



Corporate Governance Report

The Stock Exchange has issued "Code of Corporate Governance Practices" (the "Code") as set out in Appendix 14 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which is effective for accounting periods commencing on or after 1 January 2005. Pursuant to the Listing Rules, listed companies are required to include in their annual report a report on their corporate governance practices during the accounting period, including compliance with the Code.

As the Company was listed on 23 March 2006, the directors consider that the Company was not required to comply with the requirements under the Code or the continuing obligations requirements of a listed company pursuant to the Listing Rules for the year ended 31 December 2005. As such, the directors consider that the corporate governance report requirement does not apply to the Company as the Company was not a listed company during the relevant period. Nevertheless, as part of the preparations for listing, the Company has enhanced its corporate governance practices to comply with the Listing Rule requirements. The following is a summary of the principal corporate governance enhancements the Company has undertaken in 2005.

1. PARTICULARS OF CORPORATE GOVERNANCE

According to the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules, the relevant laws and regulations promulgated by the PRC governmental authorities and the Articles of Association, the Company has established sound corporate governance structure. General meeting is the highest authority of the Company. The Board reports its work to and directors are elected by the shareholders at general meeting. The Board also set up the Audit Committee and the Remuneration Committee, both of which are chaired by independent non-executive directors. The Supervisory Committee performs supervision duty. President is in charge of the Company's operation and management and reports to the Board. The Company's governance structure brings the check-and-balance mechanism among shareholders, the Board, the Supervisory Committee and senior management into full play to ensure operation compliance. The Company is committed to optimization of management system and framework for sustainable development and controlling operating risks to improve its performance on a shareholder interest-oriented basis.

2. THE BOARD

The Board comprises 10 directors, including 3 executive directors (Song Zhiping, Cao Jianglin and Li Yimin), 3 non-executive directors (Cui Lijun, Huang Anzhong and Zuo Fenggao) and 4 independent non-executive directors (Zhang Renwei, Zhou Daojiong, Chi Haibin, Lau Ko Yuen, Tom). Save as disclosed herein, there is no business relationship or any other connection between our directors, especially between the Chairman and Chief Executive.

The Chairman leads the Board to fix policy and business strategy, and ensures the Board performs efficiently their duties and undertakes responsibilities and discusses all major and appropriate matters in a timely manner. Each executive director is responsible for implementing the strategies and policies formulated by the Board. The independent non-executive directors have earnestly discharged their duties in a diligent and honest manner in accordance with relevant laws and administrative regulations and the Articles of Association. They have played an independent and fair role throughout their participation in the Company's decision-making process to ensure the fairness and impartiality of the Board's decisions. Meanwhile, based on their professional backgrounds, independent non-executive directors expressed advice and suggestions on the Company's major decisions, thus optimizing and monitoring the Board's decisions.

During 2005, the Board held 4 board meetings to consider and determine significant events including corporate strategy and overseas listing. All directors attended the meetings in person or by proxy. The management is responsible for the implementation of strategy and administration related to daily operations.

The notices of meetings were served to directors 10 days prior to the convening of meetings, whereby directors can put forwards proposals for inclusion into the agenda. Directors are required to abstain from voting on matters involving conflict of interests if they have an interest in such matters, and such matters will be reduced by other directors.

3. SUPERVISORY COMMITTEE

The Supervisory Committee comprises 6 members, including 2 independent supervisors of (Zhang Zhaomin and Liu Chijin), 1 supervisor of staff representative of (Cui Shuhong); and 3 shareholder representatives of (Shen Anqin, Zhou Guoping and Bao Wenchun). Each supervisor shall discharge his supervisory duty on the Company's business.

Corporate Governance Report



4. AUDIT COMMITTEE

The Audit Committee was established on 12 May 2005, and comprises 3 non-executive directors (Chi Haibin (Chairman), Zhou Daojiong and Cui Lijun). Among them, Chi Haibin and Zhou Daojiong are independent non-executive directors with appropriate professional qualification or accounting or related financial management experience. The principal duties of the Audit Committee include reviewing the Company's financial reporting procedures, internal control and risk management.

During the reporting period, the Audit Committee has operated in accordance with Appendix 14 to the Listing Rules, including reviewing the Group's financial statements and results for the year ended 31 December 2005.

5. REMUNERATION COMMITTEE

The Remuneration Committee was established on 12 May 2005, and comprises independent non-executive directors (Zhang Renwei (Chairman), Zhou Daojiong and Song Zhiping (Chairman of the Board)). The Remuneration Committee is responsible for determining and reviewing specific remuneration and performance of the directors and senior management, mainly based on the remuneration and performance management policy and structure for directors and senior management as formulated by the Board of Directors.

6. INTERNAL CONTROL

In order to comply with relevant regulatory requirements of the Company's listing place, strengthen its internal control management and ensure healthy and effective internal control, the Company has formulated and perfected a series of internal management systems covering financial management, investment management, audit management, etc. The Board of Directors considered and approved the Compiled Management Systems of China National Building Material Company Limited and the Guidance on Internal Compliance of the Company and its subsidiaries on 28 February 2006.

As required by the Stock Exchange, the Company engaged Anglo Chinese Corporate Finance, Limited as its compliance adviser to advise the Company to comply with the relevant code provisions of the Stock Exchange.