

1. CORPORATE GOVERNANCE

The Company complies with the “Company Laws”, the “Securities Laws”, relevant laws and regulation issued by the China Securities Commission, the Listing Rules of the Shanghai Securities Exchange and the Listing Rules of the Stock Exchange of Hong Kong Limited (“SEHK”) to continuously improve its corporate governance and set up an enterprise system.

During the year, the Company has already resolved the historical problem that both the Company and its second largest substantial shareholders, Kunming Kunji Group Company has employed a separate management staff.

Upon the restructuring in 1993, the Company has established the Articles of Association comply with the requirements of the “Corporate Governance Standards of Listed Company” announced by the China Securities Regulatory Commission (“CSRC”) and the State Economic and Trade Commission. Pursuant to the requirements of the “Notice on the Implementation of the Mandatory Provisions for the Articles of Associations of Listed Companies listed outside the PRC”, the Company has amended its Articles of Association. Pursuant to the requirements of the “Notice on inspection of modern enterprises corporate structure” issued by the CSRC, the Company has continuously improved and revalued its corporate governance in accordance with the requirement.

The Company has also set up a plan to improve its corporate governance and this plan expects to be completed in 2003. This included the improvement in the internal operations within the organisation and amendments on the details of the scope of works for the Board of Directors, the Committee of the Board of Directors, the Supervisory Committee and the General Managers.

2. INDEPENDENT NON-EXECUTIVE DIRECTORS AND THEIR DUTIES

In accordance to the Listing Rules of The Hong Kong Stock Exchange Limited, the Company has set up independent Non-executive Director rules in 1993. Since the Company’s first Directors’ meeting, there are at least 3 independent Non-executive Directors as the member of the Board of Directors for each year.

The independent Non-executive Directors of the Company attend the Board Meeting, strictly review the Board Meeting information, give opinion to the Board of Directors and with an independent view and fulfil their responsibilities.

3. SEGREGATION OF THE COMPANY AND THE COMPANY SHAREHOLDERS ON THE OPERATIONS, PERSONNEL, ASSETS, STRUCTURE AND FINANCE

- 1) Operations: The Company’s operations are completely independent of the holding company and there are no areas of operation which overlap.
- 2) Personnel: The human resources and payroll management of the Company and its shareholders are completely independent. No operational staffs received emoluments from the shareholders’ unit.
- 3) Assets: The relationship between the Company and its shareholders are identical and the Company assets are independent and the ownership of these assets are completely owned by the Company.
- 4) Structure: The Company’s functional departments operate independently nor is there any relationship along the lines of leading and being led between the Company and the shareholders.
- 5) Finance: The Company has set up an independent finance department and independent systems for accounting and finance management together with the operating of separate bank accounts.