



Report of the Board of Directors

The Board of Directors (the “Board”) of the Company hereby present its report together with the audited financial statements of the Group for the year ended 31 December 2005 to its shareholders.

PRINCIPAL BUSINESS

The Group is a holding company and its subsidiaries are mainly engaged in the cement, lightweight building materials, glass fiber, glass steel products and engineering services businesses. Particulars of the Group’s businesses are set out in Note 7, Note 19 and Note 20 to the Group’s consolidated financial statements respectively.

RESULTS

The results of the Group for the year are set out in the consolidated income statement in this annual report.

DIVIDENDS

The Board recommends to distribute a final dividend of RMB0.0388 per share (inclusive of tax) for the period from 28 March 2005 to 31 December 2005, representing a total amount of RMB80,381,960.00.

The proposed final dividend is subject to approval at the annual general meeting to be held on 20 June 2006. Shareholders whose names appear on the registers of members on Tuesday, 20 June 2006 will be eligible for the final dividend. The registers of members of the Company will be closed from Saturday, 20 May 2006 to Tuesday, 20 June 2006 (both inclusive), during such period no share transfer will be registered. In order to qualify for the final dividend mentioned above, holders of H shares whose transfers have not been registered shall deposit the instrument(s) of transfer and the relevant share certificate(s) at Tricor Investor Services Limited, the Company’s H Share Registrar, not later than 4:30 p.m. on Friday, 19 May 2006 to facilitate the share transfer registration.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group owns property, plant and equipment of approximately RMB4,792,093,000. Details of the movements in property, plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statements.

SUBSIDIARIES AND ASSOCIATES

Details of each of the principal subsidiaries and associates of the Company are set out in Notes 19 and 20 to the consolidated financial statements, respectively.

Report of the Board of Directors



CAPITALISED INTERESTS

Details of capitalised interests of the Company during the year are set out in Note 9 to the consolidated financial statements.

Share Capital Structure

| | Number of Shares | As at 31 December 2005 Approximate percentage of issued share capital | Number of Shares | As at 21 April 2006 Approximate percentage of issued share capital |
|-----------------|---------------------|--------------------------------------------------------------------------------------|---------------------|-----------------------------------------------------------------------------------|
| Domestic Shares | 1,387,760,000 | 100% | 1,319,366,000 | 63.69% |
| H Shares | – | – | 752,334,000 | 36.31% |
| | 1,387,760,000 | 100% | 2,071,700,000 | 100% |

Shareholding structure (as at 31 December 2005)

| Name of shareholders | Class of shares | Number of shares held | Percentage of total share capital (%) |
|----------------------------|-----------------|--------------------------|------------------------------------------------|
| Parent | Domestic | 368,280,000 | 26.54 |
| BNBMG | Domestic | 820,280,000 | 59.11 |
| CNBM Trading | Domestic | 125,750,000 | 9.06 |
| Cinda | Domestic | 72,800,000 | 5.25 |
| Building Materials Academy | Domestic | 650,000 | 0.05 |
| Total share capital | | 1,387,760,000 | 100% |

Note:

All the above percentages are calculated by round to hundredth.

Report of the Board of Directors

DISCLOSURE OF INTERESTS

(1) Substantial Shareholders and persons who have an interest or short position discloseable under divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (“SFO”)

As at 31 December 2005, there were no interests or short positions in any shares or underlying shares of the Company which were required to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO as the Company was not listed on the Stock Exchange on that date.

As at 21 April 2006, the date of the meeting of the Board for approving the Company's results for the financial year ended 31 December 2005 as recorded in the register required to be kept by the Company under Section 336 of the SFO, the persons (other than the directors and supervisors of the Company) who have interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO are as follows:

| Name | Class of shares | Number of shares held | Percentage in the relevant class of share capital ^{2,5} (%) | Percentage in total share capital ^{2,5} (%) |
|---------------------------|-----------------|----------------------------|-------------------------------------------------------------------------|---------------------------------------------------------|
| Parent ¹ | Domestic | 1,250,149,846 ³ | 94.75 | 60.34 |
| BNBMG ¹ | Domestic | 779,862,307 ³ | 59.11 | 37.64 |
| CNBM Trading ¹ | Domestic | 119,543,504 ³ | 9.06 | 5.77 |
| Cinda | Domestic | 69,216,154 ³ | 5.25 | 3.34 |
| JP Morgan Chase & Co. | H Share | 99,202,000 ³ | 13.19 | 4.79 |
| | | 17,700,000 ⁴ | 2.35 | 0.85 |

Notes:

1 Of these 1,250,149,846 shares, 350,128,232 shares are directly held by Parent, the remaining 900,021,614 shares are deemed corporate interest indirectly held through BNBMG, CNBM Trading and Building Materials Academy. BNBMG, CNBM Trading and Building Materials Academy are wholly owned subsidiaries of Parent. Under the SFO, Parent is deemed to own the shares directly held by BNBMG (779,862,307 shares), CNBM Trading (119,543,504 shares) and Building Materials Academy (615,803 shares).

2 As at 21 April 2006, the Company's total issued share capital comprises 2,071,700,000 shares, including 1,319,366,000 domestic shares and 752,334,000 H shares.

3 Long position.

4 Lending pool.

5 All the above percentages are calculated by round to hundredth.

(2) Interests and Short Positions of Directors and Supervisors

As at 31 December 2005, as far as the Company is aware, none of the directors and supervisors of the Company had any interests or share positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the directors or supervisors to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

Report of the Board of Directors



DISCLOSURE OF INTERESTS (*CONTINUED*)

(2) Interests and Short Positions of Directors and Supervisors (*Continued*)

As at 21 April 2006, the date of the meeting of the Board for approving the Company's results for the financial year ended 31 December 2005, as far as the Company is aware, none of the directors or supervisors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the directors or supervisors to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

CONTROLLING SHAREHOLDER OF THE COMPANY

1) China National Building Material Group Corporation

| | | |
|------------------------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Legal Chinese name | : | 中國建築材料集團公司 |
| Legal representative | : | Song Zhiping |
| Establishment date | : | 3 January 1984 |
| Registered capital | : | RMB3,723,038,000 |
| Principal Operating business | : | Principal operation of building materials (including steel products and timber, but only limited to procurement and supply for the direct enterprises and government units under the system) and auxiliary raw materials, research and development, wholesale and retail of production technology equipment, and supply of sedans under the plan of the system; contracting of design and construction of new-model building material houses, factories and ornament and decoration engineering. Concurrent operation of real estate business focusing on new-model building material and principal and concurrent operation of the related technological consultancy and information services. |

2) BNBMG

| | | |
|------------------------------|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Legal Chinese name | : | 北新建材(集團)有限公司 |
| Legal representative | : | Song Zhiping |
| Establishment date | : | 4 August 1984 |
| Registered capital | : | RMB451,910,000 |
| Principal operating business | : | self operation and act as agent for import and export business of various kinds of goods and technologies, except for the goods and technologies restricted by the PRC in operation or prohibited in import and export; real estate development, sales of commodity houses; technological development, manufacture, sale and technology service of new building materials, decoration materials and ancillary products, machinery and equipment and metal house; sale of metal materials, timber, coal, construction machinery, motor parts, hardware, electrical and chemical product; motor vehicle transportation; warehousing service; operation of materials processing and processing (including processing customer-supplied materials or given samples, assembling supplied components) and compensation trades business. |



Report of the Board of Directors

CONTROLLING SHAREHOLDER OF THE COMPANY (CONTINUED)

3) CNBM Trading

| | | |
|------------------------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Legal Chinese name | : | 中建材集團進出口公司 |
| Legal representative | : | Huang Anzhong |
| Establishment date | : | 8 February 1994 |
| Registered capital | : | Rmb100,000,000 |
| Principal operating business | : | self operation and act as agent for import and export business of various kinds of goods and technologies, except for the goods and technologies restricted by the PRC in operation or prohibited in import and export (the list of import and export goods shall not be enclosed); operation of materials processing and "processing (processing with materials or given samples, assembling supplied components) and compensation trades business"; operation of entrepot trade and export trade; sales of building materials, non-ferrous metals, automobile fittings, hardware and minerals, electric chemicals, machinery equipment, facilities and parts, instruments and apparatuses, timber and paper, characteristic products, daily general merchandises, light industry textile products; indoor and outdoor decoration and design, technological development, technological consultancy and personnel training; organization of exhibition and exhibition for sale; information consultancy (excluding agencies). |

4) Building Materials Academy

| | | |
|------------------------------|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Legal Chinese name | : | 中國建築材料科學研究院 |
| Legal representative | : | Yao Yan |
| Establishment date | : | 24 May 1954 |
| Registered capital | : | RMB106,432,332.68 |
| Principal operating business | : | research, development, sales, technologies transfer and servicing of cement, concrete admixtures, glass and glass fiber, ceramics, refractory materials, new-model building materials, decoration materials, inorganic non-metal materials, automobile instruments, and building material equipment; design, supervision and contracting of environment engineering; analysis and test as well as measurement and authentication of the said products; monitoring on quality and examination on arbitration; the exhibition of the said products; operation of self-produced products and technologies export business of the enterprise and its members; import business of parts and technologies (except for the goods restricted by the PRC in operation or prohibited in import and export); operation of materials processing and "processing (processing with materials or given samples, assembling supplied components) and compensation trades business. |

During the reporting period, there was no change to controlling shareholder of the Company.

Report of the Board of Directors



SHARE APPRECIATION RIGHTS PLAN

The Company set a long-term incentive plan in respect of share appreciation rights for the senior management, senior professionals and experts (those who make significant contribution to the Company), so as to provide additional rewards to the its senior management and improve the connection between the performance of its senior management and return to its shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for less than 30% of the Group's total sales amount.

During the year, the five largest suppliers of the Group accounted for less than 30% of the Group's total purchase amount.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2005, the Company did not issue any securities, and neither the Company nor any of its subsidiaries purchased, sold or redeemed any securities of the Company ("securities" shall have the meaning as defined in the Listing Rules). Prior to the listing of its shares on the Stock Exchange on 23 March 2006, the Company had no listed securities.

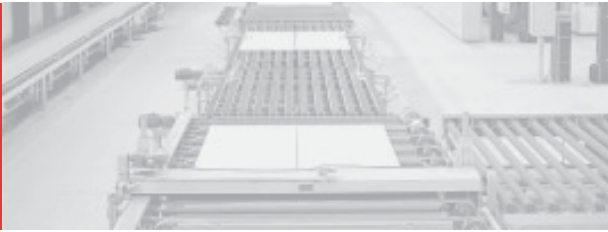
As of the date of this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

MINIMUM PUBLIC FLOAT

Based on the information that is publicly available to the Company and so far as the Directors are aware, as at the date of the report, the Company has maintained a public float that was in excess of 25% and has complied with the requirements of the Listing Rules.

RESERVES

Movements in the reserves of the Group during the year are set out in the "Consolidated Statement of Changes in Equity" of this report.



Report of the Board of Directors

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2005 and the date of this report were RMB19.3 million and RMB114.2 million, respectively.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2005, the Group had approximately 8,775 employees.

The remuneration and welfare of the Company's employees include remuneration, bonus and allowance. In accordance with the relevant national and local labour and social welfare laws and regulations, members of the Company shall pay various social welfare fees including retirement insurance, medical insurance, unemployment insurance and housing accumulation fund for their employees per month.

The Company endeavours to provide training to its employees. On-job training and continual training plans include management skills and technical training, overseas communication plan and other courses. The Company also encourages employees to learn by themselves through offering scholarship.

Currently, the Company has not set share purchase plan for the senior management or its employees.

DIRECTORS AND SUPERVISORS (AS OF THE DATE OF THIS REPORT)

Executive Directors:

| | |
|--------------|--------------------------------|
| Song Zhiping | (appointed on 10 March 2005) |
| Cao Jianglin | (appointed on 10 March 2005) |
| Li Yimin | (appointed on 27 January 2006) |

Non-executive Directors:

| | |
|---------------|------------------------------|
| Cui Lijun | (appointed on 10 March 2005) |
| Huang Anzhong | (appointed on 10 March 2005) |
| Zuo Fenggao | (appointed on 10 March 2005) |

Independent Non-executive Directors:

| | |
|------------------|--------------------------------|
| Zhang Renwei | (appointed on 10 March 2005) |
| Zhou Daojiong | (appointed on 12 May 2005) |
| Chi Haibin | (appointed on 12 May 2005) |
| Lau Ko Yuen, Tom | (appointed on 27 January 2006) |

Supervisors:

| | |
|---------------|------------------------------|
| Shen Anqini | (appointed on 10 March 2005) |
| Zhou Guoping | (appointed on 10 March 2005) |
| Bao Wenchun | (appointed on 12 May 2005) |
| Cui Shuhong | (appointed on 10 May 2005) |
| Zhang Zhaomin | (appointed on 12 May 2005) |
| Liu Chijin | (appointed on May 12, 2005) |

Report of the Board of Directors



DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As of the date of this report, each of the directors and supervisors has entered into a service contract with the Company for a term no more than three years. No directors are proposed for re-election at the forthcoming annual general meeting and there is accordingly no unexpired period of any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) in respect of any director proposed to be re-elected.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at the date of the report, during the year and at any time during the period from the end of the year to the date of the report, except for the relevant service contracts, none of the directors and supervisors had a material interest, directly or indirectly, in any contracts of significance to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party subsisted at the end of the year or at any time during the year.

DIRECTORS' AND SUPERVISORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' and supervisors' remuneration and the five highest paid individuals of the Company during the year are set out in Note 10 of the consolidated financial statements.

BOARD OF DIRECTORS AND SPECIAL COMMITTEES UNDER BOARD OF DIRECTORS

As at the reporting period, the Board of the Company comprises 10 directors, whose biographies are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this report.

The Board of the Company established two special committees, namely, the Audit Committee and Remuneration Committee, details of which are set out in the section headed "Corporate Governance Report" herein.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the date of the report, the movement of the directors, supervisors and senior management of the Company was set out below.

In May 2005, the Company elected Mr. Zhou Daojiong and Mr. Chi Haibin as Independent Non-Executive Directors of the Company, elected Mr. Bao Wenchun as Supervisor of the Company and elected Mr. Zhang Zhaomin and Mr. Liu Chijin as Independent Supervisors of the Company. In May 2005, Ms. Cui Shuhong was re-elected as Staff Supervisor of the Company. In June 2005, Ms. Lo Yee Har, Susan was elected as the joint company secretary of the Company.

In January 2006, the Company elected Mr. Li Yimin as Executive Director of the Company and Mr. Lau Ko Yuen, Tom as Independent Non-executive Director of the Company. In February 2006, Mr. Guo Chaomin resigned from his position as Director of the Company.

MANAGEMENT CONTRACTS

Except for the service contracts of the management of the Company, no contracts were entered into between the Company and any individuals, companies or legal corporations, for the management of all or any material part of the Company's business.



Report of the Board of Directors

CONNECTED TRANSACTIONS

Particulars of related party transactions are set out in Note 39 to the consolidated financial statements.

During 2005, the Company was not listed and did not have any transactions which were subject to the reporting requirements under Chapter 14A of the Listing Rules.

During the year, the Company entered into ongoing connected transactions in respect of which the Stock Exchange granted to the Company a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules on 8 March 2006:

Transactions with Parent Group

Parent has a direct equity interest of 26.54% and an indirect equity interest of 68.22% in the Company immediately prior to the Global Offering. It is a controlling shareholder and a promoter of the Company. Each of Parent and its subsidiaries therefore constitutes a connected person of the Company under the Listing Rules.

1. Master Mineral Supply Agreement

On 28 February 2006, the Company entered into a Master Mineral Supply Agreement with Parent, for a term of three years commencing from 1 January 2005, whereby Parent agreed to supply, or procure its subsidiaries to supply, to the Company limestone and clay for the production of clinker and other cement products. Parent shall supply to the Company limestone and clay from its quarries at the market price, namely, the price at which the same type of mineral is provided to independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2005, the Group's expenditure for limestone and clay supplied by Parent Group was approximately RMB47.6 million.

2. Master Mutual Provision of Production Supplies and Support Services Agreement

On 28 February 2006, the Company entered into a Master Mutual Provision of Production Supplies and Support Services Agreement with Parent for a term of three years commencing from 1 January 2005, pursuant to which:

- (a) Parent agreed to provide, or procure its subsidiaries to provide, the following production supplies and support services to the Company:
 - Production supplies: oriented strand board, cement ancillary grind mill, plastic pipes and other similar raw materials for the Group's production; spare parts and other materials for the projects undertaken by the Group's engineering segment; other similar supplies; and
 - Support services: transportation and loading services; equipment repair, design and installation services; equipment and vehicles leasing; water, electricity and steam; property management services; other similar services;
- (b) the Company agreed to provide, or procure its subsidiaries to provide the following production supplies and support services to Parent:
 - Production Supplies: clinker, cement, lightweight building materials and other building materials; prefabricated houses; other similar supplies; and
 - Support services: transportation and loading services; mining equipment leasing; water, electricity and steam; other similar services.

Report of the Board of Directors



CONNECTED TRANSACTIONS (*CONTINUED*)

Transactions with Parent and its subsidiaries (“Parent Group”) (*Continued*)

2. Master Mutual Provision of Production Supplies and Support Services Agreement (*Continued*)

The production supplies and support services pursuant to the Master Mutual Provision of Production Supplies and Support Services Agreement shall be provided at:

- (a) the government-prescribed price;
- (b) if there is no government-prescribed price but there is a government-guided price, the government-guided price applies;
- (c) if there is neither a government-prescribed price nor a government-guided price, then the market price applies. For the purpose of the Master Mutual Provision of Production Supplies and Support Services Agreement, the term “market price” is defined as the price at which the same type of production supplies or support services is provided by Independent Third Parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC; and
- (d) if none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the relevant production supplies or support services, which shall be the reasonable costs incurred in providing the same plus a profit margin of not more than 5% of such costs. For the purpose of the Master Mutual Provision of Production Supplies and Support Services Agreement, the term “reasonable costs” is defined as the costs confirmed by both parties after arm’s length negotiations and permitted by the accounting systems of the PRC.

The prices for electricity, water and steam are currently prescribed by the government.

For the year ended 31 December 2005, the Group’s expenditure for the production supplies and support services provided by Parent Group was approximately RMB47.4 million.

For the year ended 31 December 2005, the Group’s revenue from the production supplies and support services provided to Parent Group was approximately RMB125 million.

3. Master Supply of Equipment Agreement

On 28 February 2006, the Company entered into a Master Supply of Equipment Agreement with Parent for a term of three years commencing from 1 January 2005, whereby Parent agreed to supply, or procure its subsidiaries to supply, equipment to the Company for the construction of our production lines. The equipment provided pursuant to the Master Supply of Equipment Agreement shall be at the market price, namely, the price at which the same type of equipment is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2005, the Group’s expenditure for equipment supplied by Parent Group was approximately RMB32.6 million.



Report of the Board of Directors

CONNECTED TRANSACTIONS (*CONTINUED*)

Transactions with Parent and its subsidiaries (“Parent Group”) (*Continued*)

4. Master Mutual Provision of Engineering Services Agreement

On 28 February 2006, the Company entered into a Master Mutual Provision of Engineering Services Agreement with Parent for a term of three years commencing from 1 January 2005, pursuant to which:

- (a) Parent agreed to provide, or procure its subsidiaries to provide, the Company with engineering design, construction and supervisory services; and
- (b) the Company agreed to provide, or procure its subsidiaries to provide, Parent Group with engineering services.

The prices of all contracts for engineering services to be provided pursuant to the Master Mutual Provision of Engineering Services Agreement shall be in accordance with the state-guided price. If there is no state-guided price, then according to market price. Where contracts are to be tendered, the price for the provision of engineering services shall be set according to the procedures adopted by the tender supervisory and administrative bureau in the locality of the construction project, which should be maintained at a level reasonably close to the lowest market price. For the purpose of the Master Mutual Provision of Engineering Services Agreement, the term “state-guided price” shall mean the price which the contracting parties may agree, which is within the price range set in accordance with the applicable laws and regulations of the PRC; and the term “market price” shall mean either the price at which the same type of engineering design, construction and supervisory services are provided by independent third parties in the same area, in the vicinity or in the PRC in the ordinary course of their businesses on normal commercial terms or the price at which the same type of engineering design, construction and supervisory services are provided to independent third parties in the PRC on normal commercial terms.

For the year ended 31 December 2005, the Group’s expenditure for engineering services provided by Parent Group was approximately RMB8.8 million.

For the year ended 31 December, the Group’s revenue for engineering services provided to Parent Group was approximately RMB0.6 million.

Transactions with BNBM Homes

BNBM Homes is an indirect non-wholly-owned subsidiary of the Company. BNBMG, a controlling shareholder and promoter of the Company, has an 11% equity interest in BNBM Homes. BNBM Homes therefore constitutes a connected person of the Company under the Listing Rules.

5. Master Provision of Production Supplies and Support Services Agreement

On 28 February 2006, BNBM entered into a Master Provision of Production Supplies and Support Services Agreement with BNBM Homes for a term of three years commencing from 1 January 2005, pursuant to which BNBM agreed to provide to BNBM Homes the following:

- Production supplies: gypsum board, rock wool, lightweight metal frame and other raw materials for the construction of prefabricated houses; and
- Support services: transportation and loading services, water, electricity and steam.

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CONNECTED TRANSACTIONS (*CONTINUED*)

Transactions with BNBH Homes (*Continued*)

5. Master Provision of Production Supplies and Support Services Agreement (*Continued*)

The production supplies and support services pursuant to the Master Mutual Provision of Production Supplies and Support Services Agreement shall be provided at:

- (a) the government-prescribed price;
- (b) if there is no government-prescribed price but there is a government-guided price, the government-guided price applies;
- (c) if there is neither a government-prescribed price nor a government-guided price, then the market price applies. For the purpose of the Master Provision of Production Supplies and Support Services Agreement, the term "market price" is defined as the price at which the same type of production supplies or support services is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC; and
- (d) if none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the relevant production supplies or support services, which shall be the reasonable costs incurred in providing the same plus a profit margin of not more than 5% of such costs. For the purpose of the Master Provision of Production Supplies and Support Services Agreement, the term "reasonable costs" is defined as the costs confirmed by both parties after arm's length negotiations and permitted by the accounting systems of the PRC.

For the year ended 31 December 2005, BNBH's revenue from the production supplies and support services provided to BNBH Homes was approximately RMB5.5 million.

6. Master Engineering Services Agreement

On 28 February 2006, the Company's subsidiary Chenlong Decoration entered into a Master Engineering Services Agreement with BNBH Homes for a term of three years commencing from 1 January 2005, whereby Chenlong Decoration agreed to provide engineering design, construction and supervisory services to BNBH Homes.

The prices of all contracts for engineering design, construction and supervisory services to be provided pursuant to the Master Engineering Services Agreement shall be in accordance with the state-guided price. If there is no state-guided price, then it shall be in accordance with the market price.

For the purpose of the Master Engineering Services Agreement, the term "state-guided price" shall mean the price which the contracting parties may agree, which is within the price range set in accordance with the applicable laws and regulations of the PRC; and the term "market price" shall mean either the price at which the same type of engineering design, construction and supervisory services are provided by independent third parties in the same area, in the vicinity or in the PRC in the ordinary course of their businesses upon normal commercial terms or the price at which the same type of engineering design, construction and supervisory services are provided to independent third parties in the PRC upon normal commercial terms.

Where contracts are to be tendered, the price for the provision of engineering design, construction and supervisory services shall be set according to the procedures adopted by the tender supervisory and administrative bureau in the locality of the construction project. The tender price should be maintained at a level reasonably close to the lowest market price.

For the year ended 31 December 2005, Chenlong Decoration's revenue from the engineering services provided to BNBH Homes was approximately RMB1.2 million.



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CONNECTED TRANSACTIONS (*CONTINUED*)

Transactions with Beijing Chemical

Beijing Chemical has a 45% equity interest in BNBM Plastic, an indirect non-wholly-owned subsidiary of the Company. It is a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

7. Supply of Raw Material Agreement

On 28 February 2006, BNBM Plastic and Beijing Chemical entered into a Supply of Raw Material Agreement for a term of three years commencing from 1 January 2005, pursuant to which Beijing Chemical agreed to provide PVC to BNBM Plastic for the production of plastic products.

The raw materials pursuant to the Supply of Raw Material Agreement shall be provided at market price. The term “market price” means the price at which the same type of raw material is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2005, BNBM Plastic’s expenditure for the raw materials supplied by Beijing Chemical was approximately RMB47.8 million.

Transactions with Liberty Group

Liberty Group has a 20% equity interest in Zhongfu Liberty, an indirect non-wholly-owned subsidiary of the Company. It is a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

8. Supply of Technical Consultation Services Agreements

On 2 March 2006, each of China Composites and Zhongfu Liberty entered into a Supply of Technical Consultation Services Agreement for the provision of technical consultation services to Liberty Group for a term of three years commencing from 1 January 2005.

The technical consultation services pursuant to the Supply of Technical Consultation Services Agreements shall be provided at market price. The term “market price” means the price at which the same type of service is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2005, the Group’s revenue from the technical consultation services provided to Liberty Group was approximately RMB5.4 million.

Report of the Board of Directors



CONNECTED TRANSACTIONS (*CONTINUED*)

Transactions with Tianma Group

Tianma Group has a 35% equity interest in Zhongxin Tianma, an indirect non-wholly-owned subsidiary of the Company. It is a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

9. Supply of Raw Material Agreement

On 2 March 2006, Zhongxin Tianma and Tianma Group entered into a Supply of Raw Material Agreement for a term of three years commencing from 1 January 2005, pursuant to which Tianma Group agreed to provide raw materials to Zhongxin Tianma for the production of glass fiber products.

The raw materials pursuant to the Supply of Raw Material Agreement shall be provided at market price, namely, the price at which the same type of raw material is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2005, Zhongxin Tianma's expenditure for raw materials supplied by Tianma Group was approximately RMB10.6 million.

10. Service Agreement

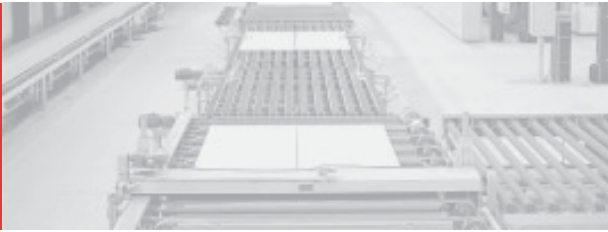
On 2 March 2006, Zhongxin Tianma and Tianma Group entered into a Service Agreement for a term of three years commencing from 1 January 2005, pursuant to which Tianma Group agreed to provide electricity and water to Zhongxin Tianma.

The utilities pursuant to the Service Agreement shall be provided at:

- (a) the government-prescribed price;
- (b) if there is no government-prescribed price but there is a government-guided price, the government-guided price applies;
- (c) if there is neither a government-prescribed price nor a government-guided price, then the market price applies. For the purpose of the Service Agreement, the term "market price" is defined as the price at which the same type of utilities is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC; and
- (d) if none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the relevant utilities, which shall be the reasonable costs incurred in providing the same plus a profit margin of not more than 5% of such costs. For the purpose of the Service Agreement, the term "reasonable costs" is defined as the costs confirmed by both parties after arm's length negotiations and permitted by the accounting systems of the PRC.

The prices for electricity and water are currently prescribed by the government.

For the year ended 31 December 2005, Zhongxin Tianma's expenditure for utilities provided by Tianma Group was approximately RMB2.8 million.



Report of the Board of Directors

CONNECTED TRANSACTIONS (*CONTINUED*)

Transactions with Jushi Group

Jushi Group is a 59.90% owned subsidiary of China Fiberglass, which has a 20% equity interest in BND Co., Limited, an indirect non-wholly owned subsidiary of the Company. Jushi Group is an associate of a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

11. Supply of Raw Material Agreement

On 2 March 2006, the Company entered into a Supply of Raw Material Agreement with Jushi Group for a term of three years commencing from 1 January 2005, pursuant to which Jushi Group agreed to provide the Company with raw materials for the production of glass fiber products.

The raw materials pursuant to the Supply of Raw Material Agreement shall be provided at market price. The term “market price” means the price at which the same type of raw material is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2005, the Group's expenditure for raw materials supplied by Jushi Group was approximately RMB15.9 million.

Transactions with Aobao Chemical

Aobao Chemical has a 25% equity interest in Weifang Aotai, an indirect non-wholly-owned subsidiary of the Company. It is a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

12. Supply of Raw Material Agreement

On 2 March 2006, Weifang Aotai and Aobao Chemical entered into a Supply of Raw Material Agreement for a term of three years commencing from 1 January 2005, pursuant to which Aobao Chemical agreed to supply Weifang Aotai with raw materials for the production of gypsum.

The raw materials pursuant to the Supply of Raw Material Agreement shall be provided at market price. The term “market price” means the price at which the same type of raw material is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2005, Weifang Aotai's expenditure for raw materials supplied by Aobao Chemical was approximately RMB1.2 million.

Report of the Board of Directors



CONNECTED TRANSACTIONS (*CONTINUED*)

Transactions with Hengzhijiu Trade

Hengzhijiu Trade has a 29% equity interest in Hengjiu Concrete, an indirect non-wholly-owned subsidiary of the Company. It is a substantial shareholder of a subsidiary of the Company and therefore constitutes a connected person of the Company under the Listing Rules.

13. Supply of Raw Material Agreement

On 2 March 2006, Luhong and Hengzhijiu Trade entered into a Supply of Raw Material Agreement for a term of three years commencing from 1 January 2005, pursuant to which Hengzhijiu Trade agreed to provide coal to Luhong for the production of cement.

The coal pursuant to the Supply of Raw Material Agreement shall be provided at market price. The term “market price” means the price at which the same type of coal is provided independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2005, Luhong’s expenditure for coal supplied by Hengzhijiu Trade was approximately RMB36.8 million.

14. Supply of Product Agreement

On 2 March 2006, Luhong and Hengzhijiu Trade entered into a Supply of Product Agreement for a term of three years commencing from 1 January 2005, pursuant to which Luhong agreed to provide cement to Hengzhijiu Trade for use in connection with its business.

The cement pursuant to the Supply of Product Agreement shall be provided at market price. The term “market price” means the price at which the same type of cement is provided by independent third parties under normal commercial terms in the ordinary course of business in the same area, in the vicinity or in the PRC.

For the year ended 31 December 2005, Luhong’s revenue from cement supplied to Hengzhijiu Trade was approximately RMB37.0 million.

Details of the connected transaction were set out in the prospectus of the Company dated 13 March 2006 (the “Prospectus”).

The independent non-executive directors of the Company had reviewed these connected transactions and have considered the procedures performed by the auditors of the Company in reviewing them and confirmed that:

- (a) in the ordinary and usual course of business of the Company;
- (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.



Report of the Board of Directors

COMPETITION IN THE SAME BUSINESS

As at the date of this annual report, Parent confirmed that it has complied and will comply with the Non-Competition Agreement dated 28 February 2006 entered into with the Company. Pursuant to this agreement, Parent has agreed not to, and to procure its subsidiaries (excluding the Group) not to compete with the Group in its core businesses.

DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As of 31 December 2005, the Group had not placed any designated deposits with any financial institution in the PRC, nor had it failed to collect any time deposits upon maturity during the year.

PRE-EMPTIVE RIGHTS

Under the Articles of Association of the Company and the laws of the PRC, there are no provisions about pre-emptive rights that require the Company to offer new shares to its existing shareholders in proportion to their shareholdings.

AUDITORS

The Company has appointed Deloitte Touche Tohmatsu and ShineWing Certified Public Account as international and PRC auditors of the Company for the year ended 31 December 2005, respectively. Deloitte Touche Tohmatsu has audited the financial statements prepared under the IFRS. Since it commenced preparations for the listing, the Company has been employing Deloitte Touche Tohmatsu and ShineWing Certified Public Account as its auditors. At the eighth meeting of the first Board on 21 April 2006, the proposal for re-appointment of Deloitte Touche Tohmatsu and ShineWing Certified Public Account as international and PRC auditors of the Company respectively for the year ending 31 December 2006 was passed and approved to be put forward at the annual general meeting for consideration.

By order of the Board of Directors
Song Zhiping
Chairman of the Board of Directors

Beijing, PRC
21 April 2006