

Structure of Corporate Governance

(I) Corporate Governance

The Company has implemented appropriate corporate governance structure in compliance with “Code of Corporate Governance for Listed Companies”, relevant statutory requirements imposed by the China Securities Regulatory Commission and the relevant requirements of the articles of association of the Company, and ascertains checks and balance among the shareholders’ committee, board of directors, supervisory committee and 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 will be contained and operation quality of the Company will be improved.

Currently, the Company has three independent non-executive directors, being in excess of one-third of the total number of directors. Among the three members of the supervisory committee of the Company, two of which are external supervisors. This provides strong protection for the independent governance of the supervisory committee.

With the excellent management system and reasonable power structure, the board of directors of the Company has been accredited as the top ten best board of directors by *the Journal for Boards of Directors*.

(II) Performance of Duties by 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 relevant requirements of the “Guiding Opinion Concerning the Establishment of An Independent Director’s System in Listed Companies” and the articles of association of the Company. They have attended board meetings and general meetings held by the Company in 2004 on time, and have given independent opinions on the connected transactions of the Company entered into during the reporting period. The independent directors of the Company, who always hold an independent and impartial position, act in accordance with the interest of public investors and participate in the Company’s decision-making process under market rules and regulations so as to ensure the decisions made by the board of directors were just and fair. Meanwhile, all the independent directors 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.

(III) Audit Committee

During the reporting period, the audit committee of the board of directors performed its functions in accordance with Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The meeting of the audit committee considered and passed matters such as the financial statements of the Company for 2003 prepared in accordance with the IAS, the financial statements of the Company for 2003 prepared in accordance with the PRC Accounting Standards and Systems, the connected transactions entered into in 2003 and the re-appointment of auditors, and reviewed the financial statements and results for the year.

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(IV) Separation of Business, Staff, Assets, Organisation and Finance Between the Company and Controlling Shareholder

1. Business

The Company's production system, auxiliary production system and ancillary facilities are independent from the controlling shareholder of the Company. The Company directly owns, or obtains through agreements, the land use right, mining right, trademark use right etc. relating to its principal cement 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 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 executive position of the holding company.

3. Assets

The Company owns the titles of its production and operating assets, which are clearly differentiated from those of its controlling shareholder. 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 for commencing production and operation without any other restriction.

4. Organisation

The organisation and structure of the Company is entirely independent from the holding company while the board of directors, management and marketing division of the listed company are also independent from the holding company. In-house departments of the holding company are neither superior nor inferior to the corresponding departments of the listed company.

5. Finance

The Company has established its own independent accounting and auditing system and financial management system, and has separately opened its own bank account. The Company is an independent entity for tax-assessment and payment purpose and could make any financial decision solely on its own. The financial operations and capital allocation of the listed company are not interfered by the holding company and its financial matters are wholly independent from the controlling shareholder.

(V) The establishment and Implementation of an Assessment and Incentive System for Senior Management

The Company has established an assessment and incentive system for its senior management. The core management teams of its subsidiaries formulate an accountability system with the board of directors for the attainable annual targets on production volume and sales, sales revenue, cost, profit and management. As such, the performance and management of senior management 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 management has been reviewed according to their accomplishments of duties and assessment results.