possess the professional skills and qualities required for the relevant position, and shall have years of experience serving as a middle or senior management member in leading petrochemical enterprises.

The Board shall vote on the nominations of nominated directors and candidates for senior management, determining the nominated directors and appointing senior management. Upon consideration and approval by the Board, the relevant particulars of the nominated directors and newly appointed senior management personnel shall be announced together with the relevant resolutions of the Board.

Nomination of directors shall be tabled before a general meeting by way of a resolution.

For the number of Board meetings and attendance records during the year, please refer to page 33 of this annual report.

Supervisory Committee

The Company's Supervisory Committee comprises seven members, including three supervisors, two external supervisors and two independent supervisors, one of whom serves as the Chairman. Particulars and term of office of each supervisor are set out under section headed "Directors, Supervisors and Senior Management" from pages 16 to 23 in this annual report.

During 2005, the Supervisory Committee convened five meetings, of which two were convened by the 4th session of the Committee and three were convened by the 5th session of the Committee. Attendance of each supervisor is set out below:

Name of Supervisor	Position	Number of meetings held during the respective term of office	Number of attendance in Person	% of Attendance
Dai Shuming	Supervisor and Chairman (the 4th & 5th session of the Committee)	5	5	100%
Zhang Chenghua	Supervisor (the 4th & 5th session of the Committee)	5	5	100%
Zhu Weiyan	Supervisor (the 4th session of the Committee)	2	2	100%
Wang Yanjun	Supervisor (the 5th session of the Committee)	3	3	100%
Zhang Jianjun	External Supervisor (the 4th session of the Committee)	2	2	100%
Lu Xiangyang	External Supervisor (the 4th & 5th session of the Committee)	5	2	80% (attendance by proxy: 40%)
Geng Limin	External Supervisor (the 5th session of the Committee)	3	2	100% (attendance by proxy: 33%)
Zhou Yunnong	Independent Supervisor (the 4th session of the Committee)	2	2	100%
Liu Xiangdong	Independent Supervisor (the 4th & 5th session of the Committee)	5	4	100% (attendance by proxy: 20%)
Yin Yongli	Independent Supervisor (the 5th session of the Committee)	3	3	100%

During 2005, the Company's Supervisory Committee established and refined the check-and-balance system of the Company and promoted and regulated the corporate governance structure in accordance with the relevant laws and regulations including the Company Law and the Code of Corporate Governance for Listed Companies. The Supervisory Committee discharged its supervisory duties and exercised supervision over the management's compliance with the relevant laws and regulations including the Company Law and the Code of Corporate Governance for Listed Companies. It also supervised the enforcement of resolutions passed at general meetings and Board meetings, the compliance with decision-making procedures and the implementation of the internal control system, thereby facilitating the preservation and appreciation of the Company's asset value, ensuring the regulated operation of the Company and safeguarding the legitimate interests of the shareholders.

Directors' Responsibilities in relation to financial reporting

The following statement, which should be read in conjunction with the domestic and international auditors' reports on pages 139 and 81, respectively, sets out the responsibilities of the directors in relation to financial reporting.

- Annual reports and accounts

The directors acknowledge their responsibilities in preparing financial statements which give a true and fair view of the state of affairs of the Group for each financial year.

- Accounting policies

During the preparation of the financial statements of the Group, the directors should adopt appropriate accounting policies, viz. the Accounting Standards for Business Enterprises and the “Accounting Regulations for Business Enterprises” issued by the Ministry of Finance of the People’s Republic of China, and International Financial Reporting Standards, International Accounting Standards, and in line with all applicable accounting standards.

- Accounting records

The directors are responsible for ensuring that the Group keeps accounting records which reflect with reasonable accuracy the financial positions of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.

- Going concern

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Auditors’ Remuneration

KPMG and KPMG Huazhen are the Company’s international and domestic auditors, respectively. KPMG has been the Company’s auditors for 13 years (1993-2005) in succession.

Item	Amount (RMB)	Auditor
Audit Fees	5,135,000	KPMG
Audit Fees	1,015,000	KPMG Huazhen

Internal Control

The Company set up an internal control task force with the President and the Chief Financial Officer as its chief and deputy chief, respectively. As the leading organ of the Company’s overall internal control system, the task force is mainly responsible for approving annual amendments to the “Internal Control Manual” and making relevant updates accordingly; reviewing the annual assessment report on internal control; handling and rectifying issues identified during an internal control review; and referring major issues to the Board for review and approval.

The Company compiled with the “Internal Control Manual” in 2003. After a trial run in 2004, it was considered and approved by the 21st Meeting of the 4th Board in March 2005 for full implementation. The “Internal Control Manual” comprises 52 operation procedures in 8 categories and sets out 1,185 control points and 195 authorization control indicators. The scope of control covers the major areas of the Company’s production, operation and development, such as financial management, accounting and auditing, procurement, product sales, capital expenditure, human resources and information management.

The Board reviews the Company’s internal control system twice a year through the audit division of the Auditing Committee, with the aim of ensuring the integrity of the Company’s internal control system and safeguarding shareholders’ interests and the Company’s assets. The Auditing Committee reviewed the Company’s internal control status for the first halves of 2004 and 2005 in March and August 2005. The Committee reported its work to the Board and adopted the Board’s recommendations to further improve the Company’s internal control system with enhanced effectiveness and efficiency.

Shareholders’ Rights

The Company maintained good communication with shareholders. The Company’s major communication channels include shareholders’ general meetings, Company website, email account, and fax and telephone of the Secretary Office of the Board, through which shareholders may express their opinions or exercise their rights. For example, a shareholders’ Q & A session was arranged at the 2004 Annual General Meeting and 2005 the first and the second extraordinary general meetings, allowing direct communication between shareholders, directors and the management.

For details of the procedures, voting and proxy arrangements of the Company’s general meetings, please refer to the Articles of Association the Company published on the website of the Shanghai Stock Exchange.

Investor Relations

The Company convenes results briefings once every six months after the release of its annual and interim results. In 2005, two results briefings were held in Hong Kong, which received more than a hundred domestic and international investors.

The Company’s website is regularly revised to update the investors and the public about the Company’s latest developments.

Amendments to the Articles of Association

On 28 June 2005, the Company amended its Articles of Association upon approval by the 2004 Annual General Meeting. For details, please refer to the notice of the Annual General Meeting published in China Securities Journal, Shanghai Securities News, South China Morning Post and Hong Kong Commercial Daily on May 13, 2005.