

## CORPORATE GOVERNANCE REPORT

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As the Company was listed on 23 March 2006, the Company was not a listed company during the period from 1 January 2006 to 22 March 2006. Nevertheless, as part of the preparations for listing, the Company has enhanced its corporate governance practices to comply with the Listing Rule requirements.

The Company has complied with the “Code of Corporate Governance Practices” (the “Code”) as set out in Appendix 14 of Listing Rules during the period from the Listing Date to 31 December 2006, standardized its operation and promoted the continuous improvement of the corporate governance. Under the guidance of the regulatory documentation such as the Listing Rules, articles of association of the Company, the “Working Rules of the Audit Committee” and “Working Rules of the Remuneration Committee”, an efficient checks and balances mechanism has been achieved within the Company through coordination among the general meeting, the Board and its related special board committees, the Supervisory Committee and the management. The internal management and operation of the Company was also further standardized to secure its regular operation and enhance its value. The Company is committed to optimization of its management system and framework for sustainable development and controlling operating risks to improve its performance on a shareholder interest-oriented basis.

### **1. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (“MODEL CODE”)**

The Company has adopted a set of code no less exacting than the standards set out in the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (“Model Code”) as its own code of conduct regarding Director’s securities transactions. Having made specific enquiry with all directors, the Company confirms that each of the Directors has confirmed that they complied with the Model Code during the period from the Listing Date to 31 December 2006.

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### 2. THE BOARD

During 2006, the Board held 7 board meetings to consider and determine significant events including corporate strategy and material acquisition and merger. All directors attended the meetings in person or by proxy. The management is responsible for the implementation of strategies and the administration work related to daily operations.

The members of the Company's Board and the attendance of directors at Board meetings during the year are as follows:

Position	Name	Attendance rate (%)
Executive Director	Song Zhiping	100
Executive Director	Cao Jianglin	100
Executive Director	Li Yimin	100
Executive Director	Peng Shou <sup>1</sup>	100
Non-executive Director	Cui Lijun	100
Non-executive Director	Huang Anzhong	100
Non-executive Director	Zuo Fenggao	100 (14.3 of which by proxy)
Independent Non-executive Director	Zhang Renwei	100
Independent Non-executive Director	Zhou Daojiong	100
Independent Non-executive Director	Chi Haibin	100 (14.3 of which by proxy)
Independent Non-executive Director	Lau Ko Yuen, Tom	100

Note:

1. Mr. Peng Shou became a director of the Company on 20 June 2006 and only attended the ninth meeting of the first Board, the first extraordinary meeting of the first Board, and the second extraordinary meeting of the first Board.

Save as disclosed herein, there is no finance, business, family relationship(s) or any other connection between our directors, including between the chairman and the chief executive.

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### 3. OPERATION OF THE BOARD

The Company's Board is elected by shareholders at general meeting and reports to general meeting. The Board is the highest decision-making authority during the adjournment of general meeting. The primary responsibilities of the Board are to provide strategic guidance to the Company, exercise effective supervision over the management, ensure that the Company's interests are protected and report to the shareholders. The Board makes decisions on certain significant matters, including business plans and investment proposals; the proposed annual preliminary and final financial budget; the debt and financial policies and proposals for increases or reductions of the Company's registered share capital and the issue of corporate debentures; interim and annual financial reports; interim and annual profit distribution plan and plan for recovery of losses; significant matters involving material acquisition or disposal proposals of the Company and plans for the merger, division or dissolution of the Company; the establishment of the Company's internal management structure; and the appointment or removal of the members of the executive institutions of the Company and determination of their remuneration. The directors are elected in strict compliance with the procedures for election and appointment of directors provided for in the Company's articles of association. The directors are able to attend board meetings and perform their duties as directors earnestly and diligently in order to make important decisions for the Company, supervise the members of the executive institutions of the Company and communicate with shareholders. After the Board makes decisions, the implementation of specific matters shall be completed by the management of the Company and the management shall be required to report such implementation to the Board.

The Company has established a system of independent directors. There are four independent non-executive directors in the Board, which is in compliance with the minimum number of independent non-executive directors required under the Listing Rules. The Company has received a confirmation of independence from each of the four independent non-executive directors pursuant to Rule 3.13 of the Listing Rules, and considers the four independent non-executive directors to be independent of the Company, its substantial shareholders and connected persons and complies with the requirements concerning independent non-executive directors under the Listing Rules. Mr. Chi Haibin and Mr. Zhou Daojiong, independent non-executive directors of the Company, have appropriate accounting and financial expertise as required under Rule 3.10 of the Listing Rules. Please see the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this report for biography of Mr Chi Haibin and Mr. Zhou Daojiong. The four independent non-executive directors do not hold other positions in the Company. They protect the interests of minority shareholders independently and objectively, and provide checks and balances in the decision-making of the Board according to the Company's articles of association and the relevant laws and regulations. The Board has also established an Audit Committee and a Remuneration Committee. The main responsibility of these committees is to provide support to the Board in decision-making and make recommendations for the improvement of the corporate governance level of the Company.

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### 4. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Song Zhiping is the Chairman of the Company and Mr. Cao Jianglin is the President of the Company. Pursuant to the Company's articles of association, the primary duties and responsibilities of the Chairman are chairing the general meetings and convening and holding board meetings, checking the implementation of board resolutions, signing the securities issued by the Company, and other duties and powers authorized by the Company's articles of association and the Board. The major responsibilities of the President are chairing production, operation and management matters, organizing the implementation of board resolutions, organizing the implementation of annual business plans and investment proposals of the Company, formulating plans for the establishment of the Company's internal management structure, formulating plans for the establishment of the Company's branches, devising the basic management system of the Company, formulating basic rules and regulations of the Company, proposing the appointment or removal of the Vice President and the Financial Controller of the Company, appointing or removing management members apart from those that should be appointed or removed by the Board, and performing other duties and powers authorized by the articles of association of the Company and the Board of Directors.

### 5. TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

Pursuant to the Company's articles of association, all directors including the non-executive directors shall be elected by the general meeting and serve a term of three years. Upon the expiry of their term of office, the directors may be re-elected and reappointed.

### 6. REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises three directors, including two independent non-executive directors, namely Mr. Zhang Renwei who is the chairman of the committee and Mr. Zhou Daojiong, and one executive director, namely, Mr. Song Zhiping as required under the rules of the Code. Since the listing of the Company in March 2006, there have been no changes to the members of the committee. The "Working Rules of the Remuneration Committee" specifies the responsibilities and duties of the committee.

The main responsibilities of the Remuneration Committee are the determination and review of 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. The Remuneration Committee held one meeting in 2006, at which all of the members of the Remuneration Committee were present.

A summary of the work completed by the Remuneration Committee of the Company in 2006 is as follows:

The Remuneration Committee considered and approved the remuneration plan of the senior management of the Company for 2006, remuneration plan of directors and supervisors, and the share appreciation rights proposal granted by the senior management at its first meeting according to the scope authorized by the third extraordinary general meeting held in 2006.

The Remuneration Committee also makes recommendations to the Board in respect of the remuneration of directors, supervisors and senior management. Remuneration of directors, supervisors and senior management is submitted for the consideration and approval of the Board. After the approval of the Board, remuneration of the directors and supervisors is submitted for approval of the general meeting. Annual remuneration of senior management comprises four components including basic salary, performance-based salary, special award and share appreciation rights. Basic salary is determined by taking responsibility, capability, market rates into consideration. Performance-based salary is determined based on the assessment of economic responsibility. Special award is granted to those who has made prominent contributions to the Company's results or in certain aspects. The share appreciation rights are implemented according to the Company's "Share Appreciation Rights Proposal".

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### 7. NOMINATION OF DIRECTORS

Pursuant to the Company's Articles of Association, election and replacement of directors shall be proposed to the general meeting for consideration. Shareholders holding 5% or more of the Company's shares carrying voting rights are entitled to make such proposal and request the Board to authorize the Chairman to consolidate a list of the director candidates nominated by the shareholders who are entitled to make a proposal. As authorized by the Board, the Chairman shall consolidate a list of the director candidates and order the Secretariat of the Board together with the relevant departments to prepare the relevant procedural documents, including but not limited to invitations for directors, confirmation letters, biographies of candidates and letters of resignations.

The Secretariat of the Board is responsible for requesting the Chairman and/or the shareholders entitled to make a proposal to issue invitations of directors to the director candidates. The director candidates will sign the confirmation letters. At the same time, resigning directors are required to sign resignation letters. Pursuant to the Company's articles of association, the Company is required to issue a written notice of the general meeting to shareholders in writing 45 days in advance and send a circular to shareholders. Pursuant to Rule 13.51(2) of the Listing Rules, the list, biography and emoluments of the director candidates must be set out in the circular to shareholders to facilitate the making of discretionary voting by shareholders. The election of new directors must be approved by more than half of the total shares carrying voting rights held by the shareholders or the independent shareholders' representative at the general meeting.

During the year, two of the board meetings discussed new directors' appointment. All of the members of the Board attended these two meetings.

The Company has not established a Nomination Committee.

### 8. AUDITORS' REMUNERATION

At the 2005 annual general meeting of the Company held on 20 June 2006, ShineWing Certified Public Accountants and Deloitte Touche Tohmatsu were reappointed as the Company's PRC and international external auditors respectively. During the year, the Company paid an aggregate of RMB3.18 million to the aforementioned auditors as fees for their professional audit services.

During the reporting period, the above two auditors did not provide other significant services to the Company other than financial auditing service.

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### 9. AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive directors, namely Chi Haibin (who is the Chairman of the committee) and Zhou Daojiong and one non-executive director, namely Cui Lijun. Among them, Chi Haibin and Zhou Daojiong possess professional qualifications or accounting or related financial management experience. Under the "Working Rules of the Audit Committee", the chairman of the Committee must be an independent non-executive director and all resolutions of the Committee must be approved by the independent non-executive directors.

The principal duties of the Audit Committee include reviewing the Company's financial reporting procedures, internal controls and risk management.

During the reporting period, the Audit Committee held two regular meetings. The recommendations of the Audit Committee have been presented to the Board and acted upon (if applicable). The members of the Audit Committee and their rate of attendance of meetings are as follows:

Position	Name	Attendance rate (%)
Chairman	Chi Haibin	100
Member	Zhou Daojiong	100
Member	Cui Lijun	100

During the reporting period, the Audit Committee issued its opinion in respect of the performance of its responsibilities relating to the interim and annual results and the review of the internal control system and the performance of the other responsibilities set out in the Code relating to the financial report for 2005 and the interim financial report for 2006 etc..

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 2006.

During the reporting period, directors of the Company has acknowledged their responsibility for preparing the accounts. The Board has carried out systemic analysis and review on the financial and operational risks of the Group and their prevention, as well as the compliance control during the interim and year end. This analysis emphasized certain weak areas or imperfections and a proposal for the improvement of these areas by the management of the Company has been made. The reporting responsibilities of external auditors are set out in the Report of the Independent Auditor of the annual report.

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### 10. SHAREHOLDERS AND GENERAL MEETINGS

To ensure that all shareholders of the Company enjoy equal rights and exercise their rights effectively, the Company convenes a general meeting every year pursuant to its articles of association or holds extraordinary general meetings when there are matters subject to the consideration of shareholders. At the 2005 general meeting of the Company held on 20 June 2006, 7 ordinary resolutions and 2 special resolutions relating to the amendment of the Company's Articles of Association and authorizing the Board to issue the Company's shares were passed and approved. At the first extraordinary general meeting held on 27 January 2006, the resolutions relating to the election of the directors of the Company and amendment of the Company's articles of association pursuant to the election were passed and approved. At the second extraordinary general meeting held on 28 February 2006, 6 resolutions relating to the public issue and placement of H shares were passed and approved. At the third extraordinary general meeting held on 7 March 2006, resolutions relating to the total remuneration of all directors and supervisors for 2006 were passed and approved.

### 11. SUPERVISORS AND THE SUPERVISORY COMMITTEE

The Supervisory Committee of the Company reports to the general meeting. Its members comprise three shareholder's representatives and one supervisor elected by the employees' representatives and two independent supervisors. The supervisors have discharged their duties conscientiously in accordance with the provisions of the Company's articles of association, attended all board meetings consistently, and submitted the Supervisory Committee Report and presented certain recommendations. In line with the spirit of accountability to all shareholders, the Supervisory Committee monitored the financial affairs of the Company and the performance of duties and responsibilities by the directors, president and other senior management personnel of the Company to ensure that they have performed their duties. The Supervisory Committee has participated actively in major matters of the Company including production, operation and investment projects and made constructive recommendations.

### 12. 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 a series of internal management systems covering financial management, investment management, audit management, etc. The Board considered and approved the Code for Securities Transactions of China National Building Material Company Limited and the Information Disclosure System of China National Building Material Company Limited and the Investor Management Measures of China National Building Material Company Limited on 4 January 2007.

Directors also reviewed the effectiveness of the internal control system of the Company and its subsidiaries, which covered financial control, operation control, compliance control and risk management function control.