

STATUS

The Company has been operating in strict compliance with the PRC Company Law, the Securities Law and other relevant rules and regulations issued by the China Securities Regulatory Commission (the “CSRC”) in order to continuously improve its corporate governance, regulate its operation and to enhance the Company’s information disclosure.

1. During the year, the Company has been devoted to the improvement of its corporate structure with a view to enhancing its corporate governance. Based on the Company’s Articles of Association, the Company has set up a set of rules for corporate governance, including The Rules of Shareholders’ Meetings, The Rules of Board Meetings, The Rules for the Supervisory Committee, Working Regulations of General Manager, The Rules for Independent Directors and the respective regulations for the Audit Committee, the Remuneration & Evaluation Committee and the Investment Management Committee, which has further strengthened the internal management of the Company.
2. The Company and its controlling shareholder
GPHL has standardised its operations and would not act beyond the shareholders’ meetings to interfere directly or indirectly in the Company’s decision making or operations. It has not utilized the Company’s capital nor demanded the Company to provide guarantees to it or other parties. The Company and its controlling shareholder worked separately in respect of business, human resources, assets, organisation and financing. For this reason, the Board, the Supervisory Committee and the internal organisation mechanism were able to function independently and appropriately. The Company’s connected transactions have been entered into on an arm’s length basis. Details on pricing method, the agreements and their execution were adequately and timely disclosed.
3. Directors and the Board
The Directors were elected in accordance with the Company’s Articles of Association. The number of Directors and the composition of the Board met the requirements of the relevant rules and regulations. Each Director was able to carry out his duty in a trustworthy, responsible and diligent manner and actively took part in training courses, had strong knowledge in the relevant rules and regulations, and fully understood their rights, responsibilities and obligations. The Company has appointed Independent Non-executive Directors and formed specialised committees. The Independent Non-executive Directors have fully exercised their functions.
4. Supervisors and the Supervisory Committee
The number of Supervisors and the composition of the Supervisory Committee are in compliance with the relevant rules and regulations. In doing their best to maintain the overall interests of the shareholders, the Supervisors fulfilled their duties in a diligent manner and monitored the legitimacy of performance of the Directors and management.
5. Evaluation and incentive mechanism
The Company has set up the Remuneration & Evaluation Committee under the Board and established relevant evaluation mechanism and incentive measures, to further improve its evaluation and incentive mechanism on the performance of the Directors and the Senior Management of the Company.
6. Interested parties
The Company respected and safeguarded the interests of the banks and other creditors, employees, customers and other interested parties, paid attention to environmental protection and social welfare issues so as to mutually promote the sustainable and healthy development of the Company.
7. Information disclosure and transparency
The Company delegated the Company Secretary the responsibility for the Company’s information disclosure, handling queries and consultations from shareholders, responding to correspondence from shareholders and posting out requested information. In accordance with the relevant rules and regulations and the Articles of Association, the Company continued to disclose information in an honest, diligent, objective, truthful, accurate, timely, and comprehensive manner. The Company also ensured that shareholders have fair access to information relating to the Company.

DUTIES OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors have fulfilled their duties by actively protecting the overall interests of the Company and ensuring that the legal rights of the minority shareholders are not impaired, and providing constructive advice towards the Company's development in accordance with the relevant rules and regulations. In fulfilling their duties, the Independent Non-executive Directors were independent from the major shareholders, controlling person and other persons or companies with relevant interests in the Company.

SEPARATION OF BUSINESS, HUMAN RESOURCES, ASSETS, ORGANISATION AND FINANCIAL ARRANGEMENTS FROM THE CONTROLLING SHAREHOLDER

1. Separation of business

The Group operates with an extensive business scope that is independent from the controlling shareholder.

2. Human resources

The Group maintains independency in areas of staffing, personnel and payroll management. The General Manager, Deputy General Manager, Company Secretary, Financial Controller, and other senior executives of the Company are remunerated by the Group and do not take up any position in any companies of the Company's controlling shareholder or its subsidiaries.

3. Assets

The Company is equipped with an independent manufacturing system, a supplementary manufacturing system and related equipments. It also has independent purchases and sales systems. There are currently 38 trademarks used by the Company, the titles of which belong to GPL. The Company has an agreement with GPL in relation to the use of trademarks. In addition, the Company owns 4 trademarks, the registration of which are still valid.

4. Organisation

The Company has established an independent and comprehensive organizational structure. The Board, the Supervisory Committee and other departments are operating independently, possessing independent decision making mechanisms and complete production unit. There does not exist any supervisory or reporting relationships with the functional departments of the controlling shareholder of the Company.

5. Finance

The Company has established an independent finance department, set up an accounting system and formulated independent financial management policy. In addition, the Company has maintained independent bank accounts which are used for its business activities.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT'S PERFORMANCE ASSESSMENT, INCENTIVE MECHANISM AND RELEVANT REWARD SYSTEM

A Remuneration & Evaluation Committee under the Board has been established and is responsible for investigating and approving performance evaluation standards and remuneration policies and schemes for the Directors, Supervisors and Senior Management. A long-term incentive scheme had been discussed and approved at the 2002 1st Extraordinary General Meeting of the Company, and became effective in 2001. The scheme is available for the Directors (excluding Independent Non-executive Directors), the Supervisors (excluding external Supervisors), Senior Management, middle-level Management and key technical staff. The incentive scheme aims to link the responsibilities, risk exposure and performance of the Senior Management and key personnel with the Company's long-term developments, so as to maintain the continuous growth of the it's operation results.