

1. CORPORATE GOVERNANCE OF THE COMPANY

The Company has a standardised corporate governance structure for legal persons. It has established and improved its management system with checks and balances amongst general meetings, board of directors, supervisory committee and senior management of the Company with well-defined functions of the said bodies. It has built up a corporate governance structure with its shareholders being placed with primary importance. The Company strives to maintain an environment for sustainable development of its corporate structure. During the reporting period, a new independent non-executive director was appointed. As a result, the total number of independent non-executive directors increased to three, which exceeded one-third of the total number of directors of the Company. In accordance with the “Notice of the China Securities Regulatory Commission and the State Economic and Trade Commission regarding commencement of a review on the establishment of modern corporate system by listed companies”, the Company conducted a review on its corporate governance structure, independence, internal control system, incentive mechanism, management of funds raised and information disclosure for the establishment of a modern corporate system. The report was submitted to the China Securities Regulatory Commission and the State Economic and Trade Commission.

The Company will continue to refine its corporate structure, establish special committees of the board of directors, and formulate terms of reference of those committees. It will also strengthen the decision making mechanism of the board of directors.

2. PERFORMANCE OF DUTIES BY THE INDEPENDENT DIRECTORS

During the reporting period, the independent directors endeavoured to perform their duties by following the principles of integrity and diligence, and in accordance with the requirements of the “Guiding Opinion on the Establishment of System of Independent Director of Listed Companies” and the articles of association of the Company. They have attended board meetings and general meetings held by the Company in 2002, and have given independent opinions on connected transactions entered into during the reporting period. They have also given their recommendations and advice on major decisions of the Company and contributed positively to the decisions made in a rational manner by the board of directors of the Company.

3. AUDIT COMMITTEE

During the reporting period, the audit committee performed its functions in accordance with paragraph 14 of Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including the review of the financial report for the year.

4. SEPARATION OF BUSINESS OPERATIONS, EMPLOYEES, ASSETS, ORGANISATIONS AND FINANCE BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER

1. Business Operations

Upon the establishment of the Company, the holding company injected all of its cement production and cement production related operating assets into the Company. The business of the Company is fully independent of its controlling shareholder with its own independent business and autonomous operating capability.

2. Employees

The employees, personnel and remuneration policy of the Company are independent of that of the holding company. No senior management holds any office in the holding company.

3. Assets

The Company owns the titles of its production and operating assets. There is no connection with its controlling shareholder in respect of the titles of properties. None of its assets, interests or goodwill has been provided as guarantee to the controlling shareholder or any of its subsidiaries. No asset is used and occupied by the controlling shareholder for nil consideration. The Company can independently use any of its assets in the operation without any restriction.

4. Organisations

The Company has established an organisation structure which is independent of the controlling shareholder in accordance with the Company Law and other relevant laws and regulations, and the relevant requirement of corporate governance structure for legal person in the PRC.

5. Finance

The Company has established an independent finance department with its independent financial auditing systems. It has its own internal management system, pays its own tax and opens its own bank account independently. The finance of the Company is fully independent of its controlling shareholder.

5. THE ESTABLISHMENT AND IMPLEMENTATION OF AN ASSESSMENT AND INCENTIVE SYSTEM FOR SENIOR MANAGEMENT

During the reporting period, the board of directors formulated an accountability system for attainable annual targets on volume of production and sales, sales revenue, profit and management goals. Regular reviews (for instance, interim or annual reviews) on the Company's performance and management will be conducted in order to streamline management flow. To further enhance the level of management, the Company will also standardise its internal management system. The annual remuneration of senior management will be reviewed at the end of each year according to their accomplishments and other assessment results for the year.