

CONNECTED TRANSACTIONS

Connected Transactions

Following the Listing, we will continue to have certain transactions which will constitute continuing connected transactions of the Company under the Listing Rules. Below is a summary of each of these transactions.

Continuing Connected Transaction Exempt from Reporting, Announcement and Independent Shareholders' Approval Requirements

(1) Technology License Agreement

On October 17, 2007, in consideration of the transfer by Ally Giant to Nabors International of 18% of the issued and outstanding share capital in the Company on a fully diluted basis, exclusive of any options granted or shares issued pursuant to the approved share option scheme or to be issued pursuant to the Listing, the Company and Nabors Global entered into the Technology License Agreement. No consideration for the rights granted by Nabors Global to the Company was payable or paid by the Company to Nabors Global under the Technology License Agreement.

Pursuant to the Technology License Agreement, Nabors Global granted to the Company a personal, indivisible, non-transferable, non-exclusive, royalty-free license to use whatever rights of Nabors Global in the technology that Nabors Global has or has the right to use for our Group's own internal purposes in manufacturing and producing equipment for sale to our customers.

The Technology License Agreement remains effective and valid until it is terminated by either the Company or Nabors Global when the other party (i) neglects or fails to perform or observe any of the material provisions of the Technology License Agreement, or commits any material breach of its obligations thereunder and (ii) is not able to cure the breach within 30 calendar days following receipt of written notice.

(2) Tenancy Agreements

Hongtai Company was established in the PRC with limited liability, on June 21, 2002, and is owned as to 73.125% by the spouses of the Concert Group, and the details of which are as follows:

<u>Shareholder</u>	<u>Percentage ownership</u>	<u>Relationship with the Concert Group</u>
Yi Langlin (易琅琳)	11.250%	the spouse of Zhang Mi (張弭)
Qu Xiaonan (曲曉楠)	10.000%	the spouse of Fan Bing (范兵)
Xu Guomei (胥國梅)	10.000%	the spouse of Zhang Yanyong (張彥永)
Liu Fang (劉芳)	9.375%	the spouse of Zhou Bing (周兵)
Liu Hong (劉鴻)	9.375%	the spouse of Zhang Xu (張旭)
Yuan Da (袁達)	9.375%	the spouse of Ren Jie (任杰)
Xiong Hengcui (熊恒翠)	6.250%	the spouse of Zuo Huixian (左輝先)
Fang Li (方麗)	3.750%	the spouse of Wang Jiangyang (王江陽)
Qu Yihong (曲一紅)	3.750%	the spouse of Liu Xuétian (劉學田) (deceased)

Pursuant to Rule 14A.11(4) of the Listing Rules, the above shareholders are considered to be connected persons of our Company. As the above shareholders, collectively, hold a 73.125% equity interest in Hongtai Company, Hongtai Company is a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

Other shareholders of Hongtai Company include Li Lihua (a 7.5% shareholder and the spouse of Zhao Ping; Zhao Ping is the settlor of a discretionary trust, The ZPL Family Trust, whose trustee indirectly holds a 13.43% shareholding in Beauty Clear through Airtech Investments Limited), Li Xiaoli (a 3.125% shareholder and the spouse of Ma Limin; Ma Limin holds a 4.73% shareholding in Beauty Clear) and Du Zexia (a 3.125% shareholder and the spouse of Di Xiaohong; Di Xiaohong is a 8.74% shareholder of Benefit Way).

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Honghua Company as tenant entered into three Tenancy Agreements (房屋租賃合同) with Hongtai Company as landlord whereby Honghua Company agreed to lease various properties for office purposes from Hongtai Company. Details of the three Tenancy Agreements are as follows:-

Date of Tenancy Agreement	Property	Term	Annual Rental
April 28, 2007	1/F & 2/F, Block A, Hongtai Commercial Building, No. 1 Guangdong Road Dong Yi Duan, Guanghan City, Sichuan Province, PRC	May 1, 2007 to April 30, 2008	RMB6,000, exclusive of water, electricity and town gas charges
December 8, 2007	1/F., & 2/F., Block B, Hongtai Commercial Building, No. 1 Guangdong Road Dong Yi Duan, Guanghan City, Sichuan Province, PRC	December 1, 2007 to November 30, 2008	RMB192,000, exclusive of water, electricity and town gas charges
December 8, 2007	1/F & 2/F., Block C, Hongtai Commercial Building, No. 1 Guangdong Road Dong Yi Duan, Guanghan City, Sichuan Province, PRC	January 1, 2008 to December 31, 2008	RMB91,200, exclusive of water, electricity and town gas charges

The aggregate annual rental payable by Honghua Company under the three Tenancy Agreements shall be RMB289,200. The valuer, Sallmanns (Far East) Limited, confirms that the annual rental reflects the market rates of comparable properties.

In relation to each of the continuing connected transactions described under paragraphs (1) and (2) above, each of the percentage ratios, where applicable, calculated by reference to Rule 14.07 of the Listing Rules, is expected on an annual basis to be (i) less than 0.1% or (ii) equal to or more than 0.1% but less than 2.5% and the annual consideration is less than HK\$1,000,000. Accordingly, these transactions are qualified under Rule 14A.33(3) of the Listing Rules as de minimis transactions that are exempt from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

Continuing Connected Transactions which are Subject to the Reporting, Announcement and Independent Shareholders' Approval Requirements

(3) Purchases of paint, tools, welding materials and worker-protection items from Hongtai Company

Hongtai Company is principally engaged in the sale of paint, ironware and welding materials. Hongtai Company mainly supplies paint, tools, welding materials and worker-protection items to our Group.

For each of the three years ended December 31, 2006, and the eight months ended August 31, 2007, the total purchases made by our Group from Hongtai Company amounted to approximately RMB6,395,000, RMB11,983,000, RMB34,393,000 and RMB27,698,000, respectively, which represented approximately 1.45%, 3.05%, 2.21% and 2.72% of the total cost of sale of our Group in the respective periods.

Our Group intends to continue to purchase paint, tools, welding materials and worker-protection items from Hongtai Company following the Listing. Accordingly, Honghua Company entered into a purchase framework agreement dated February 15, 2008 with Hongtai Company, for a term commencing from January 1, 2007 to December 31, 2009. The purchase framework agreement provides a framework for the purchase of paint, tools, welding materials and worker-protection items from Hongtai Company. The parties confirmed that the aggregate annual purchases until December 31, 2007 did not exceed RMB50,000,000 and the Directors expect

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that the aggregate annual purchases for each of the two years ended December 31, 2008 and 2009 will reach RMB30,000,000 and RMB30,000,000 respectively. These annual purchases amounts are estimated based on historical transaction value, expected growth in revenue and expected increase in demand for the products by our Group. The estimated annual purchase amounts for the years ended December 31, 2008 and 2009 reflect that we intend to purchase paint directly from the manufacturers, beginning in 2008.

- (4) Sale of rigs, mud pumps, mud pump sets, parts and components and provision of after-sales services to Nabors Group

Nabors Group is a group of companies comprising Nabors Industries and its subsidiaries. Nabors Group, through, Nabors International, holds approximately 13.5% equity interest in our Company and hence a connected person of our Company under the Listing Rules.

Nabors Group is the largest land drilling contractor in the world and conducts the business of oil, gas and geothermal land drilling operations and other ancillary services.

For the year ended December 31, 2004, the Group did not enter into any sales transaction with nor render any after-sales services to Nabors Group. For each of the two years ended December 31, 2005 and 2006 and the eight months ended August 31, 2007, the total income received by the Group from Nabors Group in respect of sales and provision of after-sales services amounted to approximately RMB89,608,000, RMB1,493,950,000 and RMB490,500,000 respectively, which represented approximately 17.87%, 63.95% and 32.30% of the total revenue of our Group in the respective periods.

Although the Group and Nabors Group have not reached a definitive legally binding master agreement or agreement of a similar nature as at the Latest Practicable Date, Nabors Group placed various purchase orders for rigs, mud pumps, mud pump sets, parts and components and requested after-sales services from the Group before January 31, 2008 (the "Purchase Orders"). The total income received by the Group from Nabors Group in 2007 under the Purchase Orders was approximately RMB530,923,000 and the total income anticipated to be received by the Group from Nabors Group in 2008 under the Purchase Orders will amount to an aggregate of approximately US\$908,300 (which is approximately equivalent to RMB6,578,200). As at the Latest Practicable Date, the Company has not applied for waivers under the Listing Rules in respect of any future sales or after-sales services it may enter into with Nabors Group. However, if and when this becomes necessary, the Company will apply for the appropriate waiver at that stage.

Although it was agreed between the Company and Nabors Industries under the Strategic Cooperation Agreement that a significant portion of Nabors Group's future demand for drilling rigs, drilling equipment, and spare parts will be fulfilled by our Group on attractive terms and Nabors Group will enjoy our Group's favourable prices for rig manufacture, after-sales services, and technical support, the Strategic Cooperation Agreement is only an agreement setting out the parties' business relationship or arrangements in principle. In any event, it was agreed by the parties to the Strategic Cooperation Agreement that the pricing and other terms between the Group and Nabors Group must meet the requirements of the Stock Exchange and/or other applicable rules and regulations.

- (5) Purchase of a top drive drilling system from Nabors Group

For the two years ended December 31, 2005, the Group did not make any purchases from Nabors Group. For the year ended December 31, 2006 and the eight months ended August 31, 2007, the total purchases made by the Group from Nabors Group amounted to approximately RMB98,405,000 and RMB142,410 respectively, which represented approximately 6.32% and 0.14% of the total cost of sales of our Group in the respective periods.

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Although our Group and Nabors Group have not reached a definitive legally binding master agreement or agreement of a similar nature as at the Latest Practicable Date, the Group entered into a purchase contract dated January 8, 2008 with Nabors Group in respect of the purchase of a top drive drilling system from Nabors Group. The purchase price of the top drive drilling system under the purchase contract is approximately US\$1,739,700 (which is approximately equivalent to RMB12,599,600). As at the Latest Practicable Date, the Company has not applied for waivers under the Listing Rules in respect of any future purchase transactions it may enter into with Nabors Group. However, if and when this becomes necessary, the Company will apply for the appropriate waiver at that stage.

Non-exempt Continuing Connected Transactions under the Listing Rules—Application for Waivers

In relation to the purchase framework agreement dated February 15, 2008 in paragraph (3) above, the Purchase Orders set out in paragraph (4) above, and the purchase contract dated January 8, 2008 in paragraph (5) above, the Directors expect that the consideration ratio, being the only applicable percentage ratio mentioned in Rule 14.07 of the Listing Rules, would on an annual basis exceed 2.5% and the annual consideration would be more than HK\$10,000,000. Therefore, the arrangements under paragraphs (3) through (5) above constitute non-exempt continuing connected transactions under the Listing Rules and will be subject to the reporting, announcement and independent shareholders' approval requirements under Rules 14A.35(3) and (4) of the Listing Rules.

Given their recurring nature and that the arrangements under paragraphs (3) through (5) above have been or will be entered into prior to the Listing Date, our Directors consider that disclosure and approval of the transactions mentioned therein, in full compliance with the Listing Rules, would be impractical and onerous for the Company.

Accordingly, our Company has applied to the Stock Exchange for waivers from strict compliance with the announcement and independent shareholders' approval requirements, under Rule 14A.42(3) of the Listing Rules, for the non-exempt continuing connected transactions mentioned in paragraphs (3) through (5), on the following conditions:

- (a) our Company will comply with Rules 14A.35(1) and (2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules, concerning each of the non-exempt continuing connected transactions;
- (b) the aggregate value of the non-exempt continuing connected transactions for the relevant period will not exceed the amounts stated above; and
- (c) our Company will comply with Rules 14A.35(3) and (4) of the Listing Rules if any of the amounts described above is exceeded, or when the relevant agreement is renewed, or when there is a material change to the terms of the relevant agreement.

Our Directors (including our Independent Non-executive Directors) confirm that the non-exempt continuing connected transactions are entered into in the ordinary course of the business of our Group, and are based on arm's length negotiations and on normal commercial terms that are fair and reasonable and in the best interests of the Shareholders as a whole. Our directors also believe that each of the proposed amounts described above are fair and reasonable.

Based on the above, the Joint Sponsors are of the view that: (i) the terms of the connected transactions set forth above, for which waivers from strict compliance with the Listing Rules are required from the Stock Exchange, are in the ordinary and usual course of the Company's business, on normal commercial terms, are fair and reasonable and in the interests of the Company's Shareholders as a whole; and (ii) that the proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable.