

(1) CORPORATE GOVERNANCE

The Company has implemented appropriate corporate governance structure, executes in strict compliance of “Code on Governance of Listed Companies”; articles of association of the Company and relevant statutory requirements imposed by China Securities Regulatory Commission, and ascertains checks and balance between the shareholders’ meetings, board of directors, supervisory committee and the management, so as to ensure the regular operation of the Company and its adherence to the shareholders’ interests. As such, the sustainable management system and structure will be optimised, operational risk be contained and operation quality be improved. Currently, the Company has three independent non-executive directors, being in excess of one-third of the total number 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 on time held by the Company in 2003, and have given independent opinions on connected transactions entered into during the reporting period. The independent directors, who always hold an independent and impartial position, act in accordance with the interest of the public investors and participate in the Company’s decision-making process under market rules and regulations. They have also given their recommendations and advice on major decisions of the Company based on their own expertise 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

The Company’s production system, auxiliary production system and ancillary system are independent from the controlling shareholders of the Company. The Company directly owns, or obtains through agreements, the land use right, mining right, trademark use right and other rights relating to its principal cement business. None of the holding company and its subsidiaries are engaged in any business which is in competition with the cement production business.

2. Staff

The Company’s organisational structure, labour, staff, wages management system and place of production and operation are entirely independent from the holding company. The senior management of the Company, including executive general manager, deputy general manager, secretary to the Board of Directors, the head of the finance department and marketing executive, work for the Listed Company on a full-time basis in return for remuneration payment from the Listed Company. They do not concurrently take up any position of the holding company.

(4) SEPARATION OF BUSINESS OPERATIONS, EMPLOYEES, ASSETS, ORGANISATIONS AND FINANCE BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER *(Continued)*

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. Organisation

The organisation and structure of the Company is independent of the Holdings while the Board of Directors, management and marketing divisions of the Company are also not related to the Holdings. In-house departments of the Holdings are neither superior nor inferior to corresponding departments of the Company.

5. Finance

The Company has its own independent accounting and auditing system and financial management system, and has opened its own independent bank account. The Company is an independent entity for tax-assessment and payment purpose and could make any financial policy solely on its own. The financial operations and resource allocation of the Company are not interfered by the Holdings and its financial matters are wholly independent of the controlling shareholders.

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

The Company has established an assessment and incentive programme for its senior executives. The core management teams of the Company and its subsidiaries together formulate an accountability system with the board of directors for the attainable annual targets on production volume and sales, sales revenue, profit and management. As such, the performance and management of the senior executives could be assessed and evaluated for an optimised management system and standardised internal control, which is beneficial to the enhancement of management standard. During the reporting period, the annual remuneration of senior executives has been reviewed according to their accomplishments and assessment results.