

For the purpose of the listing of the H Shares on the Main Board, the Company has sought a number of waivers from the Stock Exchange in relation to certain requirements under the Listing Rules. Details of such waivers are categorised and described below:

(A) CONTINUING CONNECTED TRANSACTIONS

Non-exempt continuing connected transactions

The Group has entered into the following transactions (the “Transactions”) which are expected to continue subsequent to the listing of the H Shares on the Main Board. These Transactions, upon listing of the H Shares on the Main Board, will constitute non-exempt continuing connected transactions of the Company which are subject to the reporting, announcement and (if required) independent Shareholders’ approval requirements under Rules 14A of the Listing Rules:

- (a) on 7th February, 2006, the Group entered into a purchase agreement (the “Purchase Agreement”) with Tianye Holdings pursuant to which the Group agreed to purchase spare parts and used materials, including but not limited to diamond-shaped wheels and used drip films, from Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) from time to time for a term commencing from 1st January, 2006 to 31st December, 2008. The prices for the spare parts and used materials are agreed from time to time between the parties concerned and are set at the market prices at the relevant time. The terms offered to the Group under the Purchase Agreement are no less favourable than those offered by Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) to the other independent customers in the ordinary course of business;
- (b) on 7th February, 2006, the Group entered into a master purchase agreement (the “Master Purchase Agreement”) with Tianye Company pursuant to which the Group agreed to purchase raw materials, including but not limited to PVC resins, contracting films, internal films and stabilizers, from Tianye Company and/or its subsidiaries and/or its controlled corporations from time to time for a term commencing from 1st January, 2006 to 31st December, 2008. The price for the raw materials are agreed from time to time between the parties concerned and is set at the market price at the relevant time. The terms offered to the Group under the Master Purchase Agreement are no less favourable than those offered by Tianye Company and/or its subsidiaries and/or its controlled corporations to the other independent customers in the ordinary course of business;
- (c) on 7th February, 2006, the Group entered into a sales agreement (the “Sales Agreement”) with Tianye Holdings pursuant to which Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its controlled corporations) agreed to purchase products manufactured by the Group, including but not limited to drip films, PVC/PE pipelines and drip assemblies, from time to time for a term commencing from 1st January, 2006 to 31st December, 2008. The price for the products manufactured by the Group will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time. The terms of sales to be offered by the Group to Tianye Holdings and/or its subsidiaries (excluding Tianye Company and/or its subsidiaries and/or its

controlled corporations) under the Sales Agreement will be no more favourable than those offered by the Group to its other independent customers in the ordinary course of business;

- (d) on 7th February, 2006, the Group entered into a master sales agreement (the “Master Sales Agreement”) with Tianye Company pursuant to which Tianye Company and/or its subsidiaries and/or its controlled corporations agreed to purchase products manufactured by the Group, including but not limited to drip films, PVC/PE pipelines and drip assemblies, from time to time for a term commencing from 1st January, 2006 to 31st December, 2008. The price for the products manufactured by the Group will be agreed from time to time between the parties concerned by reference to the prevailing market price at the relevant time. The terms of sales to be offered by the Group to Tianye Company and/or its subsidiaries and/or its controlled corporations under the Master Sales Agreement will be no more favourable than those offered by the Group to its other independent customers in the ordinary course of business; and
- (e) the Group and Tianye Company entered into the following agreements dated 28th September, 2005, pursuant to which (i) the Company agreed to lease from Tianye Company (the “Lease”): (aa) the office premises located at 3rd Floor, No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號); and (bb) the factory premises located at No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號) and No. 94-22 Bei Yi Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北一路94-22號) respectively for a term commencing from 1st July, 2005 to 30th June, 2008; (ii) Tianye Installation agreed to lease from Tianye Company the office premises (the “Office Leasing Agreement 1”) located at 1st Floor of No. 36 Bei San Dong Road, Economic and Technological Development Zone, Shihezi, Xinjiang (新疆石河子經濟技術開發區北三東路36號第一層) for a term commencing from 1st July, 2005 to 30th June, 2008; and (iii) Tianye Recycling agreed to lease from Tianye Company the office premises (the “Office Leasing Agreement 2”) located at No. 94-2 Gong San Xiao Qu, Bei Yi Road, Shihezi, Xinjiang (新疆石河子北一路工三小區94-2辦公樓) for a term commencing from 1st July, 2005 to 30th June, 2008.

Note: The term “controlled corporations” of Tianye Company mentioned above under the paragraph headed “Non-exempt continuing connected transactions” refers to those corporations owned by Tianye Company as to 30% or more, but less than 50%, of their equity interests.

Details of the above Transactions are set out in the paragraphs headed “Connected transactions” under the section headed “Business” of this document.

The Directors, including the independent non-executive Directors, have confirmed that the Transactions are entered into on normal commercial terms and in the ordinary and usual course of business of the Group and the terms and conditions are fair and reasonable and in the interests of the Shareholders as a whole.

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The following table sets out the expected cap amounts for each of the two years ending 31st December, 2008 for the Transactions:

	Year ending 31st December,	
	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Expected cap amounts for:		
Purchase Agreement	9,760	9,760
Master Purchase Agreement	61,220	61,220
Sales Agreement	16,200	16,200
Master Sales Agreement	1,250	1,250
Lease, Office Leasing Agreement 1 and Office Leasing Agreement 2 (in aggregate)	1,464	732

The Directors, including independent non-executive Directors, and the Joint Sponsors are of the view that the relevant agreements and the relevant expected annual cap amounts are on normal commercial terms and fair and reasonable so far as the interests of the independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

Waiver from the Stock Exchange

As the expected aggregate cap amounts of each transaction contemplated under the Purchase Agreement and Master Purchase Agreement respectively for each of the two years ending 31st December, 2008 are higher than 2.5% of each of the percentage ratios (as defined in the Listing Rules) (other than the profits ratio) and higher than HK\$10,000,000, and therefore, the transactions under the Purchase Agreement and Master Purchase Agreement respectively constitute non-exempt continuing connected transactions under the Listing Rules which will be subject to the reporting, announcement and independent Shareholders' approval requirements under Rules 14A.45 to 14A.54 of the Listing Rules upon the listing of the H Shares on the Main Board.

As the expected aggregate cap amounts of each transaction contemplated under the Sales Agreement and Master Sales Agreement is more than 0.1% but less than 2.5% for each of the percentage ratios (other than the profits ratio), the transactions under the Sales Agreement and the Master Sales Agreement constitute continuing connected transaction for the Company under Rule 14A.34 of the Listing Rules and are subject to the reporting and announcement requirements set out in Rule 14A.35(3) of the Listing Rules following the listing of the H Shares on the Main Board.

As the expected aggregate cap amounts under the Lease, Office Leasing Agreement 1 and Office Leasing Agreement 2 for the year ending 31st December, 2007 is more than 0.1% but less than 2.5% for each percentage ratios (other than the profit ratio), the transactions under the Lease, Office Leasing Agreement 1 and Office Leasing Agreement 2 constitute continuing connected transaction for the Company under Rule 14A.34 of the Listing Rules and are subject to the reporting and announcement requirements set out in Rule 14A.35(3) of the Listing Rules following the Listing of H Shares on the Main Board. The expected aggregate cap amounts under the Lease, Office Leasing Agreement 1 and Office Leasing Agreement 2 for the year ending 31st December, 2008 is more than 0.1% but less than 2.5% for each percentage ratios

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(other than the profit ratio) and annual consideration is less than HK\$1,000,000, and therefore, these transactions will be exempt from the reporting, announcement and independent shareholder's approval requirements set out under Rules 14A.45 to 14A.54 of the Listing Rules upon the Listing of H Shares on the Main Board.

Unless specific waivers have been granted by the Stock Exchange, the above Transactions will be subject to the reporting, announcement and (if required) independent Shareholders' approval requirements set out in Rules 14A.17, 14A.45 to 14A.54 of the Listing Rules. As the Transactions are entered into in the ordinary and usual course of business of the Group and are performed on a continuing basis, the Directors consider strict compliance with Rules 14A.47 and 14A.48 of the Listing Rules would be impractical, unduly burdensome and, in particular, would increase unnecessary administrative cost to the Company to make disclosure or (if required) seek independent Shareholders' approval each time that any such transactions occur. The Directors, including the independent non-executive Directors, are of the view that such Transactions have been entered into in the ordinary and usual course of business of the Group and on normal commercial terms for transactions of a similar nature, and are fair and reasonable and in the interests of the Shareholders as a whole. The Joint Sponsors concur with the Directors that the Transactions are in the ordinary and usual course of business of the Group and on normal commercial terms for transactions of a similar nature, and are fair and reasonable so far as the interests of the Shareholders taken as a whole are concerned. The Joint Sponsors are also of the opinion that the proposed annual caps are fair and reasonable so far as the Company and the Shareholders taken as a whole are concerned.

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement and (if required) independent Shareholders' approval requirements relating to the Transactions under Chapter 14A of the Listing Rules.

In the event that the Group enters into any new transactions or agreements with any connected person in the future, the Company will comply with the provisions of Chapter 14A of the Listing Rules. In addition, if any of the Transactions shall continue after the expiry of the current waiver and/or the aggregate annual sales amounts for the Sales Agreement and the Master Sales Agreement is more than 2.5% for each of the percentage ratios (other than the profits ratio) for the two years ending 31st December, 2008 and/or if the transaction amount for any of the Transactions shall exceed the expected cap amounts for each of the Transactions for the two years ending 31st December, 2008, the Company will comply with the provisions of Chapter 14A of the Listing Rules.

(B) WAIVER FROM STRICT COMPLIANCE OF RULES 8.12 AND 19A.15 OF THE LISTING RULES

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, the Company must have a sufficient management present in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. As the principal business operations and manufacturing facilities of the Group are primarily located in the PRC, the senior members of the Group are therefore based in China. As at the Latest Practicable Date, Mr. Wong Hon Kei Anthony, the company secretary and qualified accountant of the Company, is an ordinary resident in Hong Kong and none of the executive Directors are Hong Kong residents and are based in Hong Kong. The Directors believe that it would be practically difficult and commercially infeasible for the Company

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to appoint two Hong Kong residents as executive Directors or to relocate the Company's executive Directors who are resident in China to Hong Kong merely for the purpose of complying with Rules 8.12 and 19A.15 of the Listing Rules.

The Company has received from the Stock Exchange a waiver from compliance with Rules 8.12 and 19A.15 of the Listing Rules subject to the following conditions:

- (1) the Company will appoint Mr. Shi Xiang Shen, an executive Director and Mr. Wong Hon Kei Anthony, the qualifying accountant and the company secretary, as the authorized representatives for the purpose of Rule 3.05 of the Listing Rules. Mr. Wong Hon Kei Anthony is an ordinary resident in Hong Kong;
- (2) each of the authorized representatives will be available to meet with the Stock Exchange at reasonable notice and will be readily contactable by mobile or residential telephone, facsimile or email. Each of the authorized representatives has been duly authorized to communicate on behalf of the Company with the Stock Exchange;
- (3) in compliance with Rule 3A.19 of the Listing Rules, the Company has retained a compliance adviser for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules to provide advice on our obligations in compliance with the Listing Rules, all other applicable laws, codes and guidelines;
- (4) both authorized representatives have means to contact all members of the board of Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters. The Company will implement a policy whereby (a) all Directors (both executive and independent non-executive Directors) will provide his or her respective mobile phone number, residential phone number, fax number and email address to the authorized representatives; (b) all Directors (both executive and independent non-executive Directors) will provide valid phone numbers or means of communication to the authorized representatives when he or she travels; and (c) all Directors (both executive and independent non-executive Directors) will provide his or her mobile phone number, residential phone number, office phone number, fax number and email address to the Stock Exchange; and
- (5) all executive Directors and three of four independent non-executive Directors (including Mr. Mak King Sau) who are not ordinary residents in Hong Kong have confirmed that either they possess or will be able to apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time, when required. Mr. Mak King Sau, 麥敬修, will be appointed as an independent non-executive Director in the forthcoming Extraordinary General Meeting held on 15th October, 2007, who is ordinarily residing in Hong Kong.