

### (1) Governance of the Company

During the Reporting Period, the Company has been adhering strictly to the Company Law, Securities Law, Standards of Corporate Governance of Listed Companies of the PRC and the requirements of relevant regulations issued by the China Securities Regulatory Commission (“CSRC”) and the Listing Rules of Shanghai Stock Exchange (“SSE”) and the Rules Governing the Listing Securities of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”). We have also been stepping up our efforts in establishing our systems for our general meetings of shareholders, our Board of Directors and our Supervisory Committee according to our development and changes in the external operating environment, and we have an efficient mechanism in place with reasonable work procedures, so that a structure with corporate governance where everyone is performing his duties accordingly with the check and balance in order, where decision making has become a scientific process and coordination in every operation can be achieved. Those professional committees comprising mainly independent directors operate effectively within the company with clearly defined responsibilities. Also, the Company has been consistent with the belief that the interests of shareholders are in the forefront of their minds, and with this, the system of management for sustainable development will be optimized, and risks are controlled with our operations improving in quality.

Moreover, the Company has been making serious efforts to perform its obligation of information disclosure as a listed company. We have been improving in the transparency of our business operation and are in strict compliance with rules in respect of information disclosure. We work to ensure the truthfulness, accuracy and completeness of the information disclosed as well as its timeliness in order to enhance its effectiveness, thereby optimizing the management of our investor relationship.

During the Reporting Period, the Company has fully complied with the Code of Corporate Governance Practices (the “Code”) set out in Appendix 14 of the Listing Rules of the Stock Exchange.

### (2) Performance of duties by independent directors

During the Reporting Period, the independent directors endeavored 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 Directors System in Listed Companies” and the Articles of Association of the Company. They have attended board meetings and the general meetings of shareholders held by the Company in 2005 on time, and have given independent opinions on the various decision making processes of the Company by fully utilizing their own working experience and professional knowledge for the development of the Company. Moreover, by holding these professional committee meetings, they give their independent opinions, thereby promoting the establishment of systems. The Remuneration Committee, the Nomination Committee and the Audit Committee comprising independent directors have come up with the “Terms of Reference of the Remuneration and Nomination Committee” and the “Terms of Reference of the Audit Committee” and have submitted to the sixth meeting of the third session of the Board of Directors for consideration and approval.

### (3) Independence between the Company and the largest substantial shareholder in respect of operations, staff, assets, organization and finance

#### 1. Operations

The Company has a production system, supplementary production system and ancillary facilities independent of the largest substantial shareholder. The Company owns directly or by means of agreement to obtain the land use rights, mining rights and rights to use trademarks relating to our core operation of cement production.

#### 2. Staff

The Company has an organizational structure, labour force, personnel and wages management system and production premises completely independent of the largest substantial shareholder, and the senior staff of the Company (including the general manager, deputy general manager, assistants to the general manager, secretary to the Board of Directors, chief financial officer and chief sales officer) are dedicated to the listed company and receive their emoluments from the listed company. They do not hold any office concurrently at the holding company.

### 3. Assets

The rights of production assets of the Company are clearly defined and are separate from those of the largest substantial shareholder. There is no provision of guarantee for either the largest substantial shareholder or its subsidiaries with our assets, interests or goodwill. There is no provision of our assets having been occupied by the largest substantial shareholder without consideration. The Company is able to use its assets independently for its operating activities without any restriction.

### 4. Organization

The Company has an organizational structure completely independent of the largest substantial shareholder. The Board of Directors, managers and the sales team of the listed company are independent of the largest substantial company. There is no subordinate relationship between the internal organizations of the largest substantial shareholder and the listed company.

### 5. Finance

The Company has established its independent accounting and financial management systems. It has its own bank accounts and pays taxes pursuant to the law. It makes its own financial decisions and there is no question of any interference with the financial operation and use of capital by the largest substantial shareholder. Financially, it is completely independent of the largest substantial shareholder.

## (4) Establishment and implementation of an appraisal and incentive mechanism for the senior management

The Company strengthens both the incentive for and restriction of senior management by implementing the target and responsibilities appraisal. The Board of Directors enters into a responsibility letter with each of the senior management and staff of its subsidiaries every year in respect of targets as shown by indicators in production and sales volume, sales revenue, costs, profit and management in order to examine the work and management affairs, optimization of work flow and regulation of internal management, thereby promoting the standard of management. During the Reporting Period, the senior management has been awarded with their annual remuneration according to the completion of target missions and result of evaluation.

# Report on Corporate Governance

## (5) Corporate Governance

### 1. Transactions in securities by Directors

The Company has adopted a set of code of behaviour of standards no less than the Model Code set out in Appendix 10 of the Listing Rules. Having made special enquiries by the Company, all of its directors have confirmed that they have complied with the standards in respect of securities transactions by directors during the Reporting Period.

### 2. The Board

Composition of the Board of Directors is as follows:

Name	Position
Guo Wensan	Chairman
Xue Tongzu	Independent Non-executive Director
Kuang Bingwen	Independent Non-executive Director <sup>Note</sup>
Ding Zhiming	Independent Non-executive Director
Li Shunan	Executive Director
Yu Biao	Executive Director
Guo Jingbin	Executive Director
Ren Yong	Executive Director, General Manager

There is no financial, operational or other material relationship between members of the Board and between the Chairman and the Chief Executive Officer.

During the Reporting Period, four meetings of the Board have been held, and the attendance rates of the directors are as follows:

Name	Attendance rate
Guo Wensan	100%
Xue Tongzu	100%
Kuang Bingwen	25% <sup>Note</sup>
Ding Zhiming	100%
Li Shunan	100%
Yu Biao	100%
Guo Jingbin	100%
Ren Yong	100%

Note: On 20 May 2005, Mr Kuang Bingwen, an Independent Non-executive Director of the Company, tendered his resignation as the Independent Non-executive Director of the Company for health reasons. The resignation will become effective pending the appointment of a new independent non-executive director at the Company's general meeting to fill the vacancy.

There is no financial, operational or other material relationship between members of the Board and between the Chairman and the Chief Executive Officer.

Please see "Report of Directors" of the annual report for details of the daily operation of the Board of Directors.

### 3. Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer of the Company are respectively filled by Mr Guo Wensan, Chairman, and Mr Ren Yong, Executive Director and General Manager.

The principal duties of the Chairman of the Board are: (a) to lead the Board and ensure that the Board shall operate effectively and perform its duties and discuss any significant and appropriate matters timely; (b) to ensure that all the directors of at the meetings of the Board are suitably informed of the current affairs; and (c) is responsible for ensuring that the directors shall receive sufficient information timely, and such information shall be complete and reliable.

The principal duties of the Chief Executive Officer are: (a) to manage the daily operations of the Group with the assistance of executive directors and the senior management; and (c) is responsible for implementing the material strategies and development plans adopted by the Board.

### 4. Tenure of Non-executive Directors

Other than Mr Kuang Bingwen, tendered his resignation as the Independent Non-executive Director of the Company for health reasons on 20 May 2005, his tenure will cease upon the appointment of a new independent non-executive director at the Company's general meeting to fill the vacancy, the tenure of the remaining two Independent Non-executive Directors Ms Xue Tongzu and Ding Zhiming is from 1 June 2004 to 31 May 2007.

The Company has received the confirmation letters from Ms Xue Tongzu and Ding Zhiming, Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules in respect of their independence. The Company agrees with their independence.

### 5. Remuneration and nomination of Directors

Pursuant to the Listing Rules of the Stock Exchange, the Company established the remuneration and nomination committees under the Board of Directors, which are principally responsible for formulating the remuneration policy for the executive directors of the Company and to determine their remuneration proposal as well as any succession plan for directors. The remuneration and nomination committees are non-standing committees under the Board of Directors, which accountable to the Board of Directors.

Members of the remuneration and nomination committees are Xue Tongzu, Kuang Bingwen and Ding Zhiming, of which Xue Tongzu is the Chairman.

One meeting was held by the remuneration and nomination committees during the Reporting Period. Xue Tongzu and Ding Zhiming attended the meeting of the remuneration and nomination committees held on 10 October 2005 and the “Terms of Reference of the Remuneration” and “Terms of Reference of the Nomination Committees” which were submitted to the sixth meeting of the third session of the Board of Directors held on 12 October 2005 for consideration and which was approved. Since the committees were established only in last October, they did not have other major tasks as at the end of the Reporting Period.

### **6. Auditors and remuneration**

Pursuant to the authorization granted by the Company's annual general meeting for 2004, the Board engaged PricewaterhouseCoopers Zhongtian and PricewaterhouseCoopers as the PRC auditors and international auditors respectively of the Company for 2005. These two auditors firms have been serving the Company for 4 years consecutively.

The remuneration paid to these two accounting firms by the Company for 2005 amounted to HK\$3.60 million (equivalent to RMB3.80 million), and the remuneration for 2004 amounted to HK\$2.20 million (equivalent to RMB2.41 million). The Company was not required to reimburse for their accommodation and traveling expenses.

Other than financial auditing services, these two firms have never provided other paid services.

Pursuant to “Regulation for the Regular Rotation of Signing Accountants Responsible for Securities, Futures and Auditing” [ZJHJZ(2003)13], PricewaterhouseCoopers Zhongtian has rotated the signing accountant and the person-in-charge of the auditing.

### **7. Audit Committee**

The Board has established the Audit Committee under the Board as provided by the Listing Rules of the Stock Exchange to monitor the independence of external auditors, their working efficiency, the financial reporting procedures and efficiency of internal control, in order to assist the Board in its work. The Audit Committee is a non-standing organization under the Board and is accountable to the Board.

The Audit Committee comprises Ms Xue Tongzu, Mr Kuang Bingwen and Mr Ding Zhiming, of which Ms Xue Tongzu is the chairman.

During the Reporting Period, the Audit Committee has held three meetings.

## Report on Corporate Governance

In the meeting held on 21 March 2005, the Audit Committee considered and approved (i) the financial statements for 2004 prepared in accordance with IAS; (ii) the financial statements for 2004 prepared in accordance with the PRC Accounting Standards; (iii) connected transactions which occurred in 2004; (iv) renewal of appointment of auditors. Ms Xue Tongzu, Mr Kuang Bingwen and Mr Ding Zhiming attended this meeting.

In the meeting held on 24 August 2005, the Audit Committee considered and approved (i) the unaudited interim (half yearly) financial statements prepared in accordance with IAS and the PRC Accounting Standards for 2005; and (ii) connected transactions which occurred in the first half of 2005. Ms Xue Tongzu and Mr Ding Zhiming attended the meeting.

In the meeting held on 10 October 2005, the Audit Committee formulated the “Terms of Reference of the Audit Committee” and submitted such to the sixth meeting of the third session of the Board held on 12 October 2005 for considered, which was approved.

During the Reporting Period, directors of the Company had acknowledged their responsibility to prepare the accounts. The Board had carried out systemic analysis on the financial and operational risks of the Group and their prevention, as well as the compliance control during the interim and year end. It had carried analysis with emphasis on certain weak areas or imperfections and had proposed their view for the improvement for such and requested the management of the Company to implement and improvement these areas.

The Company's financial report and results for 2005 had been reviewed by the Audit Committee.