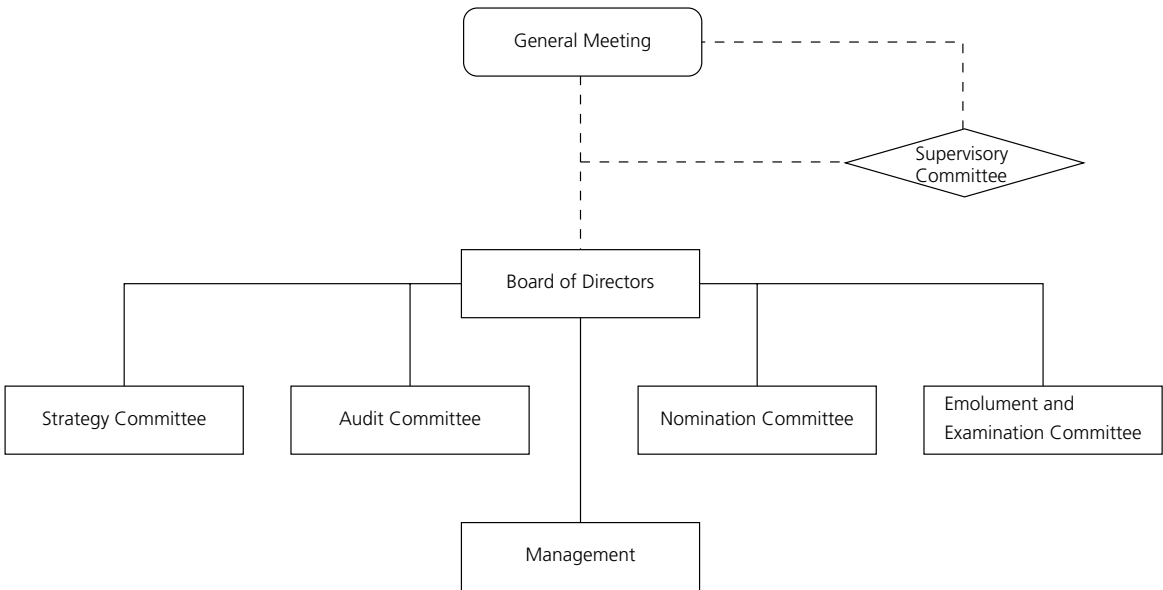


(I). CORPORATE GOVERNANCE INFORMATION

The Company always strictly confirms to the Company Law and the Securities Law of the PRC, relevant regulations issued by China Securities Regulatory Committee and the listing rules of Shanghai Securities Exchange and The Stock Exchange of Hong Kong Limited since the establishment of the Company. Besides, in accordance with those laws and regulations above-mentioned, the Company actively consummates its corporate governance structure, establishes its modern enterprise system, and standardizes its operations to meet the regulations of relevant document issued by China Securities Regulatory Committee.

The documents in relation to corporate governance of the Company include the Articles of Association, Rules of Procedures of General Meeting, Rules of Procedures of the Meeting of the Board of Directors, Rules of Procedures of Supervisory Committee. The Company established four special committees of the Board of Directors, namely Audit Committee, Strategy Committee, Nomination Committee and Emolument and Examination Committee, and approved the implementing rules of the four committees. Besides, the Company also amended the Articles of Association twice in accordance with relevant regulations of the regulatory organization of the PRC and Hong Kong and the situation of the Company.

The corporate governance structure of the Company:



CORPORATE GOVERNANCE

(II). BOARD OF DIRECTORS

The Board of Directors ("Board") is composed of twelve directors, including four independent non-executive directors. The Board is in its fourth term since the establishment of the Company. The terms of office of the current directors are from 14 June 2002 or the respective dates of their appointments to the date of election of the next term of the Board.

The principal duties of the Board are to exercise management and decision-making power as conferred by the general meeting in respect of corporate development strategies, management structures, investment and financing, planning, financial control and so forth.

Directors are elected or replaced at general meetings, where the election is conducted by way of cumulative voting. Shareholders who holding 5% or more of the total shares of the Company and the Board are eligible to nominate candidates for directorship in writing. The directors serve for a term of three years and may offer themselves for re-election. The office of independent non-executive director shall be undertaken by appointees not related to the Company's management and substantial shareholders in any aspect.

The roles of the chairman and the president are distinctively separated and the positions are undertaken by different persons. The chairman is responsible for overseeing the operation of the Board and monitoring the implementation of the Board's resolutions, whilst the president is responsible for managing and overseeing the Group's business operations implementing the strategies laid down by the Board and making day-to-day operating decisions with the support and assistance of the Board and senior management of the Company.

Members of the Board have different industry backgrounds with expertise in corporate management, finance and accounting, investment and strategy, shipbuilding management and human resources management. The resumes of the directors of the Company are set out in "Information of Directors, Supervisors, Senior Management and Staff" in this Annual Report.

Two directors, over 1/6 of the total number of directors, undertook specific management duties for the Company in 2004, enabling the Board to exercise close assessment and monitoring of the Company's management process.

The Board currently has four independent non-executive directors, representing over 1/3 of the total number of directors. The independent non-executive directors of the Company know their rights and obligations as directors and independent directors of a listed company. During the period under review, they all participated in the meetings of the Board in a highly conscientious and responsible manner, took the advantages of their experiences and special knowledge in the work of consummating the corporate governance and significant decision making, issued pertinent and external opinion on relevant matters such as significant events and connected transactions and so forth, improved the scientizing of the decision-making of the Board and its decision process, ensured the benefit of the shareholders and the Company as a whole. The four independent non-executive directors occupy positions in special committees under the Board.

The Company held eight Board meetings in 2004 to discuss the Group's development strategies, investment projects and the operational and financial performance of the Company. The Board meetings proceeded efficiently and arrived at prompt and prudent decisions. The four independent non-executive directors had no objection to decisions of the Company. There was 100% attendance rate (including proxies) for all Board meetings in 2004, details of which are set out in the relevant tables in this section.

Through the company secretary, the directors obtain timely information and updates relating to statutory, regulatory and other ongoing obligations that directors of a listed company must comply with, ensuring understanding of their duties and assuring thorough implementation of procedures of the Board and due compliance with applicable laws and regulations. The directors, as well as the special committees of the Board, may seek the advice of independent professional institutions in the course of exercising their powers, performing their duties or fulfilling any business requirements. Reasonable expenses incurred in this connection will be borne by the Company.

Special committees of the Board

In accordance with the resolutions passed at the 2004 Extraordinary General Meeting held on 26th March 2004, four special committees have been set up under the Board, each with defined terms of reference to monitor specific areas of the Company's business.

Audit Committee

Established under proposals set forth in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants, the Audit Committee is principally responsible for reviewing and monitoring the quality and procedures for the Group's financial reporting; evaluating the soundness and effectiveness of the Company's internal control regimes; reviewing the appointment of independent auditors and coordination and reviewing the efficiency and quality of their work.

The Audit Committee currently comprises Mr. Wu Fabo (director member), Mr. David Hon To, Yu and Mr. Miao Jian, of which Mr. Wu and Mr. Yu are independent non-executive directors, such composition meets the requirement of the relevant regulations.

The Audit Committee held two meetings during 2004, presided over by Mr. Wu, the director member, details of attendance are set out in the relevant tables in this section. All matters passed at the committee meetings have been properly recorded and filed in accordance with relevant rules. The director member reported to the Board on significant matters discussed.

CORPORATE GOVERNANCE

Major tasks accomplished by the Audit Committee during the period under review are as follows:

- Reviewing the annual, interim and quarterly reports and financial statements of the Group;
- Reviewing the accounting policies and practices adopted by the Group and related matters;
- Checking and ensuring the connected transactions of the Company are fair, impartial and open, offering full protection to the interests of minority shareholders;
- Assisting the Board to conduct independent evaluation of the effectiveness of the Group's financial reporting procedures and internal control systems;
- Providing opinions or reminding the management of related risks in respect of significant matters of the Company.

Strategy Committee

The Strategy Committee is principally responsible for examining and reviewing the directions of the Company's strategic development, formulating the Company's strategic plans, monitoring the implementation of strategic planning, and facilitating timely adjustments to the Company's strategies and governance structure.

The Strategy Committee currently comprises Mr. Hu Guoliang (director member), Mr. Han Guangde, Mr. Wang Yi, Mr. Zhong Jian and Mr. Li Junfeng.

The Strategy Committee set up work party in 2004 and held two party meetings presided over by Mr. Hu. The party meetings researched the Company's development strategic analyses report, and provided opinions on the medium-term and long-term development strategy and target. The formal Strategy Committee meeting is expected to be held in May 2005.

Nomination Committee

The Nomination Committee is principally responsible for selecting the candidates for directors and president and for choosing the selection standard and process of directors and president.

The Nomination Committee currently comprises Mr. Bo Miaojin (director member), Mr. Philip Pat Yiu, Yuen and Mr. Zhong Jian. The Nomination Committee set up work party in 2004. Because the fourth term of the Board will expire in 2005, the Nomination Committee has begun their work on selecting the persons for the new term, and held meetings to discuss the matters in January and March in 2005.

CORPORATE GOVERNANCE

Emolument and Examination Committee

The Emolument and Examination Committee is principally responsible for researching examination standard of senior management of the Company, examining them and putting forward proposals, researching and examining remuneration policies and scheme of senior management of the Company.

The Emolument and Examination Committee comprises Mr. Bo Miaojin (director member), Mr. Wu Fabo and Mr. Yu Baoshan. In 2004, the committee set up work party, which has collected and analyzed information of emolument and examination. The Emolument and Examination Committee held meetings in January and March of 2005 to discuss the reward system of executive directors, internal supervisors and senior management, and the emolument and examination plan of directors of the new term.

Attendance at meetings of the Board and its special committees (attendance in person/number of meetings):

Name	Board		Audit Committee
	Before the 2003 Annual General Meeting	After the 2003 Annual General Meeting	
Directors			
Hu Guoliang	3/3	5/5	—
Yu Baoshan	2/3	5/5	—
Han Guangde	—	5/5	—
Wang Yi	—	4/5	—
Zhong Jian	—	5/5	—
Li Junfeng	3/3	4/5	—
Miao Jian	3/3	5/5	2/2
Ye Peihua *	3/3	—	—
Xu Guoqing *	3/3	—	—
An Xiaofei *	2/3	—	—
Independent non-executive directors			
Wu Fabo	3/3	5/5	2/2
Bo Miaojin	3/3	5/5	—
David Hon To, Yu	2/3	4/5	2/2
Philip Pat Yiu, Yuen	2/3	3/5	—

Note: Directors who had been unable to attend meetings in person had appointed other directors as their proxies to attend and voted at the meetings on their behalf.

* The 2003 Annual General Meeting approved their resignation as directors of the Company.

CORPORATE GOVERNANCE

(III). CONTROL MECHANISMS

Supervisory Committee

The Supervisory Committee exercises independently the power of supervision upon the Company in accordance with the law to protect the lawful rights of the shareholders, the Company and its staff against any infringement. The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations. The Supervisory Committee held five meetings (each attended by all supervisors) during 2004 to carry out supervision on behalf of the shareholders in respect of the Company's financial matters and the lawfulness and compliance on the discharge of duties by the directors and senior management. The Supervisory Committee attended all Board meetings and diligently performed its supervisory duties.

Attendance at meetings of the Supervisory Committee (attendance in person/number of meetings):

Name	Between the 2004 Extraordinary		
	Before the 2004 Extraordinary General Meeting	General Meeting and 2003 Annual General Meeting	After 2003 Annual General Meeting
Wang Shusen	–	–	3/3
Chen Jingqi	1/1	1/1	3/3
Liang Mianhong	–	–	3/3
Wang Shiming	–	1/1	3/3
Ye Weiming	–	1/1	3/3
Fu Dexiang *	1/1	1/1	–
Han Zineng *	1/1	1/1	–
Zhang Zhenya *	1/1	–	–
Chen Xiongyi *	1/1	–	–

* The 2003 Annual General Meeting or the 2004 Extraordinary General Meeting approved their resignation as supervisors of the Company.

Internal Control and Audit

The Board is responsible for developing and maintaining an internal control system of the Company to protect shareholders' interest and to safeguard the Group's assets by reviewing the control procedures for financial, operational and supervisory matters. Such internal control system is implemented by the management upon the authorization of the Board and the effectiveness of the internal control system is reviewed by the Audit Committee from time to time.

The Company has established its internal audit department. Depending on the materiality of potential risks existing in the internal control systems of various businesses and processes of the Company, the internal audit department carries out inspection, supervision and evaluation of the Company's financial information disclosure, operations and internal control activities on a regular or as-needed basis, with the purpose of ensuring transparency in information disclosure, operational efficiencies and effectiveness of the corporate control regimes. It furnishes independent and objective evaluations and recommendations in the form of audit reports.

The Company always put great efforts in internal control and to that end the Company has developed corresponding internal management systems and procedures in areas including corporate governance, operation, construction, finance, administration and personnel management and so forth.

Auditors and their service term (refer to Item 12 in Significant Events)

Chief Accountant

The chief accountant oversees all financial matters of the Company and is accountable to the president. The chief accountant is responsible for preparing financial statements in accordance with the PRC and accounting principles generally accepted in Hong Kong and in compliance with relevant provisions of HKEx, CSRC and SSE. The chief accountant is also responsible for organizing the preparation of the Company's annual budget plans and annual accounts and monitoring the implementation of annual financial plans. The chief accountant is also required to collaborate with the Board in the formulation of relevant internal control systems and to make recommendations thereof to the Board. The Company has appointed Mr. Li Chi Sing as the qualified accountant to assist the chief accountant in the discharge of his duties in overseeing the Company's financial reporting procedures and internal controls.

Shareholders, Investor Relations and Other Stakeholders

The Company strives to ensure that all shareholders, especially the minority shareholders, are able to fully exercise their rights on an equal basis.

General Meetings

The general meeting is vested with the supreme authority of the Company, where powers are exercised in accordance with the law to determine significant matters of the Company. The annual or extraordinary general meeting provides a channel for direct communication between the Board and the shareholders. The Company pay high regard to the general meetings. The notice convening a general meeting is issued 45 days prior to the date of the meeting, and all directors and members of the senior management are requested to make their best efforts to attend. All shareholders are encouraged to attend general meetings and make their voice heard.

CORPORATE GOVERNANCE

Substantial Shareholders

CSSC, as substantial shareholder of the Company, with a 42.61% interest of the Company, conducts its activities in a regulated manner. It has never been involved in any acts of by passing the general meeting or interfering, whether directly or indirectly, the Company's policy decisions or operations. The Company and the substantial shareholder are independent of each other in terms of staffing, assets, finance, institution and business.

Information Disclosure and Investor Relations Management

The company secretary and securities affairs representative are responsible for information disclosure of the Company and reception of visiting shareholders and investors. For enhancing the management of investor relations, the Company has formulated Information Disclosure Management System and Investor Relations Management System to ensure openness, fairness and impartiality in information disclosure and to enhance transparency.

Examination, Evaluation and Motivation of Senior Management

The Emolument and Examination Committee is responsible for examining and evaluating the senior management. The motivation of senior management is set out in "Information of Directors, supervisors, Senior Management and Staff".

Conclusion

The corporate governance regime adopted by the Company is an indication of the standard in managing and operating its business. Sound corporate governance contributes to the healthy development of a company and enhances investors' confidence in the company. To be effective in corporate governance, relevant measure, must be reviewed on a regular basis to ensure that they are in tandem with market trends and requirements of regulatory authorities. It is a long-term goal of the Company to achieve unwavering corporate system leadership, through establishing and improving upon a modernized corporate system. As such, we will continue to enhance corporate governance as part of our efforts to ensure stable development and to increase shareholders' value.