

Since its incorporation, the Company has strictly complied with the Company Law, Securities Law, Listing Rules and the rules and regulations promulgated by the CSRC. The Company strived to improve its operation on corporate governance, so as to establish a modern enterprise system with an objective to perfect its corporate legal person's governance system.

1. Shareholders and its General Meetings

The Company represents the best interests of all the shareholders in a fair and impartial manner to ensure that the shareholders are fully informed of major corporate issues and have the rights to make decisions.

The General Meetings are the highest authority within the Company. The Company strictly adheres to the “Rules Governing the Operation of the General Meetings” that formulates the legal and effective operation of the meetings and the process of decision-making to allow shareholders to adequately exercising their rights.

The Company and the controlling shareholders are individual entities holding complete and separate responsibilities in the areas of business operation, property, employees, organization structure and finances. The controlling shareholders exercise their rights as investors in strict compliance with the laws. None of the actions being taken by the General Meetings have exceeded their power through directly and indirectly intervening with the Company's decision and operation.

2. Directors and the Board of Directors

The Board of the Company consists of 9 directors, of which 4 are executive directors, 2 are non-executive directors and 3 are independent directors that represent one-third of the Board. The number of directors and the composition of the Board have complied with the requirements under the relevant rules and regulations. The company directors have performed their duties in a diligent manner to protect the interests of the Company.

The Board represents interests of all the shareholders and is wholly responsible to General Meetings. It has strictly complied with the “Rules Governing the Operation of the Board” that stipulates the decision-making process related to the development strategies, planning and management and financial control. The Board also supervises and reviews the development and operation of the Company.

The directors are elected by cumulative voting in the General Meetings. The company shareholders, the Board or Supervisory Committee have the rights to nominate director candidates in writing. The term of directors is 3 years, but is extendable by election. Independent directors are individuals having no connections with the Company's management or its major shareholders and their term of office does not exceed 9 years.

With the assistance of the secretary of the Board, all directors can be informed of the legal, regulatory and other continual obligations that directors of listed companies have to take and their recent amendments in a timely manner. As the directors are truly aware of their fiduciary duties, the Board operates in an effective and comprehensive way in compliance with appropriate rules and regulations.

CORPORATE GOVERNANCE STRUCTURE

Independent Directors

All of the 3 independent directors of the Company are performing their duties in a honest, faithful and diligent way in accordance with the requirements of rules and regulations. During the reporting period, the independent directors attended the Board's meetings and General Meetings with sincerity and dedication. They made signification contributions to the scope of operation and major decisions of the Company with their extensive experience and knowledge. By capitalizing on their positive and objective comments, the decisions and operation of the Board were technically improved that further enhanced the interests of the Company and its shareholders.

Attendance of Independent directors at the Board

Name of independent directors	Number of attendance at the Board during the year	Attended in person	Attended by attorney	Absent
Zhang Liping	7	7	0	0
Cao Deyun	7	7	0	0
Song Youming	7	7	0	0

The independent directors did not object to the decisions of the Board aforesaid.

3. Specific Committees at the Board

The Board of the Company comprises an Audit Committee, a Strategic Development and Investment Committee, and a Human Resources and Remuneration Committee. Each of the committees has formulated a duties handbook respectively that set out the process of decision-making and individual duties.

Audit Committee

The Audit Committee was set up in August 1999 by the Company. It consists of 3 directors, of which 2 are independent directors and Mr. Cao Deyun is its chairman. The committee members have extensive experience and one of them is a certified public accountant in China.

The Audit Committee is mainly responsible for supervising the Company's internal control system and its execution, evaluating financial information and related disclosure, reviewing the internal control system, auditing major connected transactions and also communicating, supervising and investigating the Company's internal and external audits.

In 2004, the Audit Committee convened 4 meetings which reviewed the yearly, semi-yearly and quarterly financial statements of the Company. After evaluating these financial statements with regard to their integrity, accuracy and fairness, the members unanimously confirmed that the financial status of the Company was accurately revealed with a complete disclosure of related information in the financial statements.

Strategic Development and Investment Committee

In August 2002, the Company established a Strategic Development and Investment Committee. It consists of 5 directors, of which 1 is an independent director and Mr. Wang Shui is the chairman of the committee.

The Strategic Development and Investment Committee conducts researches and gives advices on long-term strategic development projects, financial plans of major investments, major capital applications, asset management projects and major events affecting the Company's development.

Human Resources and Remuneration Committee

In June 2002, the Company established a Human Resources and Remuneration Committee. It consists of 3 directors, of which 2 are independent directors and Mr. Zhang Wen Sheng is the chairman of the committee.

The Human Resources and Remuneration Committee is mainly responsible for formulating the Company's human resources development strategies and plans, approving the human resources development plans, deciding the remuneration standards of directors and senior management, evaluating the gross salary adjustment plans, reward system and option schemes and also modifying the remuneration system.

4. Supervisors and Supervisory Committee

The Company consists of 3 supervisors, of which 2 are shareholders' representatives and 1 is an employee's representative. The number of supervisors and the composition has complied with the requirements of the rules and regulations.

The Supervisory Committee is responsible to all shareholders as a whole. Its core duties, among others, are to supervise the corporate finances and also to ensure that the directors and senior management are performing their duties with due diligence with a view to safeguarding corporate assets and protecting legal interests of the Company and its shareholders.

5. Information Disclosure and Transparency

The Company has strictly complied with rules and regulations in respect of the content and manner of information disclosure and also the "System for Administration of Information Disclosure" so as to disclose related information in a correct, accurate and timely manner. The Company has performed its legal obligation by disclosing information in a faithful way that allows the shareholders to be fairly and completely informed.

The Company has committed to maintain investor relationship and develop mutual communication linkages. Through the use of a wide range of communication means such as the website, company presentations, major investor presentations, analyst conferences, one-to-one interviews and telephone inquiries, the company's transparency is improved that helps to develop a favorable impression in the eyes of investors.

6. Establishment and Implementation of Appraisal and Incentive Mechanism and Related Reward System for Senior Management

The Human Resources and Remuneration Committee under the Board is responsible for evaluating the performance of senior management, formulating and executing medium and long-term incentive plans to recognize the achievements of outstanding employees. The Company will also conduct feasibility studies of a share option scheme to be incorporated into the incentive mechanism in the long term.