

CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, THCL owned 70% of the issued share capital of the Company. Immediately following the completion of the Global Offering, Mr. Zhu and Madam Yu will, through their shareholding in THCL, together own 52.5% of the issued share capital of the Company (assuming that the Over-allotment Option is not exercised) or approximately 50.06% of the issued share capital of the Company (assuming that the Over-allotment Option is exercised in full).

Mr. Zhu, being the controlling shareholder, will in effect be able to control the management, policies and business of the Company subject to the Memorandum and Articles of Association and applicable laws and regulations. He will be able to exercise significant influence over the composition of the Board, the selection of the senior management, the timing and amount of the dividend payments, the annual budget, the share capital, new securities issuance and important corporate transactions.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

To prepare for the investment by the AIG Parties and the listing, part of the Reorganisation was effected such that the entire registered capital of TG Tools, together with 75% of the registered capital of Tianfa Forging, was transferred from TG Group, which is controlled by the Controlling Shareholders, to the Group.

Subsequent to the investment by the AIG Parties, the Group acquired 75% interests in TG Aihe and 75% interests in Tianji Packaging from TG Group and acquired the remaining registered capital of TG Aihe and Tianji Packaging from the joint venture partners. Upon completion of the acquisitions, TG Aihe and Tianji Packaging became indirect wholly subsidiaries of the Company. For details, please refer to the section headed “History and Development” in this prospectus for details.

Elimination of possible business which may compete with that of the Group

Subsequent to 31 March 2007, the date of the latest audited financial statements of the Group, in order to reduce costs and streamline the respective businesses of TG Group and the Group, TG Group closed down its machinery making factory on 20 June 2007 upon completion of (a) the acquisition by TG Aihe of machineries suitable repairing and maintenance machinery at a consideration of RMB2.6 million, which was arrived at with reference to an independent valuation and (b) the disposal by TG Group to independent third parties in respect of other fixed assets of the machinery making factory.

The machinery making factory was part of TG Tools in December 2005 which manufactured machinery for making simple tools and provided machineries maintenance services and its operating results had already been reflected in the results of the Group before its disposal. In order to consolidate the tools making manufacturing process of TG Tools in December 2005, the fixed assets of the factory was disposed of to TG Group with reference to a valuation, at a consideration of RMB4.7 million. Since the disposal in December 2005, the factory had been run by a separate management team with 105 employees, which number was reduced to 5 on or about 31 March 2007 and such employees were dismissed subsequent to the closing down of the factory.

Although the Group has begun to source more powerful machinery from other suppliers, maintenance services was required to maintain the then subsisting machineries. In 2006, TG

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Group provided maintenance services (including replacement parts and components) to TG Tools for an aggregate amount of approximately RMB15.6 million of which more than 95% represents the costs of replacement parts and components. In order to enhance administrative efficiency and streamline its own operation, TG Tools has established its own maintenance team. As such, there have been no provision of maintenance services or purchase of tools making machineries by the Group since the first quarter of 2007.

With the closing down of the factory, the Directors are of the view that neither the Controlling Shareholders nor any Directors are having an interest in a business apart from the applicant's business which competes or is likely to compete, either directly or indirectly, with the Company business.

No Reliance on the Controlling Shareholder

As set out in the section headed "Continuing Connection Transactions" in this prospectus, the lease and the amenity facilities provision arrangement are the only transactions which will continue between members of the Group and TG Group. TG Group is an investment holding company owned by Mr. Zhu and Madam Yu, the Controlling Shareholders of the Company, as to approximately 89.02% and 10.98%, respectively. TG Group's principal investment interests include property interests in Qianxiang Village, for example, the building in which the headquarter of the Group locates and the amenity facilities where employees of the Group are granted access. As the premises under the lease is just an ordinary office and the amenity facilities services are available at nearby localities, the Company does not consider that the renting of such premises represent a reliance on TG Group by the Group in its continuous operation. For details of the lease and the amenity facilities provision agreement, please refer to the section headed "Continuing Connected Transactions" in this prospectus.

Both TG Group and Mr. Zhu have no current intention to inject into the Group the property and the amenity facilities held by TG Group. In the event of any future transactions to be entered into between the Group and the Controlling Shareholders, Mr. Zhu, being the interested Director will have to abstain from voting at the relevant physical meeting for considering the transaction and he will not be counted in the quorum and the independent non-executive Directors will review and consider the transaction and its terms.

NON-COMPETITION DEED

Pursuant to a non-competition deed dated 12 July 2007 between the Company, THCL, Mr. Zhu and Madam Yu, each of THCL, Mr. Zhu and Madam Yu has given certain non-competition undertakings to the Company (for itself and for the benefit of the members of the Group) to the effect that it/he/she shall not, and it/he/she shall use its/his/her best endeavours to procure that its/his/her associates not to, directly or indirectly, whether on its/his/her own or through any entities be interested or engaged or otherwise be involved, whether for profit, reward or otherwise, in any business which is involved in any activity conducted globally (the "Restricted Activity") which is in competition with, or is likely to be in competition with the business carried on by any member of the Group from time to time (the "Business") during the term of the non-competition deed, provided that there shall be no restriction on it/him/her and/or its/his/her associates holding or being interested in shares or other securities in any company which conducts or is engaged in any Restricted Activity (the "Subject Company") provided that such shares or securities are listed on a stock exchange and:

- (a) the aggregate number of shares held by it/him/her and/or its/his/her associates or in which it/he/she is interested do not amount to more than 5% of the issued shares of

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the Subject Company, provided that (i) at all times there is a holder of such shares holding (together where appropriate, with its associates) a larger percentage of the shares in question than the aggregate shareholding of it/him/her and/or it/his/her associates; and (ii) that the aggregate number of his representatives on the board of directors of the Subject Company are not significantly disproportionate to the percentage of its/his/her shareholdings in the Subject Company; and

- (b) the aggregate number of shares held by it/him/her and/or its/his/her associates together with other persons who are acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers) shall not exceed 30% (or such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the issued shares of the Subject Company.

Each of THCL, Mr. Zhu and Madam Yu has undertaken that:

- (a) it/he/she shall not appoint directly or indirectly any executive director in the Subject Company; and
- (b) should it/he/she and/or its/his/her associates receive enquiries and actual or potential business opportunities in relation to the Restricted Activity, it/he/she shall refer such enquiries or opportunities to the Group on a timely basis but in any event no later than two weeks from the date of receipt of such enquiry or knowledge of such business opportunities and he/she shall provide, and shall use its/his/her best endeavour to procure each of its/his/her associates shall provide, sufficient information relating to such business opportunities to enable the Board (in particular independent non-executive Directors) or the board of directors of the relevant member of the Group to reach an informed view and assessment on such enquiries or opportunities.

The undertaking as set out in paragraph (a) above is intended to avoid conflicts of interest of each of THCL (being the controlling shareholder), Mr. Zhu (being an executive Director and the ultimate controlling shareholder) and Madam Yu (being one of the indirect shareholders) with the Group and to avoid any possible detriment that may be done to the Group as each of Mr. Zhu and Madam Yu will be restricted from participating in the management of the business of a Subject Company, being a competitor of the Group, through the appointment of executive director in such company.

Each of THCL, Mr. Zhu and Madam Yu has further undertaken that:

- (a) it/he/she shall not, and it/he/she shall use its/his/her best endeavours to procure that its/his/her associates do not and shall not, directly or indirectly, and whether on its/his/her own or through any entities, engage in the Business or be associated with any person, firm, company or other organisation engaged in the Business; and
- (b) save and except TG Group, it/he/she shall not, and it/he/she shall use its/his/her best endeavours to procure that its/his/her associates do not and shall not, give consent to or approve any person, firm, company or other organisation engaged in the Business using the name “Tiangong”.

Save for their interests in TG Group and 奧克有限公司, THCL, Mr. Zhu and Madam Yu confirmed that they are not holding any interests in any other companies.

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In order to ensure good corporate governance practice and to provide transparency, each of THCL, Mr. Zhu and Madam Yu has undertaken to the Company that for so long as they remain as the Controlling Shareholders of the Company, it / he / she shall:-

- (a) provide all information necessary for the annual review by the independent non-executive Directors of the Company and the compliance of the non-competition deed, which include the audited accounts of TG Group and contracts specified by the Group; and
- (b) make an annual declaration on compliance with the non-competition deed.

The independent non-executive Directors of the Company will review, at least on an annual basis, the compliance with the non-competition deed by the Controlling Shareholders, including matters in respect of the options, pre-emptive rights or first right of refusals provided by THCL, Mr. Zhu and Madam Yu on the existing or future competing business. The Company would disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance of the deed (e.g. the exercise of options or first rights of refusals) either through the annual report, or by way of announcements to the public.

THCL, Mr. Zhu and Madam Yu would make an annual declaration on compliance with the non-competition deed in the annual report of the Company. Any disclosure on how the non-competition deed has been complied with would be consistent with the principles of making voluntary disclosure in the corporate governance report.

The non-competition undertakings, however, shall apply in respect of TG Group in the event that any member of the Group engages in the line of business which is the same as that carried on by TG Group.

In the event of breach of any terms of the deed by any of THCL, Mr. Zhu or Madam Yu, the Company will enforce the rights pursuant to the deed accordingly.

The undertakings mentioned above are conditional upon the completion of the Global Offering. The undertakings will terminate on the earlier of the date on which:

- (a) each of THCL, Mr. Zhu and Madam Yu and/or its/his/her associates shall cease to hold in aggregate 30% or more of the entire issued share capital of the Company or otherwise cease to be a controlling shareholder of the Company and for Mr. Zhu only, his appointment as the Chairman and an executive Director of the Company shall expire or be terminated; or
- (b) the Shares shall cease to be listed and traded on the Stock Exchange (except for temporary suspension of trading of the Shares on the Stock Exchange due to any reason).