

## Directors' Report

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The Board of Directors (the "Board") of the Company hereby presents its report together with the audited financial statements of the Group for the year ended 31 December 2006 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 20 and Note 21 to the Group's consolidated financial statements respectively.

### RESULTS

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

### DIVIDENDS

The Board has recommended the distribution of a final dividend of RMB0.0324 per share (pre-tax) for the period from 1 January 2006 to 31 December 2006, representing a total amount of RMB67,123,080 (pre-tax).

The proposed final dividend is subject to approval at the annual general meeting to be held on Friday, 15 June 2007. Shareholders whose names appear on the register of members on Friday, 15 June 2007 will be eligible for the final dividend. The registers of member of the Company will be closed from Wednesday, 16 May 2007 to Friday, 15 June 2007 (both days 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 have to 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 Tuesday, 15 May 2007 to facilitate the share transfer registration.

### PROPERTY, PLANT AND EQUIPMENT

The Group owns property, plant and equipment of approximately RMB7,063,105. Details of the movements in property, plant and equipment of the Group during the year are set out in Note 16 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 20 and 21 to the consolidated financial statements, respectively.



## Directors' Report

### 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 (as at 31 December 2006)

	Number of Shares	Approximate percentage of issued share capital
Domestic Shares	1,319,366,000	63.69%
H Shares	752,334,000	36.31%
	2,071,700,000	100%

#### Substantial Shareholders (as at 31 December 2006)

Name of shareholders	Class of shares	Number of shares held	Percentage of total share capital (%)
Parent	Domestic	350,128,232	16.90
BNBMG	Domestic	779,862,307	37.64
CNBM Trading	Domestic	119,543,504	5.77
Cinda	Domestic	69,216,154	3.34
Building Materials Academy	Domestic	615,803	0.03
Public Investors	H shares	752,334,000	36.31
Total share capital		2,071,700,000	100

Note:

(1) All the above percentages are calculated by rounding to two decimal places.

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### 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 2006, 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 <sup>2,5</sup> (%)	Percentage in total share capital <sup>2,5</sup> (%)
Parent <sup>1</sup>	Domestic	1,250,149,846 <sup>3</sup>	94.75	60.34
BNBMG <sup>1</sup>	Domestic	779,862,307 <sup>3</sup>	59.11	37.64
CNBM Trading <sup>1</sup>	Domestic	119,543,504 <sup>3</sup>	9.06	5.77
Cinda	Domestic	69,216,154 <sup>3</sup>	5.25	3.34
JPMorgan Chase & Co.	H Shares	90,477,000 <sup>3</sup>	12.03	4.37
		29,569,000 <sup>4</sup>	3.93	1.43
Atlantis Investment Management Ltd	H Shares	54,000,000 <sup>3</sup>	7.18	2.61
Halbis Capital Management (Hong Kong) Limited	H Shares	40,840,000 <sup>3</sup>	5.43	1.97
The Tantallon Fund	H Shares	39,000,000 <sup>3</sup>	5.18	1.88

## Directors' Report

### DISCLOSURE OF INTERESTS (CONTINUED)

#### (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") (Continued)

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. CNBM Trading and Building Materials Academy are wholly owned subsidiaries of Parent. BNBMG is a subsidiary of Parent which directly and indirectly holds 100% equity interest in BNBMG, of which 75% was directly held and 25% was indirectly held through CNBM Trading. 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 31 December 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 rounding to two decimal places.*

Save as disclosed above, as at 31 December 2006, no person (other than the directors and supervisors of the Company) had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

#### (2) Interests and Short Positions of Directors and Supervisors

As at 31 December 2006, as far as the Company is aware, none of the directors nor 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 Part XV of 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.

## Directors' Report

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### 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 2006, the Company did not issue any securities, and neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company ("securities" shall have the meaning as defined in the Listing Rules).

### TAXATION REDUCTION OF HOLDERS OF LISTED SECURITIES

For the year ended 31 December 2006, holders of the Company's securities shall not be entitled to any taxation reduction by virtue of their legal status of the PRC.

### MINIMUM PUBLIC FLOAT

Based on the information that is publicly available to the Company and so far as the directors are aware, as at 31 December 2006, 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 annual report.

### EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, the Group had approximately 13,824 employees.

The remuneration package of the Company's employees include salary, allowances and related welfare. In accordance with relevant national and local labour and social welfare laws and regulations, the Group is required to pay on behalf of employees a monthly social insurance premium covering pension insurance, industrial accident insurance, medical insurance, unemployment insurance and housing reserve fund. The Company's remuneration policy for its staff is performance based depending on duties and responsibilities while bonus is linked to the overall economic efficiency of the Company. Please refer to the section headed "Corporate Governance Report - Remuneration Committee" for the Company's remuneration policy for its senior management.

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 improve themselves by offering scholarships.

## Directors' Report

### SHARE APPRECIATION RIGHTS PLAN

In order to provide additional incentives to the Group's senior management and to enhance the alignment between the performance of the Group's senior management and shareholder value, on February 28, 2006, the Company adopted a long-term incentive plan of share appreciation rights (the "Plan") for the Group's senior management officers, senior experts and specialists who make important contributions to the Group.

Under the Plan, a share appreciation right ("SA Right") represents the right to receive a cash payment equal to the appreciation, if any, in the fair market value of a H Share from the date of the grant of the right to the date of exercise.

SA Rights will be granted in units with each unit representing one H Share. All SA Rights will have an exercise period of six years from the date of grant. An individual may not exercise his or her SA Rights during the first two years after the date of grant. After two and three years of the date of grant, the total number of SA Rights exercised by an individual may not in aggregate exceed one-third and two-thirds, respectively, of the total SA Rights granted to the individual. After four years of the date of granted, the SA Rights will be fully vested.

On September 18, 2006, the Company granted 5,880,000 units of SA Rights at exercise price of HK\$3.5 each unit to the senior management of the Company as follows:

	Units of SA Rights granted
Directors and a supervisor of the Company	2,680,000
Other senior management	3,200,000
	5,880,000

As the SA Rights vest at different amounts until the grantee has completed a specified period of service, the Company recognised the services received and a liability of RMB1,156,000 (2005: nil), being the estimated compensation paid for service rendered by the grantee during the year.

This is estimated with reference to the valuation of the SA Rights using Black-Scholes pricing model with the following assumptions:

Weighted average share price	HK\$5.03
Exercise price	HK\$3.50
Expected volatility	22%
Expected life	4 years
Risk-free rate	rate 2.6%
Expected dividend yield	0.77%

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### DIRECTORS AND SUPERVISORS (AS AT 31 DECEMBER 2006)

#### Executive Directors:

Song Zhiping	(appointed on 10 March 2005)
Cao Jianglin	(appointed on 10 March 2005)
Li Yimin	(appointed on 27 January 2006)
Peng Shou	(appointed on 20 June 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 10 March 2005)
Chi Haibin	(appointed on 10 March 2005)
Lau Ko Yuen, Tom	(appointed on 27 January 2006)

#### Supervisors:

Shen Anqin	(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 12 May 2005)

## Directors' Report

### **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 of a maximum of 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 this 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 the Company, any of its holding companies or subsidiaries.

### **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 11 to the consolidated financial statements.

### **BOARD OF DIRECTORS AND SPECIAL COMMITTEES UNDER BOARD OF DIRECTORS**

As at the reporting date, the Board of the Company comprised 11 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**

During the year and up to the date of this report, the movement of the directors, supervisors and senior management of the Company was set out below.

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.

In June 2006, the Company elected Mr. Peng Shou as Executive Director of the Company.

In August 2006, the Company elected Mr. Chang Zhangli as Vice President of the Company.



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### 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.

### CONNECTED TRANSACTIONS

#### Non-Exempt Continuing Connected Transactions

Except for the transaction with BNBH Homes which is an indirectly non-wholly owned subsidiary of the Company, the remaining connected transactions, which are also related party transactions, are included in note 40 to the consolidated financial statements in accordance with International Accounting Standard 24 "Related Party Disclosure". The transactions with BNBH Homes are regarded as connected transactions pursuant to Chapter 14A of the Listing Rules and the transactions were eliminated in preparing the consolidated financial statements.

During the year, the Company entered into continuing connected transactions under the definition of "continuing connected transaction" in Chapter 14A of the Listing Rules, in relation to 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 16.90% and total direct and indirect equity interest of 60.34% in the Company immediately following 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 2006, the Group's expenditure for limestone and clay supplied by Parent Group was approximately RMB77.9 million.

There will be an increase in the 2007 annual cap for the transactions governed by the Master Mineral Supply Agreement, which is subject to independent shareholders approval at the Company's upcoming annual general meeting, as a result of the acquisition of Anxia Cement by two subsidiaries of Parent. As Anxia Cement will become a subsidiary of Parent upon completion of the acquisition and Parent is a controlling shareholder of the Company, Anxia Cement will become a connected person of the Company upon completion of the acquisition.



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### CONNECTED TRANSACTIONS (CONTINUED)

#### Non-Exempt Continuing Connected Transactions (Continued)

##### Transactions with Parent Group (Continued)

#### 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.

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.

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### CONNECTED TRANSACTIONS (CONTINUED)

#### Non-Exempt Continuing Connected Transactions (Continued)

##### Transactions with Parent Group (Continued)

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

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

For the year ended 31 December 2006, the Group's expenditure for the production supplies and support services provided by Parent Group was approximately RMB49.3 million.

For the year ended 31 December 2006, the Group's revenue from the production supplies and support services provided to Parent Group was approximately RMB92.8 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 2006, the Group's expenditure for equipment supplied by Parent Group was approximately RMB36.2 million.

#### 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.

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### CONNECTED TRANSACTIONS (CONTINUED)

#### Non-Exempt Continuing Connected Transactions (Continued)

##### Transactions with Parent Group (Continued)

#### 4. Master Mutual Provision of Engineering Services Agreement (Continued)

For the year ended 31 December 2006, the Group's expenditure for engineering services supplied by Parent Group was approximately RMB7.5 million.

For the year ended 31 December 2006, the Group's revenue for engineering services provided to Parent Group was approximately RMB0.0 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, the Company 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.

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 2006, BNBM's revenue from the production supplies and support services provided to BNBM Homes was approximately RMB4.0 million.

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### CONNECTED TRANSACTIONS (*CONTINUED*)

#### Non-Exempt Continuing Connected Transactions (*Continued*)

##### Transactions with BNBM Homes (*Continued*)

###### 6. Master Engineering Services Agreement

On 28 February 2006, the Company's subsidiary Chenlong Decoration entered into a Master Engineering Services Agreement with BNBM 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 BNBM 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 according to 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 2006, Chenlong Decoration's revenue from the engineering services provided to BNBM Homes was approximately RMB0.0 million.

##### 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 2006, BNBM Plastic's expenditure for the raw materials supplied by Beijing Chemical was approximately RMB26.9 million.



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### CONNECTED TRANSACTIONS (CONTINUED)

#### Non-Exempt Continuing Connected Transactions (Continued)

##### 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 2006, the Group's revenue from the technical consultation services provided to Liberty Group was approximately RMB4.0 million.

##### 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 2006, Zhongxin Tianma's expenditure for raw materials supplied by Tianma Group was approximately RMB9.5 million.

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### CONNECTED TRANSACTIONS (*CONTINUED*)

#### Non-Exempt Continuing Connected Transactions (*Continued*)

##### Transactions with Tianma Group (*Continued*)

###### 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 2006, Zhongxin Tianma's expenditure for utilities provided by Tianma Group was approximately RMB2.6 million.

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### CONNECTED TRANSACTIONS (CONTINUED)

#### Non-Exempt Continuing Connected Transactions (Continued)

##### Transactions with Jushi Group

Jushi Group is a 59.9% 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 2006, the Group's expenditure for raw materials supplied by Jushi Group was approximately RMB7.5 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 2006, Weifang Aotai's expenditure for raw materials supplied by Aobao Chemical was approximately RMB2.8 million.



## Directors' Report

### CONNECTED TRANSACTIONS (CONTINUED)

#### Non-Exempt 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, Lunan 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 Lunan 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 2006, Lunan's expenditure for coal supplied by Hengzhijiu Trade was approximately RMB23.2 million.

##### 14. Supply of Product Agreement

On 2 March 2006, Lunan and Hengzhijiu Trade entered into a Supply of Product Agreement for a term of three years commencing from 1 January 2005, pursuant to which Lunan 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 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 2006, Lunan's revenue from cement supplied to Hengzhijiu Trade was approximately RMB49.2 million.

Details of the continuing connected transaction were set out in the prospectus of the Company dated 13 March 2006 (the "Prospectus") and the 2005 Annual Report of the Company dated 21 April 2006.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors.



## Directors' Report

### CONNECTED TRANSACTIONS (CONTINUED)

#### Non-Exempt Connected Transactions

##### Acquisition of the entire equity interest in Donglian

During the reporting period, BNBM, a subsidiary of the Company, entered into a share transfer agreement to acquire the entire equity interests in Donglian for a consideration of RMB114,540,000 on 28 August 2006.

##### Acquisition of equity interest in Tianfeng

During the reporting period, BNBM, a subsidiary of the Company, entered into a share transfer agreement to acquire 13% and 12% equity interests in Tianfeng on 16 June 2006 and 6 December 2006 respectively. The consideration for the two acquisitions were RMB5,000,000 respectively.

##### Acquisition of equity interest in Jiangyin Taishan

During the reporting period, BNBM, a subsidiary of the Company, entered into a share transfer agreement and a supplementary agreement on 8 October 2006 and 11 December 2006 respectively, to acquire 30% of the equity interest in Jiangyin Taishan for a consideration of US\$3,191,160.

##### Capital increase in Jushi Group

On 5 January 2007, the Company entered into a share transfer agreement and a subscription agreement to subscribe for 11.5% of the enlarged registered capital of Jushi Group at a consideration of US\$46,248,448.

##### Acquisition of the equity interest in China Composites

On 16 April 2007, the Company entered into an equity transfer agreement to acquire 23% equity interest in China Composites for a consideration of RMB103,060,000. For details of the above significant events, please refer to the relevant announcements and circulars issued by the Company.

For details of the above non-exempt connected transactions, please refer to the relevant announcements dated 28 August 2006, 5 January 2007, 13 April 2007 and 18 April 2007 and circulars dated 18 September 2006 and 25 January 2007 issued by the Company.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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 the connected transactions have been conducted:

- (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.

## Directors' Report

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### NON-COMPETITION AGREEMENT

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.

Parent has notified the Company of a business opportunity to be a party to the formation of a new company with Jianfeng Group for the purpose of developing regional cement business. As this business opportunity was at a preliminary stage, the directors who are independent of Parent Group, decided not to take up this business opportunity at this stage and notified Parent accordingly.

None of the directors of the Company is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

### DESIGNATED DEPOSITS AND OVERDUE TIME DEPOSITS

As of 31 December 2006, 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 Accountants as international and PRC auditors of the Company for the year ended 31 December 2006, 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 Accountants as its auditors. At the eleventh meeting of the first Board on 16 April 2007, the proposal for re-appointment of Deloitte Touche Tohmatsu and ShineWing Certified Public Accountants as international and PRC auditors of the Company respectively for the year ending 31 December 2007 was passed and approved to be put forward at the annual general meeting for consideration.

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

Beijing, the PRC  
16 April 2007

