
CONNECTED TRANSACTIONS

Exempted Connected Transactions

We entered into an agreement for the increase in registered capital (the “Agreement for Increase in Capital”) with the People’s Government of Luanchuan County, Henan Province (the “Luanchuan People’s Government”), predecessor of LMG and CFCH on August 31, 2004, pursuant to which the registered capital of the Company increased from RMB251,091,900 to RMB280,020,000 and CFCH acquired a 49% of the increased registered capital of the Company.

Under the Agreement for Increase in Capital, CFCH has agreed to indemnify us and the Luanchuan People’s Government for any breach of any provisions contained in the Agreement for Increase in Capital.

Under the same agreement, we and the Luanchuan People’s Government have jointly and severally agreed to indemnify CFCH for any claims against CFCH which arise from any breach by us and the Luanchuan People’s Government of any of the provisions contained in that agreement.

Non-Compete Agreements

We have entered into non-compete agreements (the “Non-Compete Agreements”) with LMG and CFC on September 6, 2006. LMG and CFC have agreed not to compete with us in our businesses and have granted us certain options and right of first refusal pursuant to the Non-Compete Agreements, details of which are set out in “Relationship with Controlling Shareholders — Competition — Non-Compete Agreements”.

No Other Connected Transactions

Apart from the Non-Compete Agreements, there are no other agreements entered into between any of the Controlling Shareholders and us which constitute connected transactions for the purposes of the Listing Rules.

Exemption

In respect of the Agreement for Increase in Capital, save as disclosed in this prospectus and save for the indemnities given by each party in favor of the other as provided in the Agreement for Increase in Capital, the rights and obligations of the parties in respect of the Agreement for Increase in Capital have been performed and there will be no further outstanding obligations under it after the Listing. Subject to the foregoing, there will be no reporting, announcement or independent Shareholders’ approval requirements related to connected transactions under the Listing Rules. In respect of the indemnities under the Agreement for Increase in Capital, any payment which in the future might be made by either party in the performance of its obligations after the Listing would not constitute a new transaction. Any such payment would merely be performance of a transaction which was entered into prior to the Listing.

The Non-Compete Agreements were entered into prior to, and solely for the purpose of, the Global Offering. Further, such transactions do not involve any monetary consideration. Accordingly, the transaction qualifies under Rule 14A.31(2) of the Listing Rules as a de minimis transaction exempt from the reporting, announcement and independent Shareholders’ approval requirements. In the view of our Directors (including our independent non-executive Directors), the terms of the Non-Compete Agreements are fair and reasonable as far as we are concerned and are in the interests of our Shareholders as a whole.

CONNECTED TRANSACTIONS

The exercise of the option to acquire the Competitive Business (CB) (the “Option to Acquire the CB”) granted under the Non-Compete Agreements (as referred to in the section headed “Relationship with Controlling Shareholders” below) after the Listing would constitute a connected transaction under the Listing Rules. In addition, the non-exercise of the Option to Acquire the CB will be treated as if the option were exercised and would constitute a connected transaction. We will comply with the relevant reporting, announcement and/or independent Shareholders’ approval requirements pursuant to the Listing Rules should the Option to Acquire the CB be exercised, should the Option to Acquire the CB lapse without being exercised or should we make a decision not to exercise the Option to Acquire the CB.

Confirmation from Directors

Our Directors currently do not expect that immediately following the Listing, there will be any transaction which constitutes continuing connected transactions of the Company under the Listing Rules. On the basis of the above and given that there are no connected transactions or agreements which would constitute connected transactions under the Listing Rules upon the Listing, no waiver application to exempt non-exempt continuing connected transactions (as defined in the Listing Rules) has been made.

We will comply with the relevant requirements under Chapter 14A of the Listing Rules should any connected transactions (as defined in the Listing Rules) occur on or after the Listing Date.