

CONNECTED TRANSACTIONS

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Upon Listing, the transactions described below will constitute continuing connected transactions (as such term is defined under the Listing Rules) for our Company.

Relationship between our Group and the connected persons

Mr. Chen is an executive Director and is therefore a Connected Person of our Company under the Listing Rules.

GZFLD and GZMT are both ultimately, wholly and beneficially owned by Mr. Chen. Both GZFLD and GZMT are associates of Mr. Chen and are therefore also Connected Persons of our Company.

Under the Listing Rules, for so long as GZFLD and GZMT remain as Connected Persons of our Company, the following transactions of our Group with GZFLD and GZMT respectively would constitute connected transactions upon Listing.

As disclosed in the section headed “Relationship with Controlling Shareholders” in this prospectus, our Group had alternative suppliers for the Spare Parts other than GZFLD and GZMT during the Track Record Period, and it is expected that our Group can continue to secure supplies from such alternative suppliers after the Listing as and when the Board considers necessary.

Continuing connected transactions subject to the reporting and announcement requirements

Nature of the transactions and historical figures

PCKSP purchased spare parts (the “**Spare Parts**”) of the machines used for the manufacturing and processing of steel pipes (i.e. the principal business of our Group) from GZFLD and GZMT during the Track Record Period. Such Spare Parts were and will be used by our Group for repair and maintenance of machines and as components for (i) the maintenance of machines and/or production lines and (ii) the installation of new production lines and new production facilities, both for the manufacturing of steel pipes and processing of steel plates. Some of the Spare Parts are general accessory items and some of them are required to be tailor-made, thus ancillary processing work on the Spare Parts is required. The design of the Spare Parts is provided by PCKSP. The Spare Parts purchased from GZFLD include structural fittings such as screws, protectors to machines, handles and steel frames, while those purchased from GZMT include moulding and axles to the machinery. For each of the three years ended 31 December 2008 and the eight months ended 31 August 2009, the purchases of the Spare Parts by PCKSP from GZFLD amounted to approximately RMB4.5 million, RMB4.0 million, RMB4.9 million and RMB2.2 million, respectively (equivalent to approximately HK\$5.1 million, HK\$4.6 million, HK\$5.6 million and HK\$2.5 million, respectively), while the purchases of the Spare Parts by PCKSP from GZMT amounted to approximately RMB0.9 million, RMB9.1 million, RMB10.2 million and RMB7.5 million, respectively (equivalent to approximately HK\$1.0 million, HK\$10.4 million, HK\$11.6 million and HK\$8.6 million, respectively). The sharp increase of the amount of purchases of the Spare Parts from GZMT by PCKSP from the year ended 31 December 2006 to the year ended 31 December 2007 was due to the installation of a new JCOE production line by PCKSP in Zhangjiagang, Jiangsu Province, the PRC during the year ended 31 December 2007 (the installation of which was completed in around March 2008 and the production line was then operated by GPR Steel Pipe (Zhangjiagang branch)), which accordingly led to a substantial increase in the purchase of the Spare Parts.

Principal terms of the transactions

During the Track Record Period, no written master agreement was entered into between our Group and GZFLD or between our Group and GZMT for the purchase of the Spare Parts. The purchase prices were agreed by PCKSP with GZFLD and GZMT respectively with reference to, among others, the terms offered to PCKSP by Independent Third Parties and at the prevailing market prices of the Spare Parts. Such agreed purchase prices with GZFLD and GZMT were generally no less favourable than the then prevailing market prices of the relevant Spare Parts. Our Directors confirm that the historical transactions were conducted on an

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arm's length basis and were no less favourable than the then prevailing market prices. Further, in light of the considerably long history of purchasing the Spare Parts from GZFLD and GZMT, our Directors consider that PCKSP could continue to benefit from the above transactions for a reliable source of supply in view of the capability of GZFLD and GZMT in providing the Spare Parts with the required technical and quality requirements that suite the Group's needs and for the sake of keeping confidentiality of the design for the Spare Parts as provided by PCKSP.

By entering into the master purchase agreement with GZFLD (the "**GZFLD Master Agreement**") and the master purchase agreement with GZMT (the "**GZMT Master Agreement**"), our Group has agreed to purchase the Spare Parts from GZFLD and GZMT at prices and on terms to be determined from time to time by our Group respectively with GZFLD and GZMT, which in any event shall be no less favourable than the prevailing market prices of the Spare Parts and on such other customary terms of sale and purchase applicable from time to time which include, among others, procedures to place purchase orders, quality of the Spare Parts required, mode of delivery and inspection of products and payment terms, provided that such terms are on normal and usual commercial terms and are no less favourable than those applicable to the purchase of the same type and quality of the Spare Parts for comparable quantity by our Group from Independent Third Parties. Both the GZFLD Master Agreement and the GZMT Master Agreement commenced on 23 January 2010 and will expire on 31 December 2012, unless terminated earlier by three months' prior written notice by either party as of contractual right of either party, or immediately upon written notice being served by either party if the other party is in material breach (or continued material breach after written warning) of the terms of the GZFLD Master Agreement or the GZMT Master Agreement or if the other party goes into liquidation or analogous proceedings.

Aggregation of the continuing connected transactions contemplated under the GZFLD Master Agreement and the GZMT Master Agreement

Since the continuing connected transactions contemplated under the GZFLD Master Agreement and the GZMT Master Agreement are to be entered into by our Group with parties associated with one another (as both GZFLD and GZMT are ultimately, wholly and beneficially owned by Mr. Chen), the continuing connected transactions under the GZFLD Master Agreement and the GZMT Master Agreement may be aggregated by the Stock Exchange under Rule 14A.26(1) of the Listing Rules. Accordingly, the GZFLD Annual Caps (as defined below) as aggregated with the GZMT Annual Caps (as defined below) are used in calculating the applicable percentage ratios under Chapter 14 of the Listing Rules for the above continuing connected transactions, details of which are set out in the paragraph below.

Annual monetary caps for the three years ending 31 December 2012

It is currently expected that the aggregate amount of purchases of the Spare Parts by our Group from GZFLD under the GZFLD Master Agreement for each of the three years ending 31 December 2012 would not exceed RMB6.7 million, RMB12.3 million and RMB13.9 million, respectively (the "**GZFLD Annual Cap**") (equivalent to approximately HK\$7.6 million, HK\$14.0 million and HK\$15.8 million, respectively) while the aggregate amount of purchases price of the Spare Parts by our Group from GZMT under the GZMT Master Agreement for each of the three years ending 31 December 2012 would not exceed RMB16.1 million, RMB29.4 million and RMB33.4 million, respectively (the "**GZMT Annual Cap**") (equivalent to approximately HK\$18.4 million, HK\$33.5 million and HK\$38.1 million, respectively). Accordingly, the aggregate maximum annual value of the GZFLD Annual Cap and the GZMT Annual Cap for each of the three years ending 31 December 2012 would not exceed RMB22.8 million, RMB41.7 million and RMB47.3 million, respectively (equivalent to approximately HK\$26.0 million, HK\$47.5 million and HK\$53.9 million, respectively). The expected significant increase of the GZFLD Annual Cap and the GZMT Annual Cap from year 2010 to year 2011 is primarily due to (i) the increase in the total number of production lines from five to seven; and (ii) the construction of steel plate processing facilities, being one of the proposals under the Expansion Plan. Both the maintenance and installation of the production lines and facilities will lead to an expected increase in demand for the Spare Parts, and thus the expected increase for GZFLD Annual Cap and GZMT Annual Cap.

On an aggregate basis, all the percentage ratios (other than the profits ratio) for the continuing connected transactions under both the GZFLD Master Agreement and the GZMT Master Agreement will be less than 2.5% on an annual basis calculated with reference to Rule 14.07 of the Listing Rules.

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The GZFLD Annual Cap and the GZMT Annual Cap were determined by our Directors after taking into consideration the following factors:

- (i) the historical usage of the Spare Parts by our Group. For the Spare Parts used mainly for maintenance, the aggregated amount of purchases from GZFLD and GZMT is expected to be roughly proportional to the number of production lines operated by our Group. For the Spare Parts used mainly for installation of new production lines and new production facilities, the aggregated amount of purchase from GZFLD and GZMT is estimated to tie in with the Expansion Plan as summarised below (details of which are set out in the subsection headed “Strategy” in the section headed “Business” and the section headed “Future plans and use of proceeds” in this prospectus);
- (ii) the historical price and quantity of the Spare Parts purchased by our Group from GZFLD and GZMT;
- (iii) the actual purchase price and quantity of the Spare Parts purchased by our Group from GZFLD during the eight months ended 31 August 2009. Based on the unaudited financial information, the aggregate purchases of the Spare Parts from GZFLD for the year ended 31 December 2009 did not exceed RMB5.0 million;
- (iv) the actual purchase price and quantity of the Spare Parts purchased by our Group from GZMT during the eight months ended 31 August 2009. Based on the unaudited financial information, the aggregate purchases of the Spare Parts from GZMT for the year ended 31 December 2009 did not exceed RMB12.0 million;
- (v) the future expansion plan (the “**Expansion Plan**”) to be implemented by our Group for the installation of new production lines and production facilities which is expected to give rise to a demand for the Spare Parts, and the regular maintenance of the production lines in operation after the Listing. Such Expansion Plan is expected to give rise to an increase in the demand for the Spare Parts; and
- (vi) our Directors expect that, for the three years ending 31 December 2012, the price of the Spare Parts to be purchased from GZFLD and from GZMT will be subject to an estimated annual increase of 5% with reference to the growth in steel price anticipated by the management of our Company. Further, while our Directors expect that the quantity of the Spare Parts required would increase (comparing with that for the year ended 31 December 2009) for the year ending 31 December 2010 due to the Expansion Plan, our Company would monitor the amount of purchase of the Spare Parts from GZFLD and from GZMT in an attempt to keep the said amount of purchase below the GZFLD Annual Cap and the GZMT Annual Cap sought for the year ending 31 December 2010. The quantity of the Spare Parts to be purchased from GZFLD and from GZMT (for the maintenance component) is expected to be roughly proportional to the number of production lines to be operated by our Group, while the quantity of the Spare Parts to be purchased from GZFLD and from GZMT (for the new installation component) is expected to constitute a generally consistent percentage of the expected total investment costs for each of the three years ending 31 December 2012.

For the Expansion Plan as referred to in paragraph (v) above, upon Listing, our Company currently expects to use part of the net proceeds raised from the New Issue to increase its production capacity in the following manner which is expected to give rise to a demand for additional Spare Parts:

- (i) to invest in the installation of two new production lines for LSAW steel pipes, one to commence investment and installation during the year ending 31 December 2010 and the other to commence investment and installation during the year ending 31 December 2011;
- (ii) to invest in the installation of new steel plate processing facilities during the year ending 31 December 2011; and
- (iii) to invest in the installation of a new casing pipes production line during the year ending 31 December 2012.

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Our Directors wish to emphasise that the Expansion Plan and the use of the net proceeds to be raised from the New Issue are subject to modification, having regard to factors such as the prevailing business environment and pace of development. In the event that the transaction amount with GZFLD and/or GZMT for the Spare Parts to be incurred in 2010, 2011 and 2012 nearly exceeds the respective GZFLD Annual Cap and/or GZMT Annual Cap sought for the corresponding year, our Group shall, as soon as practicable, take necessary steps to comply with the Listing Rules, including reporting to the Stock Exchange, making announcement(s) and where necessary, seeking independent Shareholders' approval as to the increased caps in accordance with the Listing Rules.

The respective views of our Directors and the Joint Sponsors on the continuing connected transactions

Given that the continuing connected transactions under the GZFLD Master Agreement and under the GZMT Master Agreement will be carried out following the Listing on a recurring basis, and such transactions will be entered into in the ordinary and usual course of business of our Group and on normal commercial terms from the perspective of our Group, and that the terms of the transactions and the GZFLD Annual Cap and the GZMT Annual Cap are fair and reasonable and in the interests of the Shareholders as a whole, our Directors, including the independent non-executive Directors, consider that strict compliance with the announcement requirement under the Listing Rules would be unduly burdensome and impracticable on each occasion when any such individual transaction is entered into.

The Directors, including the independent non-executive Directors, confirm that:

- (a) the transactions under the GZFLD Master Agreement and the GZMT Master Agreement respectively have been and shall be entered in the ordinary and usual course of business, on normal commercial terms, and such transactions as well as the GZFLD Annual Caps and the GZMT Annual Caps are fair and reasonable in the interests of the Shareholders as a whole; and
- (b) after Listing, our Group will strictly adhere to the terms of the GZFLD Master Agreement and the GZMT Master Agreement which will be no less favourable to our Group than terms offered by Independent Third Parties.

In this regard, our Directors, including the independent non-executive Directors, are of the view that the continuing connected transactions under the GZFLD Master Agreement and under the GZMT Master Agreement and the respective GZFLD Annual Caps and the GZMT Annual Caps thereof are in the interest of the Shareholders as a whole.

The Joint Sponsors, having taken into account the relevant documentations, information and historical figures provided by our Group and our Directors and having discussed with the management of our Group to satisfy themselves of the reliability of the information provided, are of the opinion that the transactions under the GZFLD Master Agreement and under the GZMT Master Agreement have been and shall be entered into in the ordinary and usual course of business of our Group, on normal commercial terms, are fair and reasonable and in the interests of the Shareholders as a whole, and that the GZFLD Annual Cap and the GZMT Annual Cap for those transactions are fair and reasonable and in the interests of the Shareholders as a whole.

Waiver from compliance with announcement requirement

In view of the above, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the transactions under the GZFLD Master Agreement and under the GZMT Master Agreement pursuant to Rule 14A.42(3) of the Listing Rules for the period up to the year ending 31 December 2012 based on the following conditions:

- (a) our Company is required to comply with Rules 14A.35(1) and (2), 14A.36 to 14A.40 and 14A.45 to 14A.46 of the Listing Rules in relation to the continuing connected transactions under the GZFLD Master Agreement and the GZMT Master Agreement;

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- (b) in respect of Rules 14A.35(2) and 14A.36(1) of the Listing Rules, the maximum aggregate annual value of the continuing connected transactions under the GZFLD Master Agreement and the GZMT Master Agreement will not exceed the GZFLD Annual Cap and the GZMT Annual Cap respectively as set out above;
- (c) in the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable provisions under Chapter 14A of the Listing Rules as at the date of the prospectus relating to the continuing connected transactions, our Company will take necessary action to ensure compliance with such requirements within a reasonable period; and
- (d) upon expiry of the waiver granted for the period ending 31 December 2012, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.