

Corporate Governance

The Group complied with the Code on Corporate Governance Practices (“the Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited for the year ended 31 December 2005. The Board confirms that there were no deviations from or non-compliance with the code provisions of the Code during 2005, except that the official position of the chief executive officer (“CEO”) did not exist in the Group. Mr Feng Guangcheng, who apart from being the major shareholder and chairman of the Company and the Group, also assumed responsibilities which are comparable to those of a CEO at the Group level. Mr Feng was responsible for making decisions, executing the decisions of the Board and overseeing the daily operations of the Group. Two general managers, Ms Xu Yujuan and Mr Xu Haichao, were respectively in charge of the daily operation of the Group’s two major divisions of business, glass and soda ash, and reported to Mr Feng. Ms Xu Yujuan is Mr Feng Guangcheng’s wife. Mr Xu Haichao is Ms Xu Yujuan’s brother, and thus the brother-in-law of Mr Feng. Mr Feng was involved in the decision-making process of the two business divisions.

The reason for this management structure is that the decisions of the Board can be executed more efficiently under Mr Feng’s strong leadership, given the trust of the Group’s staff in Mr Feng. The Board will periodically review the merits and demerits of this management structure and will adopt such appropriate measures as may be necessary in the future, taking into account the nature and extent of the Group’s operations.

To enhance corporate governance, and to comply with the relevant laws and regulations in respect of corporate governance in the PRC in preparation for its originally planned issue of A shares, the Company increased the number of the independent non-executive directors to not less than one-third of the total number of directors of the Company, and increased the number of staff representatives to not less than one-third of the total number of supervisors of the Company. On 30 August 2005, the Board passed a resolution for the establishment of a Remuneration Committee, which is responsible for assisting the Board in reviewing and determining the framework or broad policy for the remuneration of executive directors and the employee benefit structures.

DIRECTOR’S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Listing Rules. During 2005, upon specific enquiry made on the directors, the directors of the Company confirmed that they have complied with the required standard set out in the Model Code regarding the directors’ securities transactions.

Corporate Governance (cont'd)

BOARD OF DIRECTORS

The composition of the Board during the financial year and attendance of individual directors at the Board and Board Committee meetings are as follows:

Directors during the year	Attendance / Number of Meetings			
	Board Full board for high level corporate decisions	General corporate matters and execution	Audit Committee	Board Committees Remuneration Committee
Executive Directors				
Mr. FENG Guangcheng	5/5	2/2	N/A	1/1*
Ms. FENG Luwen	5/5	2/2	N/A	N/A
Ms. XU Yujuan	5/5	2/2	N/A	N/A
Ms. HONG Yumei	5/5	2/2	2/2 [#]	N/A
Mr. WANG Yanchun	5/5	2/2	N/A	N/A
Mr. CHUNG Kwok Mo John (effective from 17 October 2005)	1/5	N/A	2/2 [#]	N/A
Mr. FENG Liwen (resigned on 4 January 2005)	1/5	N/A	N/A	N/A
Mr. XU Haichao (resigned on 4 January 2005)	1/5	N/A	N/A	N/A
Non-executive Directors				
Mr. LIU Jianguo	5/5	2/2	N/A	N/A
Mr. SHI Guodong	5/5	2/2	N/A	N/A
Mr. DI Xiaofeng (resigned on 4 January 2005)	1/5	N/A	N/A	N/A
Mr. ZHANG Yingsheng (resigned on 4 January 2005)	1/5	N/A	N/A	N/A
Independent Non-executive Directors				
Dr. LI Jun	5/5	N/A	2/2	N/A
Mr. WANG Yanmou	5/5	N/A	2/2	1/1*
Mr. WANG Herong	5/5	N/A	2/2	N/A
Mr. SU Gongmei (effective from 12 March 2005)	4/5	N/A	1/2	1/1*

* Up to the date of this annual report.

[#] In the capacity of Chief Financial Officer and the management of the Finance Department.

Corporate Governance (cont'd)

During the year, Mr Feng Guangcheng was the chairman and executive director of the Board with responsibility for the strategic planning and management of the Group. Under the Code Provision A.2.1, the roles of chairman and CEO should be separate and should not be performed by the same individual. The Group does not have any officer with the title “chief executive officer” at present. Mr Feng Guangcheng, who apart from being the major shareholder and chairman of the Company and the Group, also assumes responsibilities which are comparable to those of a CEO at the Group level. Two general managers are respectively responsible for the day-to-day management of the Group’s two major divisions of business, glass and soda ash, and report to Mr Feng. Mr Feng is involved in the decision-making process of the two business divisions.

The division of responsibilities between the chairman and general managers has been clearly established and set out in writing under the Company’s articles of association.

The Board will periodically review the merits and demerits of this management structure and will adopt such appropriate measures as may be necessary in the future, taking into account the nature and extent of the Group’s operations.

Mr Chung Kwok Mo John, who was and still is the chief financial officer of the Company, was appointed as an executive director of the Company with effect from 17 October 2005.

To comply with the relevant laws and regulations in respect of corporate governance in the PRC in preparation for its originally planned issue of A shares, the Company increased the number of the independent non-executive directors to not less than one-third of the total number of directors. Mr Su Gongmei was appointed as an independent non-executive director with effect from 12 March 2005. Meanwhile, two executive directors, Mr Feng Liwen and Mr Xu Haichao, who are respectively Mr Feng Guangcheng’s nephew and brother-in-law, resigned on 4 January 2005. Two non-executive directors, Mr Di Xiaofeng and Mr Zhang Yingsheng, also resigned on the same date. The moves were made with an aim to enhance the independence of the Board.

The Board also increased the number of staff representatives to not less than one-third of the total number of supervisors of the Company. Mr Mao Junchun and Mr Yang Kuang were appointed as two new staff representatives of the Supervisory Committee with effect from 12 March 2005 after the increase in the number of members of the supervisory committee was approved by shareholders in an extraordinary general meeting.

Mr Su Gongmei, Mr Mao Junchun and Mr Yang Kuang do not have any relationship with any other directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling shareholders (as defined in the Listing Rules) of the Company apart from the fact that Mr Mao and Mr Yang were the employees of the Group. Mr Su, Mr Mao and Mr Yang also do not have any interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Except for Mr Feng Guangcheng, Ms Xu Yujuan and Ms Feng Luwen, each director does not have any family relationships with any other directors of the Company. The relationships between Mr Feng Guangcheng, Ms Xu Yujuan and Ms Feng Luwen are detailed on page 16 of this annual report.

Currently, there are 12 Board members, of whom six are executive directors, two are non-executive directors and four are independent non-executive directors.

Biography and responsibilities of the directors and senior management are detailed on pages 16 to 19 of this annual report, while the terms of their appointments are stated on page 22.

Corporate Governance (cont'd)

NOMINATION OF DIRECTORS

The Company has not established any nomination committee and the Board is responsible for identifying suitable candidates for the members of the Board when there is a vacancy or an additional director is considered necessary. Normally, the chairman of the Board recommends the suitable candidates to each member of the Board. The members of the Board will then review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his or her qualifications, experiences and background. Suitable candidates will be recommended by the Board to the shareholders for approval at the general meeting.

REMUNERATION COMMITTEE

On 30 August 2005, the Board of Directors of the Company passed a resolution for the establishment of a Remuneration Committee with specific written terms of reference in accordance with the Code Provision B.1.3 in Appendix 14 to the Listing Rules which deal with the authorities and duties of the Remuneration Committee. The Remuneration Committee assists the Board of Directors in reviewing and determining the framework or broad policy for the remuneration of executive directors and overseeing any major changes in employee benefit structures.

During the year, the Remuneration Committee consisted of three members: executive director Mr Feng Guangcheng (Committee Chairman), independent non-executive director Mr Wang Yanmou, and independent non-executive director Mr Su Gongmei. Ms Tao Haiping, who was and still is a joint company secretary of the Company, also became the secretary of the Remuneration Committee with effect from 31 August 2005. The composition of the Remuneration Committee remained unchanged during 2005 since the Remuneration Committee's establishment.

AUDIT COMMITTEE

The Board has established the Audit Committee since November 2001 which acts as an important link between the Board of Directors and the Group's auditors over the matters of the Group's audit. The Audit Committee also monitors the effectiveness of external audit and is responsible for reviewing the mechanism of internal controls and risk evaluation.

The previous terms of reference which described the authority and duties of the Audit Committee were replaced by the new terms of reference with effect from 31 August 2005. The new terms of reference adopted certain changes in accordance with the Code.

Under its terms of reference, the Audit Committee shall meet at least twice annually to review the accounting principles and practices adopted by the Group, discuss internal control and financial reporting matters including the interim and annual financial statements before submission to the Board for approval. The external auditors, Chief Financial Officer and the management of Finance Department attended the Audit Committee meetings to answer questions on the reports of their work. Two meetings were held during the financial year of 2005.

During the year, the Audit Committee comprised four independent non-executive directors: Mr. Wang Yanmou (Committee Chairman), Dr. Li Jun, Mr. Wang Herong and Mr Su Gongmei. Mr Wang Herong is a certified accountant. Both Mr. Wang Yanmou and Mr Su Gongmei have extensive knowledge and experience in the construction materials industry.

In 2005, Mr Su Gongmei, a new independent non-executive director, was appointed to the Audit Committee as a member.

Corporate Governance (cont'd)

AUDITORS' REMUNERATION

For the year ended 31 December 2005, the fee paid to the Group's external auditors, PricewaterhouseCoopers, for the annual audit services provided to the Group was RMB2,996,000. The Group did not engage the external auditors for any non-audit services.

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the accounts for the year ended 31 December 2005.

The external auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2005.

INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets.

The Board has conducted a review of the effectiveness of the Group's internal control system, covering its financial and operational functions.

GOING CONCERN ASSUMPTION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). One underlying assumption under HKFRS is that the financial statements are prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future.

As of 31 December 2005, the Group had net current liabilities of approximately RMB1,940 million. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Nevertheless, the Directors had adopted the going concern basis in the preparation of the financial statements of the Company and the Group based on the assumptions that the Group is able to obtain ongoing support from the Group's bankers for its short-term borrowings and the Group will secure long-term banking facilities to re-finance the short-term borrowings, as set forth in Note 2 to the consolidated financial statements "Basis of Preparation – Going Concern Assumption".