
RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

RELATIONSHIPS WITH CONTROLLING SHAREHOLDER

Mr. Ye Shi Qu is, through Tianda Holding, the ultimate controlling shareholder of the Company. The Company is capable of carrying on its business independently of, and does not place any reliance on, Mr. Ye or his Associates. The Company has obtained proper title to, and has exercised control over, its major operating assets and is therefore capable of operating its business as an independent entity. Although there have been historical related party transactions between the Company and Mr. Ye's Associates, these will mostly discontinue after the Listing Date. In respect of those continuing connected transactions after the Listing Date, all of them are exempted from reporting, announcement and independent shareholders' approval in light of the small amounts involved. The Directors therefore believe that the Company does not place undue reliance on Mr. Ye and his Associates in respect of those continuing connected transactions after the Listing Date. Consequently, the Directors also believe that the Company will be capable of carrying on its business independently of Mr. Ye and his Associates after the Listing Date.

Management independence

Prior to the re-establishment of the Company as a joint stock company, it was decided that a management team be dedicated primarily to the Company's business and the team would be independent from Tianda Holding. As such it is no longer necessary to have any joint operation with Tianda Holding in relation to any significant investment project assessment and management of utilities. The Company has also set up its own department for staff administration and determining directors' remuneration.

Financial independence

The Company has established an independent managerial structure, pursuant to which the approval for expenses is first verified and processed by the Company's own financial department and ultimately approved by Mr. Zhang Hu Ming who is the deputy chairman, executive director and general manager of the Company. Other than being one of the 47 shareholders and a director of Tianda Holding, Mr. Zhang has not taken up any operational functions in Tianda Holding. In addition, Ms. Huang Yao Qi is the full-time financial controller who is responsible for handling financial management tasks. Other than being one of the 47 shareholders of Tianda Holding, Ms. Huang has not taken up any operational functions in Tianda Holding. The premises from which the Company operates its business is separate from Tianda Holding and its fellow subsidiaries. Moreover, the Company has bank accounts under its own name and has managed all its assets (including cash assets) independently.

The Company is financially independent of Mr. Ye. There is no financial assistance, either in the form of advances or guarantees, from Mr. Ye. Tianda Holding previously provided various guarantees in support of the bank loans to the Company. The Directors and related banks have confirmed that the guarantees provided by Tianda Holding will be released upon the listing of the Company.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

Fiduciary duties of Directors

The executive Directors have obligations to the Company both under the GEM Listing Rules and PRC Law to act in the best interests of the Company and discharge their fiduciary duties accordingly. These fiduciary duties encompass those matters set out in GEM Listing Rule 5.01 and include:

- (i) act honestly and in good faith in the interests of the Company as a whole;
- (ii) act for proper purpose;
- (iii) be answerable to the Company for the application or misapplication of the Company's assets;
- (iv) disclose fully and fairly his interest in contracts with the Company;
- (v) avoid actual and potential conflicts of interest and duty; and
- (vi) apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the Company.

To avoid potential conflicts of interest and duty, Mr. Zhang Hu Ming and Mr. Xie Yong Yang resigned from their directorships with Tianda Holding on 13 November 2006.

Further, an audit committee consisting of the two independent non-executive Directors and one non-executive Director will review and monitor any connected transactions in light of the requirements under Chapter 20 of the GEM Listing Rules. The articles of association of the Company and the GEM Listing Rules also provide that any interested director should not take part in the determination of any matters in which he has a personal interest.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

Directors of Tianda Holding

The Board and the senior management of Tianda Holding comprise the following members:

Name	Position
葉世渠 Ye Shi-qu (“ Mr. Ye ”)	董事長，法定代表人 (<i>Chairman of the Board, Legal Representative</i>)
祁文輝 Qi Wen-hui (“ Mr. Qi ”)	董事，黨委書記 (<i>Director, Party Secretary</i>)
王本玲 Wang Ben-ling (“ Ms. Wang ”)	董事，副總經理，財務總監 (<i>Director, Vice General Manager, Financial Controller</i>)
殷之付 Yin Zhi-fu (“ Mr. Yin ”)	董事 (<i>Director</i>)
江干 Jiang Gan (“ Mr. Jiang ”)	董事，副總經理，總工程師 (<i>Director, Vice General Manager, Chief Engineer</i>)
吳宗勤 Wu Zong-qin (“ Mr. Wu ”)	董事，副總經理 (<i>Director, Vice General Manager</i>)
施思源 Shi Si-yuan (“ Mr. Shi ”)	董事 (<i>Director</i>)
雍金貴 Yong Jin-gui (“ Mr. Yong ”)	董事 (<i>Director</i>)

The daily operations and management of the Company is carried out by the executive Directors (who, as a result of resignations of Mr. Zhang and Mr. Xie as directors of Tianda Holding on 13 November 2006 mean that, upon the Listing Date, a majority of the executive Directors would not have directorships in Tianda Holding), its qualified accountant (who also has no position in Tianda Holding) and senior management of the Company. It is submitted, therefore, that in view of the fact that only one (and none after Mr. Ye’s resignation as a director of Tianda Holding within 6 months from the Listing Date) of the executive Directors also serves on the board of Tianda Holding, the Company’s daily operations can be carried out independently and in the interests of its shareholders as a whole.

**RELATIONSHIPS WITH THE CONTROLLING
SHAREHOLDER AND CONNECTED TRANSACTIONS**

CONTINUING CONNECTED TRANSACTIONS AFTER THE LISTING DATE

The Company has entered into the following agreements, which will continue to be effective after the H Shares are listed on the Stock Exchange and thus will constitute continuing connected transactions for the Company under the GEM Listing Rules. The table below gives a summary of these continuing connected transactions of the Company after its H Shares are listed on the Stock Exchange.

Summary of the Company's continuing connected transactions

Transaction	Applicable Listing Rule	Exemption/ Waiver sought	Applicable caps (if applicable)
1. Lease agreement with Tianda Holding	R20.33(3)	Exempted from the reporting, announcement and independent Shareholders' approval requirement	Not applicable
2. Water supply agreement with Tianda Holding	R20.33(3)	Exempted from the reporting, announcement and independent Shareholders' approval requirement	Not applicable
3. Framework agreement for the supply of pipe protection casing with Anhui Tianda (Group) Co., Ltd.	R20.33(3)	Exempted from the reporting, announcement and independent Shareholders' approval requirement	Not applicable
4. Framework agreement for the supply of packaging materials with Tianda Plastic Company	R20.33(3)	Exempted from the reporting, announcement and independent Shareholders' approval requirement	Not applicable
5. Framework agreement for the sales of goods to Tianda Holding	R20.33(3)	Exempted from the reporting, announcement and independent Shareholders' approval requirement	Not applicable

Even if all the connected transactions were to be aggregated together, it is expected that the applicable percentage ratio(s) would not have been, on an annual basis, more than 2.5% which would render the transactions subject to the independent shareholders' approval requirements under the GEM Listing Rules.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

The Directors (including the independent non-executive directors) have advised that they consider the above transactions were carried on in the Company's ordinary and usual course of business, and by reference to the market practice and the terms tendered by other independent third parties, as the case may be, the Company is of the view that all continuing connected transactions are conducted on normal commercial terms (or better), are fair and reasonable and in the interests of the Shareholders as a whole. The terms of all continuing connected transactions make references to the market practice and the terms tendered by other independent third parties. The Sponsor has reviewed the terms of the relevant continuing connected transactions and based on the information provided by the Company, is of the view that they will be carried out in the ordinary and usual course of business, on normal commercial terms (or better), are fair and reasonable and in the interests of Shareholders as a whole.

Details of the above connected transactions of the Company after the H Shares are listed on the Stock Exchange are set forth below.

Exempt Continuing Connected Transactions

Lease Agreement

On 17 November 2006, the Company entered into a lease agreement with Tianda Holding, pursuant to which Tianda Holding agreed to lease to the Company for an annual rent of RMB96,200 (equivalent to approximately HK\$95,248) premises with an area of approximately 1,930 sq.m. situated in Tianchang, Anhui province for staff quarters. The term of the lease agreement will expire on 31 December 2008. The Company has entered into this lease agreement because the relevant premises under the lease are close to its operations in Tianchang and therefore convenient for staff.

DTZ Debenham Tie Leung Limited has confirmed that the annual rent is at market rate and is fair and reasonable. The Directors including the independent non-executive Directors consider that the lease agreement is carried out in the ordinary and usual course of business, on normal commercial terms, are fair and reasonable and in the interests of the Shareholders of the Company as a whole. In respect of the annual rent payable by the Company to Tianda Holding during the term of the lease agreement, the applicable percentage ratio(s) will, on an annual basis, be less than 0.1%. Accordingly, the continuing connected transaction falls within the de minimis exemption under Rule 20.33(3) of the GEM Listing Rules and is therefore exempt from further reporting, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

Water Supply Agreement

Tianda Holding has been supplying water to the Company for cooling down the pipes during the production process during the two years ended 31 December 2005 and the six months ended 30 June 2006.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

On 17 November 2006, the Company entered into a water supply agreement with Tianda Holding, pursuant to which Tianda Holding agreed to supply water to the Company at a price of RMB2 per tonne (equivalent to approximately HK\$1.98 per tonne), being the current market rate. The Company has entered into this agreement because Tianda Holding has a better water supply infrastructure, including several water wells of its own.

The term of the water supply agreement will expire on 31 December 2008 and shall be capable of automatic renewal for another term of three years unless either party gives three months' termination notice prior to the expiry of the term.

The water supply agreement is entered into in the ordinary and usual course of business of the Company and is on normal commercial terms. The Directors including the independent non-executive Directors have confirmed that the terms were negotiated on an arm's length basis between the parties involved, are fair and reasonable and the transaction contemplated thereby are in the interest of the Company and the Shareholders as a whole.

The amounts incurred by the Company for the water supplied by Tianda Holding for the two years ended 31 December 2005 and the six months ended 30 June 2006 were approximately RMB512,838 (equivalent to approximately HK\$507,760), RMB838,022 (equivalent to approximately HK\$829,725) and RMB298,178 (equivalent to approximately HK\$295,226), respectively.

Based on the volume of water previously supplied to the Company, the Directors anticipate that the amount payable by the Company for the water to be supplied to the Company for each of the three years ending 31 December 2008 will be less than RMB912,000 (equivalent to approximately HK\$902,970). The applicable percentage ratio(s) will, on an annual basis, be less than 0.1%. Accordingly, the continuing connected transactions fall within the de minimis exemption under Rule 20.33(3) of the GEM Listing Rules and are therefore exempt from further reporting, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

Framework Agreement for Pipe Protection Casing with Anhui Tianda (Group) Co., Ltd.

Anhui Tianda (Group) Co., Ltd. ("Tianda Company Limited"), owned as to 95% by Tianda Holding, is a connected person of the Company by virtue of it being an associate of Tianda Holding.

Tianda Company Limited has been supplying plastic accessories for pipes such as small plastic caps for the end of pipes and some related plastic packaging during the two years ended 31 December 2005 and the six months ended 30 June 2006.

On 17 November 2006, the Company entered into a framework agreement for the supply of pipe protection casing with Tianda Company Limited, pursuant to which Tianda Company Limited will supply pipe protection casing to the Company. The quantity, quality, price and specification of the pipe protection casing will be agreed between the parties from time to time under specific transaction agreements.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

The price for the pipe protection casing supplied under the framework agreement shall be negotiated by the parties on an arm's length basis by reference to market price and if there is no market price, an agreed price comprising the cost incurred in supplying the pipe protection casing plus a reasonable profit of 5% to 10% acceptable to both parties. The term of the framework agreement will expire on 31 December 2008 and shall be capable of automatic renewal for another term of three years unless either party gives three months' termination notice prior to the expiry of the term.

The framework agreement is entered into in the ordinary and usual course of business of the Company and is on normal commercial terms. The Directors including the independent non-executive Directors have confirmed that the terms were negotiated on an arm's length basis between the parties involved, are fair and reasonable and the transactions contemplated thereby are in the interest of the Company and the Shareholders as a whole.

The amounts incurred by the Company for the pipe protection casing supplied by Tianda Company Limited for the two years ended 31 December 2005 and the six months ended 30 June 2006 were approximately RMB1,582,059 (equivalent to approximately HK\$1,566,395), RMB26,577 (equivalent to approximately HK\$26,314) and RMB1,945,859 (equivalent to approximately HK\$1,926,593), respectively. The amounts purchased fluctuated as a result of bulk purchases (so as to obtain a better price) at the end of 2004 (in anticipation of the increased production in 2005) and in the first six months of 2006 when stock was depleted.

Based on the volume of the pipe protection casing previously purchased by the Company, the Directors, having taken into account the market conditions, anticipate that the amounts payable by the Company for the pipe protection casing to be purchased by the Company for the three years ending 31 December 2008 will be less than RMB844,540 (equivalent to approximately HK\$836,178), RMB886,760 (equivalent to approximately HK\$877,980) and RMB931,000 (equivalent to approximately HK\$921,782), respectively. The applicable percentage ratio(s) will, on an annual basis, be less than 0.1%. Accordingly, the continuing connected transactions fall within the de minimis exemption under Rule 20.33(3) of the GEM Listing Rules and are therefore exempt from further reporting, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

Framework Agreement for the Supply of Packaging Materials with Tianda Plastic Company

Tianda Plastic Company, owned as to 90% by Tianda Holding, is a connected person of the Company by virtue of it being an associate of Tianda Holding.

Tianda Plastic Company has been supplying packaging materials to the Company during the year ended 31 December 2005 and the six months ended 30 June 2006.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

On 17 November 2006, the Company entered into a framework agreement for the supply of packaging materials with Tianda Plastic Company, pursuant to which Tianda Plastic Company will supply packaging materials to the Company. The quantity, quality, price and specification of the packaging materials will be agreed between the parties from time to time under specific transaction agreements.

The price for the packaging materials supplied under the framework agreement shall be negotiated by the parties on an arm's length basis by reference to market price and if there is no market price, an agreed price comprising the cost incurred in supplying packaging materials plus a reasonable profit of 5% to 10% acceptable to both parties. The term of the framework agreement will expire on 31 December 2008 and shall be capable of automatic renewal for another term of three years unless either party gives three months' termination notice prior to the expiry of the term.

The framework agreement is entered into in the ordinary and usual course of business of the Company and is on normal commercial terms. The Directors including the independent non-executive Directors have confirmed that the terms were negotiated on an arm's length basis between the parties involved, are fair and reasonable and the transactions contemplated thereby are in the interest of the Company and the Shareholders as a whole.

The amounts incurred by the Company for packaging materials supplied by Tianda Plastic Company for the year ended 31 December 2005 and the six months ended 30 June 2006 were approximately RMB6,800 (equivalent to approximately HK\$6,733) and RMB29,000 (equivalent to approximately HK\$28,713), respectively.

Based on the volume of packaging materials previously purchased by the Company, the Directors, having taken into account the market conditions, anticipate that the amounts payable by the Company for packaging materials to be purchased by the Company for the three years ending 31 December 2008 will be RMB120,000 (equivalent to approximately HK\$118,812), RMB126,000 (equivalent to approximately HK\$124,752) and RMB132,300 (equivalent to approximately HK\$130,990), respectively. The applicable percentage ratio(s) will, on an annual basis, be less than 0.1%. Accordingly, the continuing connected transactions fall within the de minimis exemption under Rule 20.33(3) of the GEM Listing Rules and are therefore exempt from further reporting, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

The Company entered into the above framework agreements with Tianda Company Limited and Tianda Plastic Company, respectively, rather than with independent third parties because they are both reputable companies in their respective manufacturing industry and the products produced by them are of fine quality with steady and reliable supply. Further these two companies are close to the Company which could save both the costs and time in transportation.

Framework Agreement for the Sales of Goods to Tianda Holding

The Company had been selling other specialized seamless pipes to Tianda Holding during the two years ended 31 December 2005 and six months ended 30 June 2006.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

On 17 November 2006, the Company entered into a framework agreement for future sales to Tianda Holding, if any. The quantity, quality, price and specification of the pipes will be agreed between the parties from time to time under specific transaction agreements.

The price for the pipes sold under the framework agreement shall be negotiated by the parties on an arm's length basis by reference to market price. The term of the framework agreement will expire on 31 December 2008 and shall be capable of automatic renewal for another term of three years unless either party gives three months' termination notice prior to the expiry of the term.

The framework agreement is entered into in the ordinary and usual course of business of the Company and is on normal commercial terms. The Directors including the independent non-executive Directors have confirmed that the terms were negotiated on an arm's length basis between the parties involved, are fair and reasonable and the transactions contemplated thereby are in the interest of the Company and the Shareholders as a whole.

The transactions amounted to an aggregate of RMB 4.2 million (1.26% of the Company's total turnover in 2004), RMB1.3 million (0.14% of the Company's total turnover in 2005) and RMB0.25 million (0.04% of the Company's total turnover for the six months ended 30 June 2006) for each of the two years ended 31 December 2005 and six months ended 30 June 2006, respectively. The amounts demonstrate a significantly declining trend.

Based on the volume of the pipes previously sold by the Company to Tianda Holding, the Directors, having taken into account the market conditions, anticipate that the amounts receivable by the Company for the pipes to be sold by the Company for the three years ending 31 December 2008 will be less than RMB 1 million each year. The applicable percentage ratio will, on an annual basis, be less than 0.1%. Accordingly, the continuing connected transactions fall within the de minimis exemption under Rule 20.33(3) of the GEM Listing Rules and are therefore exempt from further reporting, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

NON-COMPETITION AGREEMENT

Tianda Holding is a company whose principal business activities are to manage the business operations of its subsidiaries in industries other than the oil and gas industry. Tianda Investment is an investment holding company which is wholly-owned by Tianda Holding.

Each of the Directors, Initial Management Shareholders and substantial Shareholders has confirmed that he/it and his/its respective Associates is not currently engaged in any business which, either directly or indirectly, competes with the Company's business. According to the non-competition agreement signed by each of the Initial Management Shareholders with the Company dated 18 November 2006, each of the Initial Management Shareholders has undertaken unconditionally that during the period in which he/it remains as a shareholder of the Company and one year thereafter, inter alia:

- (i) he/it will not and will procure his/its associates and companies controlled by him/it or his/its associates not to invest or participate in any other business which may compete with the business that the Company is engaged or will be engaged in;

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

- (ii) he/it will not take advantage of his/its relationship with or position as a shareholder of the Company to engage or participate in any behaviour which may prejudice the interest of the Company and the Shareholders;
- (iii) in the event the Initial Management Shareholders were given any business opportunities that is or may involve in direct or indirect competition with the businesses of the Company, the Initial Management Shareholders shall assist the Company to obtain such business opportunities in the terms being offered to the Initial Management Shareholders, or more favourable terms or term being acceptable to the Company; and
- (iv) he/it undertakes to provide all information necessary for the annual review by the independent non-executive Directors in connection with the enforcement of the non-competition agreement or the monitoring of related disclosure from time to time;
- (v) he/it undertakes to procure the Company to disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the undertaking either through annual report or by way of announcements to the public; and
- (vi) he/it undertakes to make an annual declaration of compliance with the non-competition agreement and connected transactions in the annual report of the Company in accordance with the GEM Listing Rules.

It is also a term of the non-competition agreement that if there is a business opportunity made available to any of the Initial Management Shareholders or their respective associates about projects or business which is related to the business that the Company is engaged or will be engaged in, the relevant Initial Management Shareholder will notify the Company accordingly and facilitate the Company with progressing such business opportunity. If such offer is made to the Company, the independent non-executive Directors will be responsible for deciding, without attendance by any executive Director, whether or not to take up the offer referred to the Company. If the Company declines to take up such offer, the Initial Management Shareholders had undertaken not to proceed with such opportunity.

Independent non-executive Directors will review on an annual basis the compliance with the non-competition agreement by the Controlling Shareholders and Initial Management Shareholders on their future competing business.

Each of the executive and non-executive Directors has signed a service contract with the Company with a non-compete provision providing that during the employment period and 12 months after termination of the employment, he will not compete with the Company's business. The Directors are required to make an annual declaration on non-competition in the annual report of the Company.