

Report on Corporate Governance

(1) Governance of the Company

During the Reporting Period, the Company has been adhering strictly to the Company Law, Securities Law of the PRC, the requirement of relevant regulations promulgated by the CSRC and the requirements of the Listing Rules of SSE and the Listing Rules of the Stock Exchange to keep improving the systems of our corporate governance and to execute them strictly in accordance with the relevant laws and rules; by strengthening the concept of honesty, self-discipline, diligence and faithfulness to the duties of the Directors, Supervisors and the senior management of the Company by our systems, thereby the operation of our corporate governance in high efficiency, hence the quality of the Company's operations is improved continuously.

Also, the Company intends to promote the diversity of our shareholding structure through the introduction of international strategic investors and to promote the Company's operations at the international level; through acquisition of assets, the Company is able to substantially reduce connected transactions, which will further enhance the Company's structure of corporate governance and the quality of the Company as a listed company, bringing with it long-term, continued and healthy development. Moreover, with the successful implementation of our share segregation reform proposal, we have achieved a more in-depth communication with investors, thus reinforcing the Company as a common body of investors' interests with the listed company as the vehicle and the capital market as the link, which will have a long-lasting and profound effect on the decision making and standard of governance of the listed company. During the Reporting Period, the Company has fully complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as 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 had, in accordance with the relevant requirements of the Guiding Opinion Concerning the Establishment of An Independent Directors System in Listed Companies, the Articles of Association and the “Terms of Reference of the Remuneration and Nomination Committee” and the “Terms of Reference of the Audit Committee”, dutifully performed their duties by adhering to the principles of integrity and diligence; they attended actively in the meetings of the Board and shareholders’ general meetings in 2006, convened the various committee meetings and took part in the major decision making of the Company in order to safeguard the interests of the public investors pursuant to the law.

(3) Independence between the Company and the controlling 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 controlling shareholders. The Company owns directly or, by means of agreement, obtains 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, labor force, personnel and wages management system and production premises completely independent of the controlling shareholder, and the senior management staff of the Company (including the general manager, deputy general manager, assistants to the general manager, secretary to the Board, chief financial officer and chief sales officer) are dedicated to the Company and receive their remuneration from the Company. They do not hold any office concurrently at the holding company.

3. Assets

The rights of production assets of the Company are clearly delineated and are separate from those of the controlling shareholder. The Company is not providing guarantee for either the controlling shareholder or its subsidiaries with our assets, interests or goodwill. None of our assets has been occupied by the controlling shareholder without consideration. The Company is able to use its assets independently for its operating activities without any restriction.

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4. Organization

The Company has an organizational structure completely independent of the controlling shareholder. The Board, managers and the sales team of the Company are independent of the controlling shareholder. There is no hierarchical relationship between the organization of the controlling shareholder and that of the the 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 the controlling shareholder has not interfered with the financial operation and use of capital of the Company. Financially, it is completely independent of the controlling 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 annual remuneration system and the target and responsibility based appraisal. The Board of Directors enters into a responsibility letter with each of the senior management and staff of the Company and 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 situation, optimization of management logistics 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 level of completion of target missions and result of evaluation for the year.

(5) Corporate Governance

1. Code on Corporate Governance Practices

During the Reporting Period, the Company has complied with all the code provisions set out in Appendix 14 of the Code on Corporate Governance Practices of the Listing Rules of the Stock Exchange.

2. Securities transactions by Directors

The Company has adopted a code of practice with standards not lower than those prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules of the Stock Exchange for securities transactions by Directors. Pursuant to the specific enquiries made by the Company, all Directors confirmed that they had complied with the Model Code in relation to securities transactions by Directors during the Reporting Period.

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3. The Board

Composition of the Board is as follows:

Name	Position
Guo Wensan	Chairman
Xue Tongzu	Independent Non-executive Director
Ding Zhiming	Independent Non-executive Director
Chan Yuk Tong	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, other than by means of communication, 4 meetings of the Board have been held on-site, and the attendance rates of the Directors are as follows:

Name	Attendance rate
Guo Wensan	100%
Xue Tongzu	100%
Ding Zhiming	100%
Chan Yuk Tong	100% ^{note}
Li Shunan	100%
Yu Biao	100%
Guo Jingbin	100%
Ren Yong	100%

Note: Mr Chan Yuk Tong was nominated by the eighth meeting of third session of the Board to be an independent non-executive Director of the Company, and such nomination was considered and approved by the annual general meeting for 2005. He took up the position as an independent non-executive Director of the Company with effect from 17 June 2006.

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During the Reporting Period, the Board exercised its powers pursuant to Chapter 11 and Chapter 11A of the Articles of Association, and the management exercised its powers pursuant to Chapter 13 of the Articles of Association. Please refer to “Report of the Board of Directors” of the annual report for details of the daily operation of the Board, and “Management Discussion and Analysis” of the annual report for details of the management’s daily operations.

4. Chairman and Chief Executive

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

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 on a timely basis; (b) to ensure that all the Directors at the meetings of the Board are suitably informed of the current affairs; and (c) to ensure that the Directors shall receive sufficient information on a timely basis, 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 (b) to implement the material strategies and development plans adopted by the Board.

5. Tenure of non-executive Directors

For the tenure of non-executive Directors, please refer to the aforesaid section “1. Basic Information of Directors, Supervisors and senior management” of “Directors, Supervisors, Senior Management and Staff”.

The Company has received the confirmation letters from Ms Xue Tongzu, Mr Ding Zhiming and Mr Chan Yuk Tong, independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules of the Stock Exchange in respect of their independence for the year. The Company agrees with their independence.

6. Remuneration and nomination of Directors

Pursuant to the Listing Rules of the Stock Exchange, the Company established the Remuneration and Nomination Committee under the Board, which is principally responsible for formulating the remuneration policy for the executive Directors of the Company and to determine the remuneration proposal as

well as any succession plan for each of the Directors. The Remuneration and Nomination Committee is a non-standing committee under the Board, which is accountable to the Board.

Members of the Remuneration and Nomination Committee are Ms Xue Tongzu, Mr Ding Zhiming and Mr Chan Yuk Tong, of which Ms Xue Tongzu is the chairman.

One meeting was held by the Remuneration and Nomination Committee during the Reporting Period. Ms Xue Tongzu and Mr Ding Zhiming attended the meeting of the Remuneration and Nomination Committee held on 25 April 2006 and considered and approved the following resolutions: (i) recommended to the Board the appointment of Mr Lee Kwok Ming as the senior finance manager (cum Hong Kong accountant) of the Company; (ii) recommended to the Board the nomination of Mr Chan Yuk Tong as a candidate of the independent non-executive Director of the third session of the Board of the Company; (iii) recommended and proposed to the Board for approval of the basic monthly salaries and annual salary multiple of the senior management.

The above resolutions had been considered and approved by the eighth meeting of the third session of the Board held on 25 April 2006 and the annual general meeting for 2005 held on 16 June 2006.

7. Auditors and remuneration

Pursuant to the resolution of the Company's annual general meeting for 2005 held on 16 June 2006, the Board engaged KPMG and KPMG Huazhen (together "KPMG") as the international auditors and PRC auditors respectively of the Company for the year ended 31 December 2006.

The remuneration paid to KPMG by the Company for the year ended 31 December 2006 amounted to HK\$3.60 million (equivalent to RMB3.56 million). The Company was required to reimburse for their accommodation and traveling expenses incurred on-site.

Other than financial auditing services and vote scrutinizing services at the general meetings of the Company pursuant to the Listing Rules of the Stock Exchange, KPMG has not provided other fee-charging services to the Group.

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KPMG is the newly engaged auditors of the Company for the year ended 31 December 2006. The person-in-charge and endorsing accountants are not required to rotate for the time being in accordance with the “Requirements on the Regular Rotation of the Endorsing Accountants for Securities and Futures Auditing” of the CSRC and the Ministry of Finance of the PRC.

8. Audit Committee

The Board has established the Audit Committee under the Board pursuant to the Listing Rules of the Stock Exchange to monitor the independence of external auditors, their work 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 Ding Zhiming and Mr Chan Yuk Tong, of which Ms Xue Tongzu is the Chairman.

During the Reporting Period, the Audit Committee held 3 meetings.

At the meeting of the Audit Committee held on 4 January 2006, the Committee heard the reporting of the finance department for the auditing of the year ended 31 December 2005. Ms Xue Tongzu and Mr Ding Zhiming attended the meeting.

At the meeting held on 25 April 2006, the Audit Committee considered and approved (i) the financial statements for the year ended 31 December 2005 prepared in accordance with IFRS; (ii) the financial statements for the year ended 31 December 2005 prepared in accordance with the PRC Accounting Standards; (iii) connected transactions which occurred in 2005; (iv) the financial statements for the first quarter of 2006 prepared in accordance with the PRC Accounting Standards. Ms Xue Tongzu and Mr Ding Zhiming attended this meeting.

At the meeting held on 22 August 2006, the Audit Committee considered and approved (i) the interim (half yearly) unaudited financial statements prepared in accordance with IFRS and the PRC Accounting Standards for 2006; and (ii) connected transactions which occurred in the first half of 2006. Ms Xue Tongzu, Mr Ding Zhiming and Mr Chan Yuk Tong attended the meeting.

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During the Reporting Period, Directors of the Company had acknowledged their responsibility to prepare the financial statements. The Board had carried out systemic analysis on the financial and operational risks of the Group and prevention thereof, as well as the compliance control. It had conducted analysis with emphasis on certain weak areas or imperfections and had proposed their suggestions and recommendation for the improvement therefor and requested the management of the Company to implement the same.

The Company's financial statements for the year ended 31 December 2006 were approved by the Audit Committee.

(6) Establishment of internal control

Since the listing of the Company, by the promulgation and implementation of the strategic targets and pursuant to the requirements of the laws and regulations, we have been establishing and improving the internal control systems for the Company, its subsidiaries and each business segment. As such, a corporate governance structure for the Company and its subsidiaries has been established to effect centralized management for aspects such as finance, supply, sales, personnel matters and information disclosure of the subsidiaries. The Group has also strengthened the functioning of internal supervision institutions and seriously dealt with matters of violation of rules, so that the standard of risk management and standard of quality of operation of the Group keep rising. In future, the Company will also keep improving the establishment and implementation of its internal control system in accordance with the requirements of the Guidance for Internal Control of Shanghai Stock Exchange for Listed Companies.