IMPORTANT

If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.

Honghua Group Limited

宏華集團有限公司

(a company incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering:	833,360,000 Shares (subject to the Over-allotment Option)
Number of Public Offer Shares:	83,336,000 Shares (subject to adjustment)
Number of International Offer Shares:	750,024,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price:	not more than HK$4.50 per Offer Share payable in full on application in Hong Kong dollars subject to refund on final pricing, plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%
Nominal Value:	HK$0.10 per Share
Stock Code:	196

Joint Global Coordinators, Joint Bookrunners, Joint Sponsors and Joint Lead Managers

CREDIT SUISSE Morgan Stanley

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in "Appendix VIII — Documents Delivered to the Registrar of Companies and Available for Inspection" to this Prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this Prospectus or any of the other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around February 29, 2008, and, in any event, not later than March 3, 2008. The Offer Price will be not more than HK$4.50 per Offer Share and is currently expected to be not less than HK$3.16 per Offer Share unless otherwise announced. Applicants for Public Offer Shares are required to pay, on application, the maximum Offer Price of HK$4.50 for each Public Offer Share together with 1% brokerage, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fee subject to refund if the Offer Price as finally determined is less than HK$4.50 per Offer Share.

The Joint Global Coordinators (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range stated in this Prospectus (which currently is HK$3.16 to HK$4.50 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for Public Offer Shares have been submitted prior to the day that is the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections entitled "Structure of the Global Offering" and "How to Apply for the Public Offer Shares" in this Prospectus.

If, for any reason, we and the Joint Global Coordinators (on behalf of the Underwriters) are unable to reach an agreement on the Offer Price on or before March 3, 2008, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Public Offer Shares are subject to termination by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) if certain grounds arise at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this Prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from the registration requirements of the U.S. Securities Act. The Offer Shares are being sold outside the United States in offshore transactions in accordance with Rule 903 or 904 of Regulation S.

February 25, 2008

EXPECTED TIMETABLE[1]

We will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offering.

Latest time to lodge **white** and **yellow** Application Forms . . . . . 12:00 noon on February 28, 2008

Latest time to give **electronic application instructions** to HKSCC[2] . . . . . 12:00 noon on February 28, 2008

Latest time to complete electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**[3] . . . . . 11.30 a.m. on February 28, 2008

Latest time to complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . . 12:00 noon on February 28, 2008

Application lists close . . . . . 12:00 noon on February 28, 2008

Expected Price Determination Date . . . . . February 29, 2008

(1): Announcement of the Offer Price, the level of indication of interest in the International Offering and the application results and basis of allotment of the Public Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on or before . . . . . March 6, 2008

(2): Results of allocations in the Hong Kong Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see the section entitled "How to Apply for the Public Offer Shares — Results of Allocations" in this Prospectus) . . . . . March 6, 2008

(3): Full announcement of the Hong Kong Public Offer containing (1) and (2) above to be published on the Company's website at **http://www.hh-gltd.com** . . . . . March 6, 2008

Despatch of Share certificates in respect of wholly or partially successful applications, on or before[4] . . . . . March 6, 2008

Despatch of refund cheques in respect of wholly or partially successful applications, on or before[5] . . . . . March 6, 2008

Dealings in Shares on the Stock Exchange expected to commence . . . . . 9:30 a.m. on March 7, 2008

Notes:

(1) All times refer to Hong Kong local time except where otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section entitled "Structure of the Global Offering" in this Prospectus.

*(2) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section entitled "How to Apply for the Public Offer Shares — V. Applying by Giving Electronic Application Instructions to HKSCC" in this Prospectus.*

(3) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** *after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.*

(4) If there is a "black"' rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on February 28, 2008, the application lists will not open on that day. Please refer to the section entitled "How to Apply for the Public Offer Shares — VI. When May Applications be Made — Effect of bad weather on the opening of the application lists" in this Prospectus.

(5) Refund cheques will be issued in respect of wholly or partially unsuccessful applications, and also in respect of successful applications in the event that the Offer Price as finally determined is less than the offer price per Offer Share initially paid on application. All refunds will be by cheque crossed "Account Payee Only" made out to you, or if you are joint applicants, to the first-named applicant on your Application Form. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, where appropriate. Such data may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque. If you have applied for 1,000,000 Public Offer Shares or more and have indicated in your Application Form that you wish to collect your Share certificate(s) (where applicable) and refund cheque(s) (where applicable) in person, you may collect your Share certificate(s) (where applicable) and your refund cheque(s) (where applicable) from our Hong Kong Branch Share Registrar from 9:00 a.m. to 1:00 p.m. on March 6, 2008, or any other day notified by us in the newspapers as the date of despatch of Share certificates and/or refund cheques. If you are an individual applicant who opts for personal collection, you may not authorize any other person to make collection on your behalf. If you are a corporate applicant who opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar. Share certificates and refund cheques uncollected after the time specified for collection will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. If you have applied for less than 1,000,000 Public Offer Shares or have applied for 1,000,000 Public Offer Shares or more but have not indicated in the Application Form that you wish to collect your Share certificate(s) (where applicable and if applying by using a **white** *Application Form) and/or refund cheque(s), your Share certificate(s) (where applicable and if applying by using a* **white** *Application Form) and/or refund cheque(s) will be sent to the address on the Application Form on March 6, 2008, by ordinary post and at your own risk. For further information, please refer to the section entitled "How to Apply for the Public Offer Shares" in this Prospectus.*

Share certificates will only become valid certificates of title if the Global Offering has become unconditional and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is expected to be at or around 8:00 a.m. (Hong Kong time) on March 7, 2008. No dealing shall take place in the Offer Shares prior to commencement of dealing in the Shares on the Stock Exchange. Investors who trade Shares on the basis of publicly-available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

CONTENTS

You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, any directors of any of them, or any other person or party involved in the Global Offering.

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This summary aims to give you an overview of the information contained in this Prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole Prospectus before you decide to invest in the Shares. There are risks associated with any investment. Some of the particular risks in investing in the Shares are set out in the section entitled "Risk Factors." You should read that section carefully before you decide to invest in the Shares.

Overview

We are a manufacturer of land drilling rigs and rig parts and components. In addition, we offer drilling-related training and after-sales support services to our customers. For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, our revenue amounted to RMB539.3 million, RMB501.6 million, RMB2,335.9 million and RMB1,518.6 million, respectively, while our profit attributable to equity shareholders of the Company amounted to RMB32.2 million, RMB18.5 million, RMB412.8 million and RMB201.1 million, respectively.

We were the second largest land rig manufacturer in the world and the largest in China in terms of revenue and production volume in 2006, according to the Independent Technical Report contained in Appendix V of this Prospectus. We design, manufacture and sell drilling rigs for use in the exploration and extraction of oil and gas from reservoirs located in a variety of geological formations and environments and at considerable depths.

In addition to drilling rigs, we manufacture rig parts and components for our own use in the production of our own rigs, as well as for external sales. Our external rig parts and components sales consist primarily of mud pumps. Mud pumps are used to circulate drilling fluid through a rig's circulation system. We also produce and sell, among other things, masts, substructures, drawworks, VFD drive systems and solids control systems. For a detailed description of this equipment, please refer to the section entitled "Glossary of Technical Terms" in this Prospectus. We also produce and sell rig parts and components in the form of offshore drilling modules for offshore platforms. Sales of rig parts and components accounted for approximately 13.1%, 13.5%, 12.8% and 17.5% of our revenue for the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, respectively.

We procure raw materials (e.g., steel) and certain rig parts and components (e.g., diesel engines and AC variable-frequency motors) which we do not produce ourselves, from external suppliers. We currently source almost all the raw and processed steel we need from five domestic suppliers based in Chongqing and Chengdu. We typically source rig parts and components that we do not produce ourselves through local distributors for manufacturers located in the United States, Finland and Germany.

A substantial portion of our revenue is generated from exports. Our leading exported rigs are digitally-controlled land rigs, which are priced higher than our conventional land rigs. Our main customers in the overseas market are major multinational oil and gas drilling companies and contractors such as Nabors Group. For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, revenue from exports amounted to approximately RMB15.0 million, RMB158.1 million, RMB1,949.8 million and RMB829.9 million, respectively, accounting for approximately 2.8%, 31.5%, 83.5% and 54.6%, respectively, of our total revenue.

We have established a diversified global marketing network, with sales offices in North America, the Middle East and Africa, and have developed partnerships with local distributors in other regions such as Russia

and Asia. There has been a growing international demand for our rigs from the emerging markets in Russia, the Middle East, Africa and Latin America. In an effort to meet demand from these markets, we have begun to assemble rigs in the USA and Egypt, and plan to manufacture certain rig parts and components in Egypt.

The Chinese market has been an important and stable source of demand for our rigs over the three years ended December 31, 2006 and the eight months ended August 31, 2007. Most of our customers in China are drilling companies owned by large Chinese oil and gas companies with whom we have established long-term and stable relationships. Some notable examples of these customers are: the Material and Equipment Department of China Petroleum & Chemical Corporation, the Changqing Petroleum Administration Bureau, the Material Company of the Sichuan Petroleum Administration Bureau, and the China Petroleum Technology & Development Corporation, all of which are subsidiaries of CNPC or Sinopec. For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, we sold 31, 28, 32 and 31 rigs, respectively, in the Chinese market.

Competitive Strengths

We believe the following to be our key competitive strengths:

- We offer a large and diversified range of drilling equipment, together with support services;
- We are a low-cost manufacturer of high-performance, quality land rigs;
- We have an established global marketing network;
- We have advanced technological and engineering expertise and a track record of developing successful new technologies; and
- We have an experienced and dedicated management team.

Business Strategies

We aim to further strengthen our leadership position in the global land rig market and to expand into the offshore drilling rig market by pursuing the following business strategies:

- Increase our production capacity;
- Expand our global marketing platform to increase sales;
- Further improve the technology and innovation of our product lines;
- Enter into the offshore drilling rig manufacturing market; and
- Expand our business through acquisitions, joint ventures or business alliances.

Risk Factors

We consider that there are certain risks involved in our business and operations and in connection with the Global Offering. Such risks can be categorized into (i) risks relating to our business; (ii) risks relating to the PRC; and (iii) risks relating to the Global Offering. These risks are set out in the section entitled "Risk Factors", the headings of which are as follows.

Risks Relating to Our Business

- Demand for our products is directly and indirectly affected by trends in oil and gas prices.
- Our customers operate in a volatile industry, and their demand for our products may be affected by factors unrelated to movements in oil and gas prices.
- Fluctuations in raw material prices may adversely affect our business.
- We depend on third parties to deliver certain raw materials, components and services that meet our quality standards in a timely manner to manufacture our products.
- We rely on a limited number of customers.
- We were involved in an arbitration proceeding with Nabors International, a major customer and current shareholder of our Company.
- Our dispute with 64 individuals may materially and adversely affect our business and financial condition.
- We face risks in maintaining and expanding our business overseas, including but not limited to, differences in legal and regulatory requirements, currency exchange rates, economic sanctions and changes in political and economic conditions, all of which could materially and adversely affect our business.
- We may encounter unexpected difficulties in implementing our strategy for future growth.
- We may experience difficulties in integrating our acquisitions, and there are inherent risks associated with our acquisitions policy.
- There is no assurance that our new products will achieve market acceptance by our customers.
- Our interests may conflict with those of the Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our public shareholders' best interests.
- If we lose one or more of our key personnel without obtaining adequate replacements in a timely manner or if we are unable to retain and recruit skilled personnel, then our operations could be disrupted and the growth of our business could be delayed or restricted.
- Loss of or failure to renew the API Monogram or other licenses certifying that our products meet benchmark quality standards could materially and adversely affect our business.
- We may rely on independent third-party distributors to obtain the relevant licenses and/or certifications required to distribute our products within other jurisdictions.
- We may not be able to enforce our own intellectual property rights or may be subject to claims from third parties for infringement of their intellectual property rights.
- Our business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity in relation to our products.

- The manufacturing processes for our products are complex and potentially hazardous, and we may not maintain sufficient insurance coverage for the risks associated with the operations of our business.
- Our historical dividends may not be indicative of our future dividends.
- Any change in the preferential tax treatment we currently enjoy in the PRC may have an adverse impact on our results of operations.
- We may be unable to renew our membership with the China Petroleum Exploration and Development Supply Network and the List of Sinopec Suppliers.
- We may be unable to obtain adequate financing to fund our capital requirements.
- Any amendment to or failure to comply with environmental protection laws, promulgated by the PRC or other jurisdictions, to which we or our products are subject, could create a substantial financial burden on the Company.
- The industry in which we operate is competitive, and a further increase in competition or productivity by our competitors may affect our market share and profit margins.
- Our operations are vulnerable to significant operating hazards, natural disasters and other circumstances, which are beyond our control and for which we have limited or no insurance.
- If our joint venture partners act contrary to our interests, our business may be materially and adversely affected.
- We have not obtained land use right certificates to some of the properties we occupy.
- We may incur significant costs in relation to warranties offered to our domestic PRC customers.

Risks Relating to the PRC

- Adverse changes in China's economic, political, and social conditions, as well as governmental policies could have a material adverse effect on China's overall economic growth, which, in turn, could materially and adversely affect our business, financial condition and results of operations.
- Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect the financial condition and results of operations of our Company and our ability to pay dividends.
- Our operations are subject to the uncertainties of the PRC legal system.
- The payment of dividends by our operating subsidiaries in China is subject to restrictions under PRC law.
- It may be difficult to serve process within the PRC or to enforce any judgments obtained from non-PRC courts against us or our Directors.
- An occurrence of a widespread public health problem, such as SARS or avian influenza, could have a material adverse effect on our results of operations.

- Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy, our business and prospects.

Risks Relating to the Global Offering

- There has been no prior public market for our Shares.
- Our Share price may be highly volatile, which may result in substantial losses for investors purchasing Shares in the Global Offering.
- You may experience difficulties in enforcing your shareholder rights because we are incorporated under Cayman Islands law, which may provide less protection to minority shareholders than the laws of Hong Kong and other jurisdictions.
- Future sales or a major divestment of Shares by any major shareholder could adversely affect our Share price.
- Purchasers of Offer Shares will incur an immediate and substantial dilution as a result of the Global Offering.
- We cannot guarantee the accuracy of the facts and statistics in this Prospectus relating to the Chinese economy or to the global industry in which we operate.

Dispute with 64 individuals

We are engaged in a dispute with 64 individuals claiming to be shareholders of Honghua Company. Of the 64 individuals in question, 57 of them joined as plaintiffs in a formal legal claim instituted against Honghua Company and others, by way of a writ and statement of claim filed at the Intermediate People's Court of Chengdu City, Sichuan Province, on December 11, 2007. On December 12, 2007, the Company received notification of the above formal legal proceedings initiated by these 57 individuals. Nothing further has been heard from the seven remaining individuals. Honghua Company, Asia Harbour and 14 individuals were named as defendants in the above legal proceedings, with Honghua Company as the first defendant, Asia Harbour as the second defendant and the 14 individuals, namely Shi Shuming (third defendant), Huang Dequan (fourth defendant), Li Yan (fifth defendant), Wang Yaoxin (sixth defendant), Zhou Tao (seventh defendant), Wang Wei (eighth defendant), Chen Zhenghua (ninth defendant), Yang Xuefeng (tenth defendant), Yang Yuanchun (eleventh defendant), Ni Xiurong (twelfth defendant), Yu Zhenghua (thirteenth defendant), Xing Manrong (fourteenth defendant), Zhi Rongmu (fifteenth defendant) and Liu Chuanjun (sixteenth defendant), as the remaining defendants. The third to thirteenth defendants were the 11 registered representatives at the time of the repurchase, and the fourteenth to sixteenth defendants were the three former registered representatives.

When Honghua Company was established on December 31, 1997, Oil Drilling Plant held approximately 11.075% of Honghua Company's equity interest. 841 employees of Oil Drilling Plant invested an aggregate of RMB300,000 in Honghua Company. Fu Chonglin acted as representative of these 841 employees and was registered as a shareholder with the competent Administration of Industry and Commerce of Honghua Company, holding approximately 37.5% of Honghua Company.

In June 2000, the labour union of Oil Drilling Plant (鑽采設備製造廠工會) organized an election for employees to elect individuals to represent them as shareholders of Honghua Company. 11 representatives were elected by the employees as their representatives in Honghua Company. On September 16, 2000, Fu Chonglin transferred all of his equity interest in Honghua Company to these 11 representatives, and the 11 representatives were registered as shareholders of Honghua Company. The management of Honghua Company was responsible for the registration of these 11 representatives as the registered shareholders with the competent authority.

Between 1997 and 2005, the number of investing employees decreased while the aggregate value of their investments increased through various transfers and acquisitions. As of December 31, 2005, 728 employees of Oil Drilling Plant had, through 11 representatives, invested an aggregate of RMB7,066,615 in Honghua Company. Each of the 728 employees was issued with an "investment certificate" (出資證明) from Honghua Company to evidence his or her investment. The 11 representatives were elected to represent these 728 employees of Oil Drilling Plant to enable these employees, as investors of Honghua Company, to comply with the requirements of the PRC Company Law, which restricts the number of shareholders of a limited company to no more than 50. As advised by our PRC legal advisor, King & Wood, the entrustment arrangement entered into between the 728 employees and 11 registered shareholders was made in good faith, and was legal and valid under PRC laws and regulations.

On January 7, 2006, the shareholders of Honghua Company passed a resolution to reduce its registered capital and to buy-out the equity interest of these 11 registered shareholders. Honghua Company entered into an equity repurchase agreement with these 11 registered shareholders on January 12, 2006, under which, with the written consent of the 11 registered shareholders, Honghua Company repurchased the equity interests of the 11 representatives and paid the equity repurchase price directly to the 728 employees. As of the Latest Practicable Date, 664 of the 728 employees had agreed to the buy-out arrangement and accepted payment from Honghua Company. The remaining 64 employees, who had invested an aggregate of RMB651,385 in Honghua Company, claim that they are still shareholders and refused to accept the buy-out arrangement and payment from Honghua Company.

On December 11, 2007, 57 of the 64 employees filed a writ and statement of claim at the Intermediate People's Court of Chengdu City, Sichuan Province. On December 12, 2007 the Company received notification of these formal legal proceedings.

In the statement of claim filed by the 57 of these 64 employees, the relief sought by them included:

(1) an adjudication by the court that the 592,250 shares held by the third to sixteenth defendants (the 11 representatives and three former representatives) were actually owned by the 57 plaintiffs, and all the benefits and rights in such equity interest be restored to the 57 plaintiffs and the names of the 57 plaintiffs be entered into the register of members of Honghua Company;

(2) an adjudication by the court that Honghua Company be ordered to pay to the 57 plaintiffs a total sum of RMB296,125, being the 2003 dividends;

(3) an adjudication that the repurchase of the 592,250 shares of Honghua Company by Honghua Company be declared null and void;

(4) an adjudication that Asia Harbour be jointly and severally liable for the above mentioned relief sought by the 57 plaintiffs and the consequential liabilities thereof, and that Asia Harbour together with Honghua Company be ordered to apply to the competent Administration of Industry and Commerce to register the 57 plaintiffs as shareholders of Honghua Company; and

(5) an adjudication that all the defendants be jointly liable for the legal costs arising from these legal proceedings.

We have been advised by King & Wood, that the current statement of claim seeks all the possible forms of relief available under PRC law. Assuming that the Intermediate People's Court of Chengdu City grants a judgment in favor of the 57 plaintiffs by restoring their shareholding in Honghua Company, then the maximum amount of Honghua Company equity to be awarded would amount to 0.9%, taking into account Honghua Company's capital increase to RMB72.0 million at the time it was acquired by Asia Harbour on August 24, 2006, and assuming the 64 employees' aggregate investment of RMB651,385 remained unchanged. In the event the court orders that the plaintiffs' shares in Honghua Company be reinstated, the shares in Honghua Company would be restored to the 57 plaintiffs by either Honghua Company issuing new shares to the 57 plaintiffs or Asia

Harbour transferring existing shares in Honghua Company to the 57 plaintiffs. In any event, any damages arising out of these legal proceedings are subject to indemnity under a deed of indemnity in respect of dispute and risk dated February 15, 2008, executed by Ally Giant, Ample Chance, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Ally Smooth, Charm Moral, Beauty Clear, Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises Inc, Dobson Global Inc, Darius Enterprises Limited, Believe Power, Benefit Way, Birdview and the Existing Shareholders of the Company in favor of the Group as further described below. Further, the shareholding of the Company would not be directly affected even if the claims for equity were successful, as the plaintiffs are seeking to be registered as shareholders of Honghua Company, an indirectly-wholly owned subsidiary of the Company.

According to King & Wood, since (i) only the 11 registered representatives, rather than the 728 employees, were recognized as shareholders of Honghua Company pursuant to the applicable PRC laws, and (ii) the legal procedures regarding the buy-out arrangement complied with relevant PRC laws, any claim made by the 57 plaintiffs or any employees represented by the 11 representatives, arguing that they were shareholders of Honghua Company, is without legal basis under PRC law, and no such claim would affect the existing or future shareholding structure of Honghua Company.

Nothing further has been heard from the seven remaining individuals and, as at the Latest Practicable Date, there have been no further developments in the formal legal proceedings initiated by the 57 out of the 64 investors.

Ally Giant, Ample Chance, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Ally Smooth, Charm Moral, Beauty Clear, Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises Inc, Dobson Global Inc, Darius Enterprises Limited, Believe Power, Benefit Way, Birdview, and the Existing Shareholders of the Company have executed a deed of indemnity in respect of dispute and risk dated February 15, 2008, in favor of the Group, under which they agree to jointly and severally indemnify any members of the Group for any damages that the Company may suffer as a result of this dispute and the legal proceedings initiated by the 57 plaintiffs. Whatever the outcome of the said legal proceedings, any loss suffered by the Company as a result of the said legal proceedings will be covered by the indemnity.

Please refer to the section entitled "Our Business — Legal Proceedings — Dispute with 64 natural persons," in this Prospectus for details of this dispute.

Geographical breakdown of rig sales

The following table contains a geographical breakdown of our rig sales and our total rig sales value, for the periods indicated.

	For the three years ended December 31,			For the eight months ended August 31,	Rigs delivered before December 31, 2007		Rigs contracted to be delivered after December 31, 2007		For the three years ended December 31,						For the eight months ended August 31,	
	2004	2005	2006	2007					2004		2005		2006		2007	
Regions	Number of rigs sold	Number of rigs sold	Number of rigs sold	Number of rigs sold	Numbers of rigs	% of total rig	Number of rigs	% of total rig	Revenue generated	% of total rig sales	Revenue generated	% of total rig sales	Revenue generated	% of total rig sales	Revenue generated	% of total rig sales
									RMB'000		RMB'000		RMB'000		RMB'000	
China	31	28	32	31	48	53.9%	10	20.4%	455,617	97.2%	306,472	70.6%	321,978	15.8%	638,756	51.0%
North America	—	3	45	15	16	18.0%	0	0.0%	—	—	120,699	27.8%	1,467,363	72.0%	312,137	24.9%
Russia	—	1	1	6	16	18.0%	28	57.1%	—	—	6,805	1.6%	6,466	0.3%	90,170	7.2%
Middle East	—	—	3	—	2	2.2%	4	8.2%	—	—	—	—	228,253	11.2%	—	—
Others	1	—	1	3	7	7.9%	7	14.3%	13,166	2.8%	—	—	13,212	0.7%	212,286	16.9%
Total	**32**	**32**	**82**	**55**	**89**	**100%**	**49**	**100%**	**468,783**	**100%**	**433,976**	**100%**	**2,037,272**	**100%**	**1,253,349**	**100%**

Summary of Historical Financial Information

The following tables set out our summary combined income statement and balance sheet data for the periods indicated. We have derived our summary combined income statement, and balance sheet data from our audited combined financial statements included in Appendix I to this Prospectus, which have been prepared in accordance with IFRS.

	Year ended December 31,						Eight months ended August 31,			
	2004	% of revenue	2005	% of revenue	2006	% of revenue	2006 (unaudited)	% of revenue	2007	% of revenue
	RMB'000[1]	(%)	RMB'000[1]	(%)	RMB'000[1]	(%)	RMB'000[1]	(%)	RMB'000[1]	(%)
Combined income statement data										
Revenue	539,265	*100.0*	501,570	*100.0*	2,335,948	*100.0*	842,830	*100.0*	1,518,647	*100.0*
Cost of sales	(440,028)	*(81.6)*	(392,993)	*(78.4)*	(1,558,121)	*(66.7)*	(598,405)	*(71.0)*	(1,019,110)	*(67.1)*
Gross profit	99,237	*18.4*	108,577	*21.6*	777,827	*33.3*	244,425	*29.0*	499,537	*32.9*
Other operating income	2,214	*0.4*	3,187	*0.6*	4,620	*0.2*	2,412	*0.3*	4,501	*0.3*
Other operating expenses	(572)	*(0.1)*	(648)	*(0.1)*	(917)	*(0.0)*	(84)	*0.0*	(101)	*0.0*
Selling expenses	(17,818)	*(3.3)*	(22,971)	*(4.6)*	(84,176)	*(3.6)*	(41,276)	*(4.9)*	(111,488)	*(7.3)*
General and administrative expenses	(29,039)	*(5.4)*	(42,436)	*(8.5)*	(110,185)	*(4.7)*	(40,079)	*(4.8)*	(89,352)	*(5.9)*
Other net income/(expenses)	440	*0.1*	1,427	*0.3*	3,085	*0.1*	830	*0.1*	2,388	*0.2*
Profit from operations[2]	54,462	*10.1*	47,136	*9.4*	590,254	*25.3*	166,228	*19.7*	305,485	*20.1*
Net financing costs	(3,858)	*(0.7)*	(4,132)	*(0.8)*	(23,141)	*(1.0)*	(6,012)	*(0.7)*	*(12,432)*	*(0.8)*
Profit before taxation	50,604	*9.4*	43,004	*8.6*	567,113	*24.3*	160,216	*19.0*	293,053	*19.3*
Income tax expense	(10,488)	*(1.9)*	(10,749)	*(2.1)*	(103,203)	*(4.4)*	(60,797)	*(7.2)*	(54,724)	*(3.6)*
Profit for the year/period	40,116	*7.5*	32,255	*6.4*	463,910	*19.9*	99,419	*11.8*	238,329	*15.7*
Attributable to:										
Equity shareholders of the Company	32,168	*6.0*	18,454	*3.7*	412,814	*17.7*	66,599	*7.9*	201,095	*13.2*
Minority interests	7,948	*1.5*	13,801	*2.7*	51,096	*2.2*	32,820	*3.9*	37,234	*2.5*
Profit for the year/period	40,116	*7.5*	32,255	*6.4*	463,910	*19.9*	99,419	*11.8*	238,329	*15.7*
Dividends declared during the year/period	2,164	0.4	1,638	*0.3*	19,533	*0.8*	19,533	*2.3*	—	—
Earnings per share — basic (RMB)[3]	0.013	*N/A*	0.007	*N/A*	0.165	*N/A*	0.027	*N/A*	0.08	*N/A*

(1) Except for per share numbers which are presented in RMB cents.

(2) Profit from operations represents profit before net financing cost and tax.

(3) The calculation of earnings per share is based on profit attributable to equity holders of the Company of each period presented on the assumption that 2,500,000,000 Shares, representing the number of Shares of the Company outstanding immediately before the Global Offering, had been in issue throughout the three years ended December 31, 2006, and the eight months ended August 31, 2007.

	As of December 31,			As of August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Combined balance sheet data				
Non-current assets				
Fixed assets	62,547	129,944	262,500	322,989
Other non-current assets	15,166	16,690	24,159	83,732
Total non-current assets	77,713	146,634	286,659	406,721
Inventories	80,138	298,617	690,391	1,183,810
Trade and other receivables	183,039	337,647	869,374	1,373,461
Amount due from related companies	1,831	4,269	1,998	92,165
Restricted bank deposit	—	—	107,875	—
Pledged bank deposits	15,104	88,207	67,746	198,845
Cash and cash equivalents	26,013	293,982	158,351	212,788
Total current assets	306,125	1,022,722	1,895,735	3,061,069
TOTAL ASSETS	**383,838**	**1,169,356**	**2,182,394**	**3,467,790**
Current liabilities				
Short-term interest-bearing borrowings	54,900	31,184	345,000	758,550
Trade and other payables	211,413	981,517	1,091,647	1,279,155
Other current liabilities	10,994	11,809	382,138	825,019
Total current liabilities	277,307	1,024,510	1,818,785	2,862,724
Non-current liabilities				
Long-term interest-bearing borrowings	—	—	21,299	18,512
Deferred tax liability	—	—	4,259	4,104
TOTAL LIABILITIES	**277,307**	**1,024,510**	**1,844,343**	**2,885,340**
TOTAL EQUITY	**106,531**	**144,846**	**338,051**	**582,450**
TOTAL LIABILITIES AND EQUITY	**383,838**	**1,169,356**	**2,182,394**	**3,467,790**

Use of Proceeds

Assuming the Over-allotment Option is not exercised and the Offer Price is fixed at HK$3.83 per Share (being the midpoint of the stated Offer Price range of HK$3.16 to HK$4.50 per Share), we project that the net proceeds of the Global Offering, after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, to be approximately HK$2,972 million. To implement our business strategy of increasing equipment production capacity, improving the technology and innovation of our product lines, and expanding product and service lines, we intend to use the net proceeds for the following general purposes:

(1) Approximately 60% is to be used for the construction of an offshore equipment manufacturing base in the eastern coastal area of China, to produce jack-up rigs and fixed rigs as well as large structures. This includes acquiring land and coastline in Shanghai or neighboring provinces, investing in research and development and new equipment, and constructing new factories.

(2) Approximately 12% is to be used for increasing production capacity, and for the development of new land rig equipment, and rig parts and components. In order to increase the annual rig production to 150 rigs by 2008, the Group needs capital investment, including fixed capital (for items such as expansion of the ground for final assembly tests, expansion of workshops, and increase of the production and testing equipment).

(3) Approximately 20% is to be used for acquisitions, establishing joint ventures, and strategic alliances with international partners, in order to expand our product offerings to the oil and gas exploration and production industry. We are in the process of searching for potential international partners.

The remaining proceeds will be used for working capital and day to day expenses.

To the extent that our net proceeds are not immediately applied to the aforementioned purposes, and to the extent permitted by PRC law and regulations, we intend to deposit such proceeds into short-term demand deposits and/or money market instruments.

We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

Dividends and Dividend Policy

After the completion of the Global Offering, our shareholders will be entitled to receive dividends declared by us. The declaration of, payment and amount of interim dividends will be subject to the discretion of our Directors in accordance with our Articles of Association, and will be dependent upon our future operations and earnings, financial condition, capital requirements and surplus, contractual restrictions, payments by subsidiaries of cash dividends to us and other factors that our Directors deem relevant.

We declared dividends of approximately RMB2.2 million, RMB1.6 million and RMB19.5 million, in 2004, 2005 and 2006, respectively. No dividends were declared for the year ended December 31, 2007. There is no guarantee that dividends will be paid in the future. The declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend on, among other things, the following factors:

- our financial results and resources available;
- business opportunities and capital requirements; and
- market conditions.

Subject to the factors above, the Directors intend to declare and recommend annual dividends of not less than 20% of our annual distributable profit attributable to equity holders of the Company for the financial years ending December 31, 2008 and 2009.

Cash dividends on the ordinary shares of the Company, if any, will be paid in Hong Kong dollars. Other types of payment, if any, will be paid to the shareholders by any means the Directors deem appropriate and practicable.

Profit Estimate

We estimate that, on the bases and assumptions set out in Appendix III to this Prospectus and in the absence of unforeseen circumstances, our estimated combined profit attributable to equity holders for the year ended December 31, 2007, will not be less than RMB538.3 million. The profit estimate for the year ended December 31, 2007, has been prepared by our Directors, based on our audited combined results for the eight months ended August 31, 2007, and the unaudited management accounts of the Group for the remaining four months ended December 31, 2007.

Offer Statistics

	Based on offer price of HK $3.16	Based on offer price of HK $4.50
Market capitalization of our Shares (HK$000)	10,533,418	15,000,120
Pro forma fully diluted estimated price/earnings multiple	18.15	25.85
Adjusted net tangible asset value per Share (HK$)	0.92	1.24

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was adopted by the Company on January 21, 2008, of which 60,000,000 Shares may be issued upon exercise of all options granted thereunder, representing approximately 1.8% of the aggregate number of Shares in issue immediately following completion of the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option).

The earnings per Share will be diluted from HK$0.174 to HK$0.171 if all 60,000,000 Shares under the Pre-IPO Share Option Scheme are issued.

For a detailed summary of the Pre-IPO Share Option Scheme, please refer to Appendix VII to this Prospectus.

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section entitled "Glossary of Technical Terms".

"Ally Giant"	Ally Giant Limited (聯宏有限公司), a company incorporated in the BVI with limited liability on July 10, 2006
"Ally Smooth"	Ally Smooth Investments Limited (聯順投資有限公司), a company incorporated in the BVI with limited liability on July 5, 2006
"Ample Chance"	Ample Chance International Limited (宏機國際有限公司), a company incorporated in the BVI with limited liability on July 13, 2006
"Application Form(s)"	white application form(s), yellow application form(s) and green application form(s), or where the context so requires, any of them
"Articles of Association"	the Articles of Association of the Company, approved at extraordinary shareholders' meetings of the Company on January 21, 2008
"Asia Harbour"	Asia Harbour International Limited (宏海國際有限公司), a company incorporated in Hong Kong with limited liability on July 8, 2006 and a wholly-owned subsidiary of the Company
"Associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Beauty Clear"	Beauty Clear Holdings Limited (俊朗控股有限公司), a company incorporated in the BVI with limited liability on July 21, 2006
"Believe Power"	Believe Power International Limited (信力國際有限公司), a company incorporated in the BVI with limited liability on July 21, 2006
"Benefit Way"	Benefit Way International Limited (益通國際有限公司), a company incorporated in the BVI with limited liability on July 7, 2006
"Birdview"	Birdview Limited (鵬景有限公司), a company incorporated in the BVI with limited liability on July 21, 2006
"Board of Directors" or "Board"	the Board of Directors of our Company
"Business Day"	any day (other than Saturday and Sunday) on which banks in Hong Kong are open for normal banking business
"BVI"	the British Virgin Islands
"CAGP Funds"	collectively, (1) Carlyle Asia Growth Partners III, L.P., and (2) CAGP III Co-Investment, L.P.

"Carlyle Funds"	collectively, (1) CAGP Funds, and (2) Carlyle/Riverstone Funds
"Carlyle/Riverstone Funds"	collectively, (1) Carlyle/Riverstone Global Energy and Power Fund III (Cayman), L.P., (2) C/R Energy III Frontier Partnership, L.P., and (3) C/R Energy Co-investment III (Cayman), L.P.
"Cayman Companies Law"	the Companies Law (2007 Revision) of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System, established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, or a CCASS Custodian Participant, or a CCASS Investor Participant
"Charm Moral"	Charm Moral International Limited (德美國際有限公司), a company incorporated in the BVI with limited liability on July 18, 2006
"CIETAC"	China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會)
"CNOOC"	China National Offshore Oil Corporation (中國海洋石油總公司), a state-owned enterprise established in the PRC on February 15, 1982
"CNOOC Group"	CNOOC and its subsidiaries
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company" or "our Company"	Honghua Group Limited, (宏華集團有限公司) an exempted company incorporated in the Cayman Islands with limited liability on June 15, 2007
"Company Law"	the Company Law of the PRC (中華人民共和國公司法), as approved by the Standing Committee of the Eighth NPC on December 29, 1993, effective on July 1, 1994, as amended, supplemented or otherwise modified from time to time

"Concert Group"	several shareholders of Honghua Company forming a concert group as set out in the "Company History and Reorganization - Ownership Continuity and Control" section of this Prospectus, namely, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lu Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國), Liu Lulu (劉露璐), He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良), out of which He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良) transferred an aggregate of approximately 9.132% equity interests in Honghua Company to the other members of the Concert Group. The transfers were completed on February 17, 2006
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules being, for the time being, Ally Giant, Ample Chance, Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Vast & Fast Corporation, Cavendish Global Corporation, Brondesbury Enterprises Limited, Dobson Global Inc, Darius Enterprises Limited, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lu Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國) and Liu Lulu (劉露璐). Contracts including the Lock-up Undertaking detailed in the "Underwriting — Undertakings" section of the Prospectus executed by the Controlling Shareholders after Liu Xuetian's death were executed by his legal successors
"COOS"	China Ocean Oilfields Services (Hong Kong) Limited (中國近海石油服務(香港)有限公司), a company incorporated in Hong Kong with limited liability on April 2, 1982
"CNPC"	China National Petroleum Corporation (中國石油天然氣集團公司)
"Credit Suisse"	Credit Suisse (Hong Kong) Limited, licensed to conduct type 1 (dealing in securities) regulated activity, type 4 (advising on securities) regulated activity and type 6 (advising on corporate finance) regulated activity under the SFO
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
"Datastream"	Thomson Datastream, a financial, statistical database company that maintains databases of spot prices for various commodities including multiple forms of processed steel
"Director(s)"	member(s) of the Board of Directors of our Company
"DPF"	Development Partners Fund, an exempted company incorporated in the Cayman Islands with limited liability on May 26, 2005
"Enafor"	Entreprise National de Forage

"Enterprise Tax Law"	the Enterprise Tax Law of the PRC (中華人民共和國企業所得税法)
"ENTP"	Entreprise Nationale des Travaux aux Puits, a drilling contractor whose focus is on the African markets
"Equity Trustee"	Equity Trust Limited, a company incorporated in the BVI with limited liability on July 25, 1989
"Existing Shareholders"	collectively, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xuetian (劉學田) (deceased), Zhou Bing (周兵), Lu Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢強), Liu Yingguo (劉映國), Liu Lulu (劉露璐), Tang Ying (唐穎), Zhang Cong (張聰), Zhao Ping (趙平), Luo Qiping (羅啟平), Liu Gangqiang (劉剛強), Di Xiaohong (狄曉宏), Ma Limin (馬歷民), Xu Chuan (徐川), Chen Zhen (陳臻), Liu Yonghong (劉永紅), Di Baiwei (邸百偉), Li Ping (李平), Yang Hong (楊虹), Tian Daoyun (田道雲), being the 34 shareholders of Honghua Company together holding the entire equity interest of Honghua Company before the acquisition by Asia Harbour as set out in the "Company History and Reorganization — Reorganization" section of this Prospectus. Contracts executed by the Existing Shareholders after Liu Xuetian's death were executed by his legal successors
"Financial Investors"	the several Financial Investors of the Company listed in the section entitled "Company History and Reorganization— Financial Investors" of this Prospectus
"FSU"	the former Soviet Union, including Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Latvia, Lithuania, Moldova, Russia, Ukraine, Turkmenistan and Uzbekistan (unless otherwise stated)
"GAAP"	Generally Accepted Accounting Principles
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Great Wall"	Great Wall Drilling Company (中油長城鑽井有限責任公司), a subsidiary of CNPC
"Green Application Form(s)"	the application form(s) to be completed by White Form eIPO service provider designated by the Company
"Golden Coast Company"	Honghua Golden Coast Equipment FZE (宏華金海岸設備有限公司), formerly known as Golden Coast Equipment FZE (金海岸設備公司), a company incorporated in the United Arab Emirates with limited liability on November 28, 2006 and a wholly-owned subsidiary of Honghua International
"Group" or "we" or "us"	the Company and its subsidiaries, and, for the period before the Company became the holding company for such subsidiaries, the entities which carried on the business of the Group
"HH Egyptian Company"	Egyptian Petroleum HH Rig Manufacturing Shareholder Co., a company incorporated in Egypt with limited liability on April 24, 2007 and is held by Asia Harbour, Petroleum Projects and Technical Consultation Company, Engineering for the Petroleum and Process Industries Company and Tharwa Petroleum Company as to 50%, 25%, 10% and 15% respectively
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards

"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Honghua America"	Honghua America, LLC, formerly known as New Continental Equipment Co., LLC and as New Continental Equipment Co., Ltd, a limited partnership formed in the State of Texas on October 11, 2004, and converted into a limited liability company on December 19, 2006, and a 80%-owned subsidiary of Honghua Company
"Honghua Company"	Sichuan Honghua Petroleum Equipment Co., Ltd. (四川宏華石油設備有限公司), formerly known as Chuanyou Guanghan Honghua Co., Ltd. (川油廣漢宏華有限公司), a limited liability company established in the PRC on December 31, 1997, and a wholly-owned subsidiary of Asia Harbour
"Honghua Industrial"	Chuanyou Guanghan Honghua Industrial Development Company (川油廣漢宏華實業開發公司), a collectively-owned enterprise established in the PRC on June 17, 1993
"Honghua International"	Honghua International Co., Ltd. (四川宏華國際科貿有限公司), formerly known as Sichuan Honghua Trading Co., Ltd. (四川宏華貿易有限公司), a limited liability company established in the PRC on January 13, 2004, and an 80%-owned subsidiary of Honghua Company
"Honghua-Ural"	Honghua-Ural Equipment Manufacture Joint Stock Co., Ltd. (宏華－烏拉爾機械制造公司), a distributor of our Company in Russia
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Public Offering"	the offer of Public Offer Shares for subscription by the public in Hong Kong, for cash at the Offer Price, subject to the terms and conditions described in this Prospectus and the Application Forms
"Hong Kong Underwriters"	the several underwriters of the Hong Kong Public Offering listed in the section entitled "Underwriting — Hong Kong Underwriters" of this Prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement to be dated on or around February 22, 2008, relating to the Hong Kong Public Offering entered into between us, the Hong Kong Underwriters and the Joint Global Coordinators
"Hongtai Company"	Guanghan Hongtai Business Trading Co., Ltd (廣漢市宏泰商貿有限公司), a limited liability company established in the PRC on June 21, 2002
"Hongtian Company"	Chengdu Hongtian Electronic Drive Engineering Co., Ltd. (成都宏天電傳工程有限公司), a limited liability company established in the PRC on June 6, 2001, and an 80%-owned subsidiary of Honghua Company

"Huasheng Oil Company"	Sichuan Huasheng Oil Industry Development Co., Ltd. (四川華盛石油實業開發總公司), formerly known as Sichuan Huasheng Oil Industry and Trading Development Co., Ltd. (四川華盛石油工貿實業開發總公司), a collectively-owned enterprise established in the PRC on October 4, 1993
"IFRS"	International Financial Reporting Standards
"Independent Third Parties"	persons or companies which are independent of and not connected with any of the Directors, Chief Executive, Substantial Shareholders of the Company, or any of its subsidiaries or their associates
"International Offering"	the conditional placing by the International Underwriters of the International Offer Shares with institutional and professional investors, as further described in the section entitled "Structure of the Global Offering" of this Prospectus
"International Offer Shares"	the 750,024,000 Shares initially being offered by us for subscription, at the Offer Price under the International Offering, subject to adjustment as described in the section entitled "Structure of the Global Offering"
"International Placing Agreement"	the International Placing Agreement relating to the International Offering, and to be entered into between us, the International Underwriters and the Joint Global Coordinators, on or around February 29, 2008
"International Underwriters"	the several underwriters of the International Offering, led by the Joint Global Coordinators, and expected to enter into the International Underwriting Agreement to underwrite the International Offering
"Investment Agreement"	the investment agreement dated November 29, 2006, as amended by a supplemental agreement dated March 19, 2007 entered into by, *inter alia*, Ally Giant Limited and the Financial Investors
"Investors' Rights Agreement"	the investors' rights agreement dated November 29, 2006, as amended by a supplemental agreement dated March 30, 2007 entered into by, *inter alia*, Ally Giant and the Financial Investors
"IP Cathay"	IP Cathay One, L.P., a limited partnership formed in the BVI on May 12, 2006
"Izhdrill-Honghua"	Izhdrill-Honghua Co., Ltd. (伊日德利爾－宏華股份有限公司), a distributor of our Company in Russia
"Joint Bookrunners"	Credit Suisse and Morgan Stanley
"Joint Global Coordinators"	Credit Suisse and Morgan Stanley

"Joint Sponsors"	Credit Suisse and Morgan Stanley
"Latest Practicable Date"	February 15, 2008, which is the latest practicable date, prior to the publication of this Prospectus, for ascertaining certain information
List of Sinopec Suppliers	a list of Sinopec approved suppliers (中國石化供應商網絡)
"Listing"	the listing of the Shares on the Stock Exchange
"Listing Date"	the date on which dealing in the Shares first commences on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Lucky Wish"	Lucky Wish International Limited, a company incorporated in the BVI with limited liability on February 2, 2005 and wholly-owned by Liu Zhi on trust for Honghua International
"Memorandum"	the Memorandum of Association of the Company, adopted on January 21, 2008 (as amended from time to time)
"Ministry of Commerce"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Ministry of Finance"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"Morgan Stanley"	Morgan Stanley Asia Limited, licensed to conduct Type 1 (dealing in securities), Type 4 (advising in securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance
"Mutual Release"	a mutual release, dated October 17, 2007, entered into by Nabors International and Honghua Company
"Nabors Global"	Nabors Global Holdings Limited, an exempted company organized under the laws of Bermuda on February 25, 2005
"Nabors Group"	Nabors Industries and its subsidiaries
"Nabors Industries"	Nabors Industries Ltd., an exempted company organized under the laws of Bermuda on December 11, 2001, whose shares are listed on the New York Stock Exchange
"Nabors International"	Nabors Drilling International II Limited, an exempted company organized under the laws of Bermuda on March 12, 2003
"Nabors Management"	Nabors International Management Limited, an exempted company organized under the laws of Bermuda on December 23, 2004
"National Bureau of Statistics"	National Bureau of Statistics of the PRC (中國國家統計局)

"NDRC"	the National Development and Reform Commission of the People's Republic of China (中華人民共和國國家發展和改革委員會)
"Note Instrument"	the note instrument, dated December 6, 2006, issued by Ally Giant to each of Financial Investors, as amended by a supplemental agreement, dated March 30, 2007
"NPC" or "National People's Congress"	the National People's Congress of the PRC (全國人民代表大會), the national legislative body of the PRC
"OFAC"	the Office of Foreign Assets Control of the USA Treasury Department
"Offer Price"	the final Hong Kong dollar price per Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee), at which the Offer Shares are to be sold pursuant to the Hong Kong Public Offering, to be determined as further described in the section entitled "Structure of the Global Offering — Pricing and Allocation" in this Prospectus
"Offer Shares"	the Public Offer Shares and the International Offer Shares, and (where applicable) any additional Shares issued and allotted pursuant to the exercise of the Over-allotment Option
"Oil Drilling Plant"	Sichuan Oil Administration Bureau Drilling Equipment Plant (四川石油管理局鑽采設備製造廠), a state-owned enterprise established in the PRC on December 28, 1993
"OPEC"	the Organization of Petroleum Exporting Countries, including Algeria, Angola, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, UAE and Venezuela
"Over-allotment Option"	the option to be granted by us to the Joint Global Coordinators (on behalf of the International Underwriters), exercisable under the International Placing Agreement, pursuant to which we may be required by the Joint Global Coordinators (on behalf of the International Underwriters) to allot and issue up to an aggregate of 125,000,000 additional Shares, representing approximately 15.0% of the initial Offer Shares, at the Offer Price, solely to cover over-allocations in the International Offering
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"PBOC Rate"	the exchange rate for foreign exchange transactions, set daily by the PBOC
"Pemex"	Petróleos Mexicanos, Mexico's state-owned petroleum company
"PetroChina"	PetroChina Company Limited (中國石油天然氣股份有限公司)

"PRC" or "China"	the People's Republic of China and, except where the context requires and only for the purpose of this Prospectus, references in this Prospectus to the PRC or China do not apply to Taiwan or the Hong Kong and Macau Special Administrative Regions
"PRC GAAP"	Generally Accepted Accounting Principles in the PRC
"PRC Government"	the government of the PRC, including all central, provincial, municipal, and regional or local government entities
"Price Determination Date"	the date, expected to be on or around February 29, 2008, but no later than March 3, 2008, on which the Offer Price is fixed for the purposes of the Global Offering
"Pride"	Pride International, Inc., a drilling contractor headquartered in Houston, Texas, USA
"Public Offer Shares"	the 83,336,000 Shares initially being offered by us, for subscription at the Offer Price, under the Hong Kong Public Offering, subject to adjustment as described in the section entitled "Structure of the Global Offering" in this Prospectus
"QIBs"	Qualified Institutional Buyers within the meaning of Rule 144A
"Red Maple International"	Red Maple International Inc., a sales agent of our Company in Canada
"Regulation S"	Regulation S under the U.S. Securities Act
"Reorganization"	the reorganization arrangements made by the Group in preparation for the Listing, as described in the sections entitled "Company History and Reorganization," and Appendix VII, "Statutory and General Information," of this Prospectus
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RUB"	Russian ruble, the lawful currency of Russia
"Rule 144A"	Rule 144A under the U.S. Securities Act
"Russia"	The Russian Federation
"SAFE"	the PRC State Administration of Foreign Exchange (國家外匯管理局)
"SAFE Notice"	the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, a public notice issued by SAFE on October 21, 2005, effective on November 1, 2005 (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知)

"SARS"	severe acute respiratory syndrome
"SASAC"	the PRC State-owned Assets Supervision and Administration Commission of the State Council (中華人民共和國國務院國有資產監督管理委員會)
"SAT"	the State Administration of Taxation (國家税務總局)
"Securities Commission"	the former Securities Commission of the State Council (前中國國務院證券委員會), which was abolished in March, 1998, and whose functions were assumed by the CSRC
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SETC"	the State Economic and Trade Commission of the PRC (中國國家經濟貿易委員會), whose function was removed by the National People's Congress on March 10, 2003, and whose functions were incorporated partly into the Ministry of Commerce and partly into SASAC
"Settlement Agreement"	the settlement agreement dated October 17, 2007, entered into by Nabors International and Honghua Company
"Settlement Documents"	collectively, the Settlement Agreement, the Share Transfer Agreement, the Technology License Agreement and the Mutual Release
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary shares issued by the Company, with a nominal value of HK$0.10 each
"Share Transfer Agreement"	the share transfer agreement dated October 17, 2007, entered into between Ally Giant, Nabors International and the Company
"Shareholder(s)"	holder(s) of our Share(s)
"Sinopec"	China Petroleum & Chemical Corporation (中國石油化工股份有限公司)
"sq.m."	square meters
"SSF"	the PRC National Council for Social Security Fund (全國社會保障基金理事會)
"State Council"	the State Council of the PRC (中國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Strategic Cooperation Agreement"	the strategic cooperation agreement dated November 3, 2007, entered into between Nabors Industries and the Company
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Takeovers Code"	Hong Kong Code on Takeovers and Mergers
"Technology License Agreement"	the technology license agreement dated October 17, 2007, entered into between Nabors Global and the Company
"Track Record Period"	the period of the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007
"Trademark Bureau"	the State Administration for Industry and Commerce Trademark Office (中華人民共和國國家工商行政管理局商標局)
"UAE"	the United Arab Emirates
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Placing Agreement
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland
"United States", "USA" or "U.S."	the United States of America, including its territories and possessions
"US$" or "U.S. dollars" or "USD"	United States dollars, the lawful currency of the United States
"U.S. Securities Act"	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"Vincera Group"	collectively, (1) Hua VII Venture Capital Corporation, (2) Vincera Growth Capital I Limited, and (3) Preen Group Limited
"White Form eIPO"	the application for Public Offer Shares to be issued in the applicant's own name, submitted online through the designated website **www.eipo.com.hk**
"White Form eIPO Service Provider"	the White Form eIPO service provider designated by the Company, as specified on the designated website **www.eipo.com.hk**
"Youxin Company"	Sichuan Honghua Youxin Petroleum Machinery Co., Ltd. (四川宏華友信石油機械有限公司), formerly known as Guanghan Youxin Co., Ltd. (廣漢市友信有限責任公司), a limited liability company established in the PRC on August 7, 1998, and an 80%-owned subsidiary of Honghua Company

This glossary of technical terms contains terms used in this Prospectus, as they relate to our business. Accordingly, these terms and their meanings may not always correspond to standard industry meaning or usage.

"AC"	alternating current electrical engine utilized for rigs, driven by diesel power
"air drilling"	a form of rotary drilling that uses compressed air instead of mud, used predominantly in shallow, low-pressure areas
"API"	the American Petroleum Institute, which provides quality certification programs, including the API Monogram Program, equipment, products and services in the oil and natural gas industry
"API Monogram"	the API Monogram signifies that the products licensed to carry this mark have met and continue to meet the applicable quality standards in the corresponding API Monogram Program
"bcf"	billion cubic feet
"bcf/d"	billion cubic feet per day
"BOP"	blowout preventor, a heavy steel cap designed to close the top of the wellbore during drilling operations, which seals well pressure and provides a controlled release of well fluids or gases
"Brent Crude Oil"	oil sourced from the North Sea. Brent Crude is a premium grade of crude oil and forms a benchmark for oil production from Europe, Africa and the Middle East
"CAGR"	compound annual growth rate
"cargo hoist"	equipment (similar to an elevator) commonly used to move tools used on the drill floor from the ground of the drill floor, mainly with a hydraulic drive
"CIF"	'cost, insurance and freight,' an export term in which the price quoted by the exporter includes the costs of ocean transportation to the port of destination and insurance coverage
"cluster well drilling"	the process of drilling multiple wells from the same drilling site, which requires the rig to be equipped with parallel move equipment to facilitate quick movement between the wells
"control cabin"	enclosed unit on the drill rig floor, where the driller operates the hoisting, rotary, and circulating equipment

"crown block"	an assembly of sheaves or pulleys, mounted on beams at the top of the derrick. The drilling line is run over the sheaves, down to the hoisting drum
"day rates"	a fixed daily fee charged for the services provided by a drilling rig
"DC"	direct current electrical engine utilized for rigs, driven by diesel power, also known as "SCR" powered rigs
"diesel-engine generator set control system"	that part in the electric drive system, which is used to control the power generation units, the main functions of which are the synchronized control of power generation units and load distribution of multiple units
"drawworks"	the winch machinery on a drill floor, consisting of a large-diameter steel spool, brakes, a power source and assorted auxiliary devices, which reels out and reels in the drilling line, a large-diameter wire rope, in a controlled manner
"drill shipping"	a maritime vessel which contains a large drilling unit, which is typically utilized in drilling in deep water
"drilling fluid line"	pipelines used to deliver high-pressure drilling mud, from the mud pump outlet to the drill pipe, via the swivel (or top drive)
"fixed rigs"	a stationary platform offshore oil and/or gas production facility. Fixed rigs are designed to provide offshore workover, drilling and re-entry services. Fixed offshore platforms are steel structures that either stand on the ocean floor or are moored floating structures. The platform sits above the water level and provides the foundation upon which the rig is placed
"FOB"	'free on board,' an export term in which the price quoted by the exporter includes the cost of delivering the goods to the vessel at a particular designated port
"Henry Hub Gas"	a natural gas pipeline hub in Erath, Louisiana, that serves as the delivery point for New York Mercantile Exchange natural gas futures contracts, and often serves as a benchmark for wholesale natural gas prices across the U.S.
"hook"	a large heavy hook, which is attached to the traveling block and connects to the swivel
"HP" or "hp"	horsepower, a unit of measuring mechanical power

"jack-up rig"	a drilling rig used in offshore drilling, comprised of a drilling platform supported by legs which stand on the sea floor so that the platform sits above the drill site. The platform is raised above the water and supported by the legs to conduct drilling operations. This type of rig is typically used for water depths of up to 300 to 400 feet
"mast" or "derrick"	a vertical tower, made of special structural steel on a drilling rig. The mast (or derrick) is used to suspend the drillstring in the well, and is part of the hoisting system, that raises and lowers equipment in the well, and allows for vertical stacking and changing of long drill pipes and drill collars
"MCC"	Main Control Cabin, the control cabin of the rig
"mmbbl"	million barrels (a measure of oil reserves)
"mmbbl/d"	million barrels per day
"mmboe"	million barrels of oil equivalent (energy and petroleum industry)
"mmboe/d"	million barrels of oil equivalent per day
"MMBtu"	million British Thermal Units
"mud pumps"	mud pumps are essentially large reciprocating pumps used to circulate drilling fluid, or drilling "mud", through a rig's circulation system.
"rotary table"	the principal component of a rotary system, used to turn the drill stem and support the drilling assembly. Rotary tables are located on the drill floor, and linked to electrical or mechanical drive systems
"SCR"	silicon controlled rectifier, a semi-conductor rectifier, utilized by SCR rigs in their diesel-to-AC-to-DC power systems
"semi-submersible rigs"	a mobile offshore drilling unit, that floats on the water's surface, above the sub-sea wellhead and is anchored in place.
"semi-trailer rig"	a rig, having one or more sets of wheels at the rear only, with the forward portion being supported by the truck tractor or towing vehicle
"solids control system"	the solids control system can include shakers, centrifuges and other specialized equipment. The solids control system permits the mud to be continuously reused and recirculated back into the hole

"substructure"	the substructure is an assembly of heavy beams used to elevate the derrick and provide space to install blowout preventers, casingheads, and so forth
"swivel"	a device hung from the traveling block by a hook, which is attached to a drillstring suspended down a well along the drill mud line. The swivel allows the drillstring to rotate while being suspended from the derrick. The drilling mud is pumped through the swivel, along the drill string
"tcf"	trillion cubic feet
"top drive units"	the top drive rotates the drill string and is operated from a control console on the rig floor
"travelling block"	a heavy pulley system, suspended below the crown block, used to hang tools and equipment, such as hooks and swivels, that raise and lower the drillstring and other equipment into and out of the well
"U8 system"	a database management system, which is a collection of programs, that enables users to create, store, modify, and extract information from a database
"VFD"	variable frequency drive, a system for controlling the rotational speed of an alternating current electric motor, by controlling the frequency of the electrical power supplied to the motor
"workover"	the process of performing major maintenance or remedial treatments on an oil or gas well. Workover may also imply the removal and replacement of the producing tubing string after the well has been killed and a workover rig placed on location

In addition to other information in this Prospectus, you should carefully consider the following risk factors, which may not be typically associated with investing in equity securities of companies from other jurisdictions, before making any investment decisions in relation to the Offer Shares. If any of the possible risks described below materialize, our business, financial condition and results of operations could be materially and adversely affected and the market price of the Offer Shares could decrease significantly.

There are certain risks involved in our business and operations and in connection with the Global Offering. These risks can be categorized as: (i) risks relating to our business; (ii) risks relating to the PRC; and (iii) risks relating to the Global Offering.

Risks Relating to Our Business

Demand for our products is directly and indirectly affected by trends in oil and gas prices.

Our revenue is generated almost entirely from the sale of drilling rigs and rig parts and components. For the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007, sales of drilling rigs alone accounted for 86.9%, 86.5%, 87.2% and 82.5%, respectively of our revenue. Demand for oilfield equipment and services is dependent on oil and gas exploration and production activity and capital expenditures of oil and gas producers, which in turn are largely dependent on current prices of, and future trends in, global oil and gas prices. Given our heavy reliance on our customers in the oil and gas drilling industry, our revenue is particularly sensitive to changes in global oil and gas prices. Oil and gas prices can fluctuate for a number of reasons, including and without limitation the following:

- changes in demand driven by growth in major economies;
- significant adoption of petroleum-alternative fuels;
- OPEC market activity;
- civil or political unrest in oil producing regions; and
- changes or breakdowns in oil supply infrastructure and production capacity.

A prolonged decline in global oil and gas prices, for these or other reasons, could directly or indirectly reduce the demand for our products and have a material adverse effect on our business, financial condition, and results of operations.

Our customers operate in a volatile industry, and their demand for our products may be affected by factors unrelated to movements in oil and gas prices.

Our customers are drilling contractors and companies involved in oil and gas exploration and production who operate in a volatile industry in which many markets or business factors independent of global oil and gas prices could affect their demand for our products. The factors that impact the demand for our products may include: the availability of drilling rigs or oversupply of drilling rigs in a given market or a given customer's rig fleet; the age or condition of a customer's or the market's existing drilling equipment; the under- or over-investment in drilling equipment by our customers or in their markets; the availability of or access to investment capital to invest in new equipment; the availability of drilling projects for our customers or their markets; and a customer's ability to compete for new projects. Further, the regions in which many of our customers operate are often volatile, and any political instability, hostilities or war within these regions could affect our customers' demand for our products. Factors specific or internal to our customers' businesses or the markets they operate in,

as well as the global demand for oil and gas, are factors beyond our control and any decline in demand for our products due to any such factors could have a material adverse affect on our business, financial condition, and results of operations.

Fluctuations in raw material prices may adversely affect our business.

Our production process requires reliable sources of large quantities of raw materials. In particular, steel plays a prominent role in the construction of our rigs, as well as in the rig parts and components, such as hydraulics, diesel engines and AC variable-frequency motors, that we source from third parties. We generally procure raw materials and parts and components for production only after we have secured a sales contract for a product, and since we cannot alter the prices of our products under signed contracts unless the customer requests a change in design or configuration, we bear the risk associated with raw material cost fluctuations during a contract period. The price of steel has historically been subject to frequent price fluctuations and is also sensitive to supply disruptions, general economic conditions, and many other factors that are beyond our control. Given the prominence of steel in both the rig structures and the constituent parts and components of those rigs, whether produced internally or sourced from third parties, our cost structure is sensitive to fluctuations in the price of steel. According to Datastream, the spot price for medium steel plates (3-10mm), a common form for the delivery of raw steel and for indexing steel prices, fluctuated during the years ended December 31, 2004, 2005, and 2006 and 2007, as follows:

	Year ended December 31,			
	2004	2005	2006	2007
Low Price (US$/metric ton)	305	485	470	470
High Price (US$/metric ton)	535	580	525	605
Standard deviation	70.38	40.97	14.77	54.63

We expect the volatility and uncertainty of steel prices to continue. Although we do attempt to reflect steel and other raw material price fluctuations in the selling prices of our products, there can be no assurance that we will be able to reflect all increases in raw material costs in the selling prices of our products on a timely basis or at all. We have entered into strategic cooperation agreements with some suppliers that allow us to purchase raw materials at a favourable price that may be lower than the market price. According to such strategic cooperation agreements, we can enjoy favourable pricing, priority in after-sales services and a stable supply of raw materials from these suppliers, which reduces our exposure to fluctuations in the supply of some raw materials to some extent. We do not currently employ any additional commodity risk management strategies or engage in any hedging transactions to minimize our risks relating to fluctuations in the price of raw materials. If we are unable to reflect increases in the price of raw materials in the prices of our products, the operating results for our products may be materially and adversely affected.

We depend on third parties to deliver certain raw materials, components and services that meet our quality standards in a timely manner to manufacture our products.

We procure raw materials and some rig components, such as frequency converters and diesel engines, which account for a significant proportion of our cost of sales, mainly from external suppliers. We also employ third party contractors to process some specialty rig components. We currently source almost all of our basic steel inputs domestically from five suppliers operating primarily in Chongqing and Chengdu, while our externally supplied parts and components are typically manufactured in the United States, Finland, or Germany and are generally sourced through local distributors. We have no long-term contractual arrangements with most of our suppliers. Any sudden shortage of raw materials supply, increase in demand, price movements, or other factors internal to our contract suppliers may result in an interruption in such supply of raw materials and components. From time to time, we reject materials that do not meet our quality standards or other specifications. Such shortage of supply or rejection of materials may affect our manufacturing schedule, and we may have to

source supplies from alternative suppliers at a higher price, which may delay the delivery of products to our customers. This, in turn, may result in us having to pay compensation to our customers and adversely affecting our reputation. In particular, to the extent that we are dependent on a sole supplier or a limited number of suppliers for a critical input, it will be difficult to replace such supplier. Any of the foregoing events could cause a delay in our delivery and an increase in our costs, which may have a material adverse effect on our business, financial condition and results of operations.

We rely on a limited number of customers.

We have been dependent on a limited number of customers for a significant portion of our revenues. Our top five customers, in the aggregate, accounted for 84.3%, 72.8%, 80.2% and 65.2% of our total revenue for the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007, respectively. Over the same periods, four, six, two and six of our customers, respectively and individually accounted for greater than 5% of our revenues. There is no assurance that we will be able to retain these customers or that they will maintain their current level of business with us. If there is a reduction or cessation of orders from these customers for whatever reasons and we are unable to obtain, in substitution, suitable orders of a comparable size, due to contractual restrictions or otherwise, our business, financial condition and results of operations may be materially and adversely affected. In addition, our reliance on a limited number of customers exposes us to the risk that a contractual dispute with any single customer, either initiated by us or by such customer, could have a material impact on our business. Such a dispute in connection with the sale of any rig, or of rig parts and components, could result in the loss of such customer, the diversion of management attention and significant legal liabilities and other costs which, in turn, could have a material adverse affect on our business, financial condition and results of operations. In addition, any negative publicity associated with a contractual claim against us could result in reputational damage and, as a result, could reduce sales from other customers and potential customers.

We were involved in an arbitration proceeding with Nabors International, a major customer and a current shareholder of our Company.

Nabors International, a U.S.-based owner and operator of land and offshore drilling rigs in over 30 countries, is one of our major customers and a current shareholder of the Company. Our sales to Nabors Group, which comprises Nabors International among various other Nabors entities, accounted for 0%, 17.9%, 64.0% and 32.3% of our total revenue in 2004, 2005 and 2006 and the eight months ended August 31, 2007, respectively. We were involved in an arbitration proceeding with Nabors International arising from the Master Sales Agreement dated May 18, 2005 (the "MSA"), the Heads of Agreement dated August 9, 2005 (the "HOA") and other related documents between Nabors Group and us. Nabors International submitted a request for arbitration to the International Court of Arbitration in June 2007, claiming that we breached the MSA in the following respects: (a) we breached our obligation to afford Nabors International a right of priority in the allocation of our manufacturing capacity and a right of first refusal to purchase any drilling rigs manufactured by us for customers outside China or the former Soviet Union; (b) we failed to meet delivery deadlines for the drilling rigs manufactured for Nabors International; (c) the drilling rigs and certain of the spare parts we supplied to Nabors International had defects; (d) we did not reimburse Nabors International a portion of the value-added tax refunds we received from the Chinese government relating to the drilling rigs and spare parts supplied to Nabors International; (e) we failed to provide 30-day start-up technical assistance at initial field operating sites, as required under the MSA; and (f) we breached our obligations not to sell drilling rigs to any non-Chinese third parties at prices lower than those paid by Nabors International and not to sell drilling rigs to certain named competitors of Nabors International. Nabors International claimed damages of at least US$72 million, plus interest, relating to these alleged breaches.

In the same arbitration proceedings, Nabors International also alleged that we breached our obligation under the HOA and related documents in relation to Nabors International's contemplated direct investment in up to 50% of the total equity interests in the Company. Nabors International requested specific performance of our alleged obligations or, in the alternative, an award of damages of at least US$100 million.

Prior to our receipt of the request for arbitration from Nabors International, we had sent a written demand letter to Nabors International, demanding that Nabors International promptly pay us US$51.7 million, being the sum of all the payments that Nabors International owed us, as of June 15, 2007, for the drilling rigs and other related equipment and materials we provided to Nabors International and expenses we incurred in accordance with the MSA.

In October 2007, we and Nabors International settled the above contractual disputes in all respects. However, we cannot assure you that Nabors International will not bring other claims against us in the future. Any legal proceeding brought against us by Nabors International or brought by us against Nabors International could also result in substantial legal costs and damages, as well as resulting in damage to our reputation and the diversion of our management's attention, which in turn could have a material adverse affect on our business, financial condition and results of operations.

Our dispute with 64 individuals may materially and adversely affect our business and financial condition.

As of December 31, 2005, 728 employees of Oil Drilling Plant, through 11 representatives, collectively held 33.63% of Honghua Company's share capital. These 11 representatives were registered by the management of Honghua Company as shareholders of Honghua Company with the competent PRC government authority. On January 7, 2006, Honghua Company passed a shareholder resolution to reduce its registered capital and repurchase all of the equity interest held by these 11 registered shareholders. On January 12, 2006, Honghua Company entered into an equity repurchase agreement with the 11 registered shareholders, under which, with the written consent of such 11 registered shareholders, Honghua Company agreed to pay the equity repurchase price directly to the 728 employees. On April 26, 2006, the capital reduction filing with the competent PRC government authority was completed. As of the Latest Practicable Date, 664 of the 728 investing employees had agreed to the buy-out arrangement and accepted payment from Honghua Company. The remaining 64 individuals, who, collectively, invested RMB651,385, representing approximately 3.10% interest in Honghua Company before the buy-out arrangement, claimed that they were still shareholders of Honghua Company and refused to accept the buy-out arrangement and payment from Honghua Company. For the year ended December 31, 2005, the unaudited profit attributable to shareholders of Honghua Company was approximately RMB24.6 million. The unaudited net asset value of Honghua Company as of September 30, 2007 was RMB106.2 million.

Taking into account Honghua Company's change in capital structure since the buyout arrangement, these 64 investors would have held approximately 0.9% interest in Honghua Company at the time that the entire equity of Honghua Company was acquired by Asia Harbour and the capital was increased to RMB72.0 million (assuming their aggregate investment amount of RMB651,385 remained unchanged). For the eight months ended August 31, 2006, the unaudited profit attributable to shareholders was RMB89.3 million. The unaudited net asset value of Honghua Company as of August 31, 2006 was approximately RMB150.5 million. For the nine months ended September 30, 2007, the unaudited profit attributable to shareholders of Honghua Company was RMB248.8 million. The unaudited net asset value of Honghau Company as of September 30, 2007 was RMB803.2 million.

Our PRC legal advisor, King & Wood, has advised that as these 11 representatives were registered shareholders of Honghua Company, they were entitled to enter into and sign the said equity repurchase agreement with Honghua Company. Accordingly, we have been advised that the equity repurchase agreement

was legally binding and enforceable against the 11 representatives who were parties to the equity repurchase agreements and that no consent or authority from the 728 employees was required under PRC law for entering into that equity repurchase agreement. Since the 64 individuals who refused to accept the buy-out arrangement were never registered as Honghua Company's shareholders with the competent PRC governmental authority, King & Wood has advised that there is no legal basis under PRC law for them to be regarded as shareholders of Honghua Company. On December 11, 2007, The People's Court of Chengdu City accepted the claim by 57 of these 64 individuals seeking an affirmation of their rights to the disputed shares, dividend entitlements in respect of the disputed shares, a declaration that the repurchase and cancellation of their equity interests were invalid, as well as an order that Honghua Company register the disputed shares at the Administration of Industry and Commerce. There were 16 defendants named in the statement of claim, with Honghua Company as the first defendant, Asia Harbour as the second defendant and 14 individuals including Shi Shuming (third defendant); Huang Dequan (fourth defendant), Li Yan (fifth defendant), Wang Yaoxin (sixth defendant), Zhou Tao (seventh defendant), Wang Wei (eighth defendant), Chen Zhenghua (ninth defendant), Yang Xuefeng (tenth defendant), Yang Yuanchun (eleventh defendant), Ni Xiurong (twelfth defendant), Yu Zhenghua (thirteenth defendant), Xing Manrong (fourteenth defendant), Zhi Rongmu (fifteenth defendant) and Liu Chuanjun (sixteenth defendant), as the third through sixteenth defendants. The third to thirteenth defendants were the 11 registered representatives at the time of the repurchase and the fourteenth to sixteenth defendants were three former registered representatives. Honghua Company was served with a writ notifying them of this claim on December 12, 2007. We can make no guarantee that this lawsuit will be resolved in our favor.

Although Ally Giant, Ample Chance, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Ally Smooth, Charm Moral, Beauty Clear, Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises Inc, Dobson Global Inc, Darius Enterprises Limited, Believe Power, Benefit Way, Birdview, and the Existing Shareholders executed a deed of indemnity in respect of dispute and risk on February 15, 2008 (the "Indemnity Deed") to indemnify the Group for any damages arising in relation to any claim made by the 64 investors, any legal proceedings against us with respect to this dispute or any other could be time-consuming and costly to defend and could substantially divert our management's attention. If these legal proceedings or any other claim against us succeeds, such that we are required to transfer 0.9% of our equity interest in Honghua Company to the 64 investors, our shareholding in Honghua Company could be diluted by as much as 0.9%. In the event the court orders that the plaintiffs' shares in Honghua Company be reinstated, the shares in Honghua Company would be restored to the 57 plaintiffs by either Honghua Company issuing new shares to the 57 plaintiffs or Asia Harbour transferring existing shares in Honghua Company to the 57 plaintiffs. In any event, any damages arising out of the dispute with any of the 64 investors would be indemnified pursuant to the Indemnity Deed. If we are required to pay damages in lieu of such a share transfer, payment of damages, even if indemnified pursuant to the Indemnity Deed, could result in damage to our reputation and, as a result, our business and financial condition could be materially and adversely affected.

We face risks in maintaining and expanding our business overseas, including but not limited to, differences in legal and regulatory requirements, currency exchange rates, economic sanctions and changes in political and economic conditions, all of which could materially and adversely affect our business.

A significant portion of our products are exported to customers in North America, Russia, the Middle East, Africa, Asia and other oil and gas producing regions. For the three years ended December 31, 2004, 2005, and 2006 and the eight months ended August 31, 2007, our exports to North America accounted for 0.4%, 28.0%, 71.0%, and 34.0% of our revenue, respectively. Exports to the Middle East accounted for 0.0%, 0.0%, 11.2%, and 0.0% of our revenue over the same respective periods, while exports to other regions, including Africa, Asia (outside the PRC) and Russia, accounted for 2.5%, 3.4%, 1.0%, and 20.6% of our revenue during those periods, respectively. We have established business operations in Houston, Texas (USA), Cairo (Egypt) and Dubai (UAE) and we intend to continue to develop our overseas customer base. We face risks in expanding and maintaining our business in overseas markets, including, but not limited to:

- political instability in some oil and gas producing regions which may disrupt commercial activities;
- differences in legal and regulatory environments;
- the burden of complying with a variety of foreign laws and regulations, including delays or difficulties in obtaining import and export licenses, and with unexpected changes in the legal and regulatory environment, including changes to import and export regulations;
- actions which may be taken by foreign governments concerning trade restrictions and economic sanctions;
- reduced protection for intellectual property rights in some jurisdictions;
- labor disputes;
- longer accounts receivable collection periods and greater difficulty in accounts receivable collection;
- difficulties in entering new markets and establishing brand recognition, including reliance on local agents and distributors for our marketing and sales, and difficulties in obtaining required certifications for our products in overseas markets;
- differences in customers' or targeted customers' requirements for special drilling and services;
- difficulties and costs of staffing and managing multinational operations;
- changes in political and economic conditions;
- potentially adverse tax consequences, including tax consequences concerning intercompany pricing for transactions between separate legal entities within a group operating in different tax jurisdictions; and
- fluctuations in currency exchange rates.

Expanding our business overseas may require the deployment of additional human and financial resources to manage these risks, and both the additional outlay of resources and the risks themselves may have a material adverse impact on our business, financial condition and results of operations.

We may encounter unexpected difficulties in implementing our strategy for future growth.

As part of our business strategy, we plan to develop and introduce various new products into new markets over the next few years. For example, we plan to make significant investments in our offshore equipment manufacturing base to produce jack-up rigs and fixed rigs. Our future plans include entering into the offshore drilling rig market, which would involve acquiring land and coastline in Shanghai or neighboring provinces, investing in research and development and new equipment, and constructing new factories. We also plan to increase our land rig production capacity from 86 rigs in 2006 to 150 rigs in 2008. For more detail, see "Our Business — Business Strategies" and "Future Plans and Use of Proceeds" in this Prospectus. Our ability to implement our business plans depends on, among other things: our research and development of new technology and new products; availability of suitable land to expand our production sites; our ability to obtain any necessary Governmental or regulatory approval or licenses; our ability to identify, and the availability of, suitable strategic acquisition targets and joint venture partners; and the availability of our management, financial and other resources. There can be no assurance that we can achieve our planned expansion objectives in a timely manner, or at all. In addition, if growth in demand fails to match the future growth in our capacity, our capacity utilization rate may be adversely affected, and as a result, we may experience a lower rate of return on our investment than we initially anticipated.

We have experienced and will likely continue to experience significant growth in the scope and complexity of our operations and in the number of our employees. This growth has placed, and future growth will continue to place, a significant strain on our managerial, technical, financial, production, operational, and other resources. If we are unable to integrate the businesses we acquire, or if we fail to manage and monitor our growth and expansion effectively, our future business, financial condition and results of operations may be materially and adversely affected.

We may experience difficulties in integrating our acquisitions, and there are inherent risks associated with our acquisitions policy.

As part of our Reorganization, we acquired Hongtian Company and Youxin Company. We anticipate making additional strategic acquisitions in order to expand into manufacturing other components and into other oilfield service equipment segments. However, there can be no assurance that we will be able to identify appropriate acquisition targets or continue to acquire businesses on satisfactory terms, or that any business acquired by us will be integrated successfully into our operations or that we will be able to operate such, business profitably. Acquisitions involve numerous risks, including difficulties in assimilating operations, technologies, services and products of the acquired businesses, personnel, revenue and the diversion of management attention from other business concerns. Failure to achieve the desired level of synergies in the context of any acquisitions could have a material adverse effect on our business, financial condition and results of operations.

There is no assurance that our new products will achieve market acceptance by our customers.

The market for our products is characterized by continuous technological developments to provide better performance in increasingly greater depths and harsher conditions. We have invested significant resources into research and development of new products to cater to market requirements by spending RMB1.2 million, RMB5.2 million, RMB16.2 million, and RMB14.1 million for the three years ended December 31, 2004, 2005, and 2006 and the eight months ended August 31, 2007, respectively, on research and development. Our research and development efforts are directed at product innovation as well as the development of more efficient production and management processes. However, there can be no assurance that the market will accept or demand these new products when we introduce them**.** In addition, there can be no assurance that our competitors will not develop newer or cheaper alternatives to our own products or devise more efficient and advanced

production techniques that could lower their per unit production costs. In the event our research and development fails to yield commercially viable products, lead to more efficient production, or otherwise provide a return on our investment, our business, financial condition and results of operations may be materially and adversely affected. Also, if we are unable to keep up with technological and other innovations in the industry in which we operate, we may ultimately suffer market share losses that could materially and adversely affect our business, financial condition, and results of operations.

Our interests may conflict with those of the Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our public shareholders' best interests.

Before and immediately after the Global Offering, our Chairman and 19 other individual shareholders, acting in concert, will remain as our Controlling Shareholders, with substantial control over our issued share capital. Accordingly, subject to our Memorandum and Articles of Association and the Cayman Islands Companies Law, these 20 shareholders, by virtue of their controlling ownership of our share capital as well as their positions on our Board, will be able to exercise significant control, or exert significant influence over, our business or other matters of significance to us and other shareholders by voting at the general meetings of shareholders or at the Board of Directors' meetings, including, but not limited to, any shareholder approvals for the election of its Directors, the selection of our senior management, the amount of dividend payments, increases or decreases in our share capital, new securities issuance, mergers and acquisitions and any amendments to our bylaws.

Although some of the Controlling Shareholders are Directors of our Company, the voting power and other rights of the Controlling Shareholders will not be affected by their capacity as Directors. The Controlling Shareholders are free to exercise their votes according to their interests, which may differ from the interests of other shareholders.

If we lose one or more of our key personnel without obtaining adequate replacements in a timely manner or if we are unable to retain and recruit skilled personnel, then our operations could be disrupted and the growth of our business could be delayed or restricted.

Our success depends on the continued service of our key executive officers, particularly, Mr. Zhang Mi, the Chairman, and Mr. Liu Zhi, Mr. Ren Jie and Mr. Luo Qiping, our vice-presidents. We do not carry key person insurance on any of our personnel. We have conditionally adopted a share option scheme to retain these key personnel. See "Appendix VII–Statutory and General Information–Share Option Scheme" in this Prospectus. If we lose the services of any of our key executive officers, it may be difficult to attract and integrate adequate replacement personnel into our operations in a timely manner, which, in turn, could disrupt our operations and the growth of our business.

Many of the rig products we sell are complex and highly engineered, and we also provide technical training and other services to our customers. We believe our success depends upon our ability to recruit and retain technical personnel with the ability to design, unitize and enhance our products. Our demand for skilled workers is high, and the supply is limited. We have invested significant resources in training our technical personnel, and we expect to increase our outlays to expand our oilfield service and equipment business. We have already faced high demand and increasing wages for labor serving our overseas operations. Significant increases in wages paid by competing employers could result in a reduction of our skilled labor force, and/or increases in the wage rates that we must pay. If any such events were to occur, our cost structure may increase and our growth potential may be impaired which in turn could have a material adverse effect on our business, financial condition and results of operations.

Loss of or failure to renew the API Monogram or other licenses certifying that our products meet benchmark quality standards could materially and adversely affect our business.

We have been granted licenses to put the API Monogram on certain of our products, which certifies the satisfaction of the API quality standard for those products. In the petroleum machinery industry, the API Monogram signifies that a product meets the standard quality requirements set by most oil producers operating worldwide. Virtually all of the products we sell contain parts or components bearing the API Monogram, and we consider the API Monogram to be critical to our sales efforts. The API licenses have to be renewed every three years. During the examination process for the application and renewal of such licenses, API sends its technical staff to audit our manufacturing facilities and our production management. We have obtained all three API licenses that are applicable to our products. Each of these licenses will expire on July 6, 2008. There can be no assurance that renewal for such licenses will be successful.

In the event that we do not obtain or renew any such licenses, our ability to market our products may be adversely affected, and our sales volume may be reduced. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We may rely on independent third-party distributors to obtain the relevant licenses and/or certifications required to distribute our products within other jurisdictions.

We may rely on independent third-party distributors to obtain certain local licenses and/or certifications required for our exported products to be distributed within other jurisdictions, such as in Russia. In Russia, the satisfaction of local distribution requirements is currently handled by our independent third-party distributor there. Our Russian local distributor, Izhdrill-Honghua, has obtained three National Standard Certification System certificates, issued by Izhevsk Standard Institution for our products, which will expire in May 2009. There can be no assurance that our independent third-party distributors, in Russia or elsewhere, will be able to renew or obtain the necessary certifications or otherwise meet the requirements of the applicable local laws, rules or regulations. Further, since we have no direct control over independent third-party distributors, there can be no assurance that any such distributors will seek to renew or obtain any necessary certifications in a timely manner, or at all.

In the event that any independent third-party distributors we rely upon do not obtain or renew any necessary certifications in a timely manner or at all, we may not be able to participate in certain significant bidding and tender activities, and our export volume may be reduced. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to enforce our own intellectual property rights or may be subject to claims from third parties for infringement of their intellectual property rights.

At present, we hold seven patents granted by the relevant PRC authorities for intellectual property developed for and used in our products or in our manufacturing process. We rely on a combination of patents, trademarks, know-how and contractual rights to protect our proprietary technology and intellectual property. There can be no assurance that these measures will be sufficient to prevent any misappropriation of our intellectual property, or that our competitors will not independently develop alternative technologies that are equivalent or superior to technologies which are based on our intellectual property. The legal regime governing intellectual property in China is still evolving, and the level of protection of intellectual property rights in China differs from the levels of protection available in other jurisdictions. In the event that the steps we have taken and continue to take and the protection afforded by law do not adequately safeguard our proprietary technology, then our business, financial condition and results of operations may be materially and adversely affected.

We have never received notice of any claims by third parties, alleging that we have infringed such third parties' intellectual property rights. There can be no assurance that any such claim will not be initiated, or that we would prevail in any legal proceedings arising from such a claim, such as seeking damages or an injunction against the sale of our products. If we face such a claim, our business, financial condition and results of operations could be materially and adversely affected.

Our business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity in relation to our products.

If equipment manufactured by us fails to perform as expected, or proves to be defective and results in our customer's financial losses and/or personal injuries, then we may be subject to claims for compensation. Some of our new products, such as our arctic rigs, are being manufactured according to the orders from our customers, but have never been put in operation before. There can be no assurance that we will not be exposed to future product liability claims. Though we maintain insurance coverage to the extent we believe is customary in our industry, we have currently not taken out product liability insurance and have not implemented any other protection scheme. If our products do not meet the specifications and requirements agreed with or requested by our customers, or if any of our products are defective, such failure or defects, and any complaints or negative publicity resulting therefrom, could result in decreased sales of these or our other products, and we may also be subject to product liability claims and litigation. To this end, we may incur significant legal costs regardless of the outcome of any claim of alleged defect. If we face any product liability claims, our business, financial condition and results of operations may be materially and adversely affected.

The manufacturing processes for our products are complex and potentially hazardous, and we may not maintain sufficient insurance coverage for the risks associated with the operations of our business.

Our business operations, particularly our manufacturing activities, involve risks and occupational hazards that are inherent to the manufacturing industry and which may not be completely eliminated through the implementation of preventive measures. These risks could result in personal injury, damage to or destruction of properties or production facilities, environmental damage, business interruption, legal liability, damage to our business reputation and corporate image, and/or fatalities. Currently, we only maintain mandatory social security insurance for our employees in accordance with the requirements of the relevant PRC laws and regulations which covers industry injury.

Though we maintain insurance coverage to the extent we believe is customary in our industry, we do not maintain any insurance coverage for third party liability, business interruption or environmental or other damage arising from accidents on our property or relating to our operations other than those relating to our vehicles. Our business, financial condition and results of operations may be materially and adversely affected if we incur any loss which is not covered by our insurance policies or if the amount of such loss exceeds the aggregate amount of our insurance coverage.

Our historical dividends may not be indicative of our future dividends.

We declared dividends in the amount of RMB2.2 million, RMB1.6 million and RMB19.5 million in the three years ended December 31, 2004, 2005 and 2006, respectively. There can be no assurance that in the future we will pay dividends at a similar level to the past or at all, and potential investors should be aware that the amount of dividends we paid in the past should not be used as a reference or basis upon which future dividends are determined. Whether dividends will be distributed and the amount to be distributed, will depend on factors such as our profitability, financial condition, business development requirements, future prospects and cash requirements. Any declaration and payment, as well as the amount of dividends, will be subject to our constitutional documents and the Cayman Islands Companies Law, including the approval of our shareholders or our Directors. There can be no assurance that we will make any dividend payments on our ordinary shares in the future.

Any change in the preferential tax treatment we currently enjoy in the PRC may have an adverse impact on our results of operations.

Under current PRC laws, income generated by companies in China is subject to PRC income tax. The usual statutory PRC enterprise income tax rate is 33% of taxable income, as determined in accordance with the relevant PRC income tax laws and regulations. However, PRC state and local tax laws provide for a number of preferential tax treatments for different enterprises, industries, and locations. Some of our subsidiaries are currently enjoying various preferential income tax rates. Any change in the preferential tax treatment in the PRC may have an adverse impact on our results of operations.

On March 16, 2007, the National People's Congress passed a new Enterprise Income Tax Law. The Enterprise Income Tax Law, effective January 1, 2008, imposes a single uniform income tax rate of 25% for most domestic enterprises and foreign-invested enterprises. It contemplates various transition periods and measures for existing preferential tax policies, including among others, a grace period for as long as five years for foreign-invested enterprises which are currently entitled to a lower income tax rate, and continued implementation of preferential tax treatment with a fixed term until the expiration of such fixed term. As a foreign-invested company, Honghua Company was entitled to a preferential income tax rate of 3% from October 1, 2006, to December 31, 2007, and will be subject to a preferential income tax rate of 18% starting at the outset of 2008 and lasting for three years. Our PRC legal advisor, King & Wood, has advised us that the preferential treatment Honghua Company presently enjoys will continue under the new Enterprise Income Tax Law. We expect that our Group's tax payment will increase in 2008 and will further increase following the expiry of the above preferential tax treatment in December 2010.

Under the new Enterprise Income Tax Law, if any enterprise incorporated outside the PRC has its "actual management organization" located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25%. On December 6, 2007, the Implementation Rules of the Enterprise Income Tax Law were promulgated. It defined the "actual management organization" as an organization actually managing and controlling an enterprise's production, operation, personnel, finance and assets. We cannot rule out the possibility that members of our Group which are not incorporated in the PRC may be recognized as a PRC tax resident by the PRC taxation authorities enterprise, in the future. According to the new Enterprise Income Tax Law, dividends received by a qualified PRC tax resident from another PRC tax resident are exempted from enterprise income tax. However, given the short history of the new Enterprise Income Tax Law and the detailed qualification requirements for receiving an exemption therefrom, it remains unclear whether dividends declared and paid by members of our Group in the PRC to our overseas holding company will be exempted from enterprise income tax, or if they will be recognized as PRC tax residents and taxed accordingly. Our financial condition may be materially and adversely affected if such dividends are subject to enterprise income tax.

We may be unable to renew our membership with the China Petroleum Exploration and Development Equipment Supply Network and the List of Sinopec Suppliers.

We have been a member of the China Petroleum Exploration and Development Equipment Supply Network, a group organized and authorized by the China Petroleum Material & Equipment Corporation (a wholly-owned subsidiary of CNPC), since 2001, and a member of the List of Sinopec Suppliers (a group authorized by the Sinopec Market and Equipment Department), since 2003. Such memberships are necessary for us to sell our products to the subsidiaries or branch oilfields of CNPC and Sinopec, which have been our major customers in China. Our sales to the subsidiaries or branch oilfields of CNPC and Sinopec accounted for approximately 93.8%, 62.3%, 14.5% and 36.3% of our revenue for the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, respectively.

Our membership in the List of Sinopec Suppliers has no expiration date. Sinopec maintains an evaluation system to examine the performance of its network suppliers, including the product quality, product price, delivery and after-sales service. A supplier's membership may be suspended if it, among other things, delays in delivery, has operational problems, is unable to provide after-sales service, is involved in litigation with an affiliate of Sinopec, or the products it provided fail to meet relevant quality standards. Sinopec will terminate the supplier's membership if such supplier provided fraudulent information on a membership application, has unsatisfactory financial results, or is unable or refuses without reason to perform its contractual obligations. Our membership in the China Petroleum Exploration and Development Equipment Supply Network will expire in October 2009. China Petroleum Material & Equipment Corporation will hold an evaluation meeting before the expiration date and inform us as to renewal of our membership after the meeting. In the event that our membership is suspended or terminated by Sinopec, or we are unable to renew our membership with the China Petroleum Exploration and Development Equipment Supply Network, then our business, financial condition and results of operations may be materially and adversely affected.

We may be unable to obtain adequate financing to fund our capital requirements.

We have in the past funded our capital expenditures primarily by cash generated from our operations, the issuance of convertible bonds and through credit facilities. There can be no assurance that cash generated from our operations will be sufficient to fund our future development and expansion plans. For us to grow and remain competitive, we may require new capital in the future. There can be no assurance that such additional financing will be available to us on reasonable terms or at all. Our ability to obtain additional capital in the future is subject to a variety of uncertainties beyond our control, including market conditions, credit availability and interest rates. If we are unable to raise sufficient capital in the future on commercially acceptable terms, we may have to abandon, delay, or postpone certain of our planned capital expenditures. Our inability to finance our planned capital expenditures could adversely affect our business, financial condition, results of operations. In addition, the terms and amount of capital raised through issuing equity securities may significantly dilute the interests of shareholders.

Any amendment to or failure to comply with environmental protection laws, promulgated by the PRC or other jurisdictions, to which we or our products are subject, could create a substantial financial burden on the Company.

Our operations are subject to environmental protection laws and regulations promulgated by national, provincial and/or local environmental protection authorities in China, or other jurisdictions in which we or our products are located, and we have been taking measures to comply with such laws in all material respects. There can be no assurance that we are not, and will not be in the future be, in violation of any environmental protection regulations. Any amendment of existing environmental laws or regulations may impose additional, more stringent requirements relating to environmental protection. Our compliance with existing environmental laws, or any new laws or regulations, as well as any failure to meet the requirements of any of such laws, may require us to incur significant capital expenditures or other obligations or liabilities, which could create a substantial financial burden on us, and could have a material adverse effect on our business, financial condition and results of operations.

The industry in which we operate is competitive, and a further increase in competition or productivity by our competitors may affect our market share and profit margins.

Our industry is competitive, with multiple global and domestic competitors. If we are unable to compete effectively in the market, our business may be materially and adversely affected. Some of our potential competitors may have longer operating histories than ours, stronger relationships with their customers, greater brand recognition, or greater financial, technical, marketing and public relations resources than we have, and, as a result, they may be able to acquire some of our customers. Our market share could be reduced if our

competitors develop any new technology or new products, or offer products that are comparable or superior to ours at a lower price. Increased competition in the future could result in price reductions, reduced margins, or other strains on our operations. If our competitors offer better quality products, services, or better pricing, then our sales, market share, and results of operations could be materially and adversely affected.

Our operations are vulnerable to significant operating hazards, natural disasters and other circumstances, which are beyond our control and for which we have limited or no insurance.

Though we maintain insurance coverage we believe to be adequate based on the industry we operate in, we may not be fully covered, or covered at all, for certain circumstances that are beyond our control. Transportation disruptions, power shortages, weather, natural disasters, unexpected maintenance problems, destruction of or damage to our production facilities, equipment or products, labour shortages, industrial accidents, and other matters beyond our control are some of the factors that may significantly disrupt the operations of our business or cause a cessation in production at our production facilities. Any of these could have a material adverse effect on our business, financial condition and results of operations.

If our joint venture partners act contrary to our interests, our business may be materially and adversely affected.

In Egypt, we have a 50% equity interest in a joint venture we established with three different Egyptian enterprises. Under the joint venture agreement, we must obtain consent from our joint venture partners before we can cause the joint venture to make or implement business development decisions or to distribute profits to shareholders. If our joint venture partners hold different views from our own, or act in a way contrary to our interests, the joint venture may face difficulties in its operations and our interests in the joint venture may be harmed.

We may incur significant costs in relation to warranties offered to our domestic PRC customers.

We allow our domestic PRC customers to withhold a fractional amount of the purchase price for our products for one year as a warranty provision against any major quality defects in the products we have delivered. The payment amount retained by the purchaser, which is generally 5% of the purchase price, amounted, in aggregate, to RMB54.1 million, RMB25.1 million, RMB29.4 million and RMB50.4 million, respectively, as of December 31, 2004, 2005 and 2006 and as of August 31, 2007. The warranty arrangement requires this retention money to be paid to us if our products do not have any major quality problem during the one-year warranty period. For the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007, we recovered substantially all of the money retained by our customers pursuant to this warranty provision as it came due, and we currently expect to collect all such amounts outstanding as of the date hereof with the exception RMB 420,000, representing 0.83% of the total retention money as at August 31, 2007, which has been written off as bad debt. There can be no assurance, however, that we will recover all or any of the amounts retained by purchasers for warranty purposes in the future. If we are unable to recover a significant proportion of the amounts retained by our customers as warranties, our future business, financial condition and results of operations may be materially and adversely affected.

Risk Factors Relating to the PRC

Adverse changes in China's economic, political, and social conditions, as well as governmental policies could have a material adverse effect on China's overall economic growth, which in turn, could materially and adversely affect our business, financial condition and results of operations.

The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of governmental involvement; (iii) level of development; (iv) growth rate;

(v) control of foreign exchange and capital flows; and (vi) allocation of resources. The Chinese economy is in transition from a planned economy to a market economy. For the past two decades, the PRC government has implemented economic reform measures, emphasizing the utilization of market forces in the development of the Chinese economy. There can be no assurance that any changes in China's political, economic and social conditions, laws, regulations and policies will not have a material adverse affect on our current or future business, financial condition and results of operations. In response to concerns regarding China's high growth rate in industrial production, bank credit, fixed investment and money supply, the PRC government has, from time to time, taken measures to slow down economic growth to a more sustainable level. These measures and any additional tightening measures could contribute to a slowdown in the Chinese economy, which would materially and adversely affect our business, financial condition, and results of operations.

Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect the financial condition and results of operations of our Company and our ability to pay dividends.

Recent foreign exchange regulations have significantly reduced the PRC Government's foreign exchange controls on routine transactions under the current account, including trade-and service-related foreign exchange transactions and payment of dividends. Under the existing foreign exchange regulations in the PRC, following completion of the Global Offering, we will be able to pay dividends in foreign currencies, without prior approval from SAFE, by complying with certain procedural requirements. There can be no assurance that these foreign exchange regulations regarding payment of dividends in foreign currencies will continue in the future.

We conduct our operations primarily in the PRC and incur costs mainly in Renminbi. Renminbi is also the reporting currency for our financial statements. However, a significant portion of our revenue is derived from overseas sales, which are denominated in foreign currencies. For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, our overseas sales that were denominated in foreign currencies accounted for approximately 2.8%, 31.5%, 83.5% and 54.6% of our revenue, respectively. As a result, our operations are exposed to the fluctuation in exchange rates of the Renminbi against foreign currencies. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars has generally been stable. As of July 21, 2005, the Renminbi was no longer pegged to the U.S. dollar, but to a basket of currencies. This resulted in an appreciation of the Renminbi against the U.S. dollar and the Hong Kong dollar by approximately 2% on that date, and approximately an additional 14% since that date until January 18, 2008. The relaxation of the RMB-U.S. dollar peg may contribute to the volatility of, or increased fluctuations in the value of, the Renminbi. Further appreciation of the Renminbi may cause our exported products to be relatively more expensive than those of our competitors, which could have an adverse impact on our overseas sales and may cause imported products, which compete with our products, to be relatively less expensive for Chinese customers. This could have a material adverse effect on our business, financial condition, and results of operations. Conversely, any depreciation of the Renminbi would adversely affect the value of any dividends payable on the Shares by us in foreign currency terms.

In 2005 and 2006, we purchased certain foreign currency derivative financial instruments to hedge against fluctuations in the exchange rate for Renminbi. We did not record any loss for this activity during the Track Record Period. We currently do not have any other hedging activities, or unrecorded losses associated with previous hedging transactions. We may engage in hedging activities in the future when we set up our hedging policy and risk management systems. There can be no assurance that hedging transactions will protect us against fluctuations in the exchange rate for Renminbi, or that our risk management systems can prevent losses arising from hedging transactions.

Our operations are subject to the uncertainties of the PRC legal system.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little value as precedents in subsequent legal proceedings. In 1979, the

PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular. These laws, regulations and legal requirements are relatively new and are often changing, and their interpretation and enforcement involve significant uncertainties that could limit the reliability of the legal protections available to us. We cannot predict the effects of future developments in the PRC legal system. We may be required in the future to procure additional permits, authorizations and approvals for our existing and future operations, which may not be obtainable in a timely fashion or at all. An inability to obtain such permits or authorizations may have a material adverse affect on our business, financial condition and results of operations.

The payment of dividends by our operating subsidiaries in China is subject to restrictions under PRC law.

We are a holding company established in the Cayman Islands and we operate our core business through our subsidiaries and associated companies, mainly in China. PRC laws require that dividends be paid only out of net profit, calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS and U.S. GAAP. PRC law requires foreign-invested enterprises, including some of our subsidiaries in China, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. Since the availability of funds to pay dividends to our shareholders and to service our indebtedness depends upon dividends received from these subsidiaries, any restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our shareholders and to service our indebtedness.

It may be difficult to serve process within the PRC or to enforce any judgments obtained from non-PRC courts against us or our Directors.

Most of our subsidiaries are incorporated in the PRC, our Executive Directors currently reside within the PRC, and a substantial portion of our assets are located within the PRC. The PRC does not currently have treaties providing for the reciprocal recognition or enforcement of judgements of courts located in the United States, the United Kingdom, Singapore, Japan and most other Western countries. An Arrangement between the Mainland and Hong Kong Special Administrative Region on Reciprocal Recognition and Enforcement of Judgments of Civil and Commercial Cases under the Jurisdictions as Agreed to by the Parties Concerned was executed on July 14, 2006. However, there are many restrictions on such arrangement. As a result, it may not be possible for investors to effect service of process upon our subsidiaries or our Directors pursuant to the authority of non-PRC courts. Further, the recognition and enforcement in the PRC of judgments of courts outside the PRC might be difficult or impossible.

An occurrence of a widespread public health problem, such as SARS or avian influenza, could have a material adverse effect on our results of operations.

The outbreak of SARS in early 2003 led to a significant decline in travel volume and business activities and substantially affected businesses in Asia. We are unable to forecast the potential impact of another SARS outbreak or an outbreak of any other serious contagious disease. There has recently been a relatively-small number of documented cases of humans contracting avian influenza in China and across Asia, many of which have resulted in fatalities. Another outbreak of SARS, or an outbreak of avian influenza or any other serious contagious disease, may result in another economic downturn and, consequently, our business, financial condition and results of operations may be materially and adversely affected.

Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy, our business and prospects.

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (2006 Revision) (關於外國投資者並購境內企業的規定) (the "M&A Provisions"), effective from September 8, 2006, provide the

rules with which foreign investors must comply if they are seeking to acquire shares in a non-foreign funded enterprise, whether through a purchase agreement with existing shareholders or through a direct subscription from the Company, that would result in that company becoming a foreign-funded enterprise. The M&A Provisions further require that the business scope of the resultant foreign-funded enterprise conform to the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄), and restrict its market access. Procedures for acquiring equity interests of domestic companies are also provided in the M&A Provisions.

Our PRC legal advisor, King & Wood, has advised us that we have complied with the relevant PRC laws and regulations for our Reorganization and the Global Offering. However, the PRC authorities could enact new rules to retroactively enforce the M&A Provisions, in which case we may be required to obtain additional government approvals or be subject to other consequences. In addition, there are uncertainties as to how the recent M&A Provisions will be interpreted and implemented. If we decide to acquire a PRC company, there can be no assurance that we or the owners of such PRC company can successfully obtain all necessary approvals required by the M&A Provisions. This may restrict our ability to expand our business in China and materially and adversely affect our business and prospects.

Risks Relating to the Global Offering

There has been no prior public market for our Shares.

Prior to the Global Offering, there was no public market for our Shares. The initial Offer Price range to the public for our Shares was the result of negotiations among us and the Joint Global Coordinators on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied to list and deal in our Shares on the Stock Exchange. However, a listing on the Stock Exchange does not guarantee that an active market for our Shares will develop following the Global Offering or in the future. If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be materially and adversely affected. There can be no assurance as to the ability of the Shareholders to sell their Shares, or as to the prices at which Shareholders would be able to sell their Shares. Consequently, Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares in the Global Offering.

Our Share price may be highly volatile, which may result in substantial losses for investors purchasing Shares in the Global Offering.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenues, earnings, or cash flows, and announcements of new investments, strategic alliances or acquisitions, or fluctuations in market prices for raw materials, could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade. There can be no assurance that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC, and shares of other heavy equipment manufacturers, have experienced substantial price volatility in the past. It is possible that our Shares will be subject to substantial changes in price that may not be directly related to our financial or business performance.

You may experience difficulties in enforcing your shareholder rights because we are incorporated under Cayman Islands law, which may provide less protection to minority shareholders than the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by, inter alia, our Memorandum and Articles of Association, Cayman Islands Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other

jurisdictions. Such differences may mean that our minority shareholders may have less protection than they would have under the laws of Hong Kong or other jurisdictions. For example, the Cayman Islands Companies Law does not contain an express provision which is equivalent to section 168A of the Companies Ordinance which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of the company's affairs. See ''Summary of the Constitution of our Company and Cayman Islands Company Law'' in Appendix VI to this Prospectus.

Future sales or a major divestment of Shares by any major shareholder could adversely affect our Share price.

Future sales, disposals, or other transfers of a substantial number of our Shares by our current shareholders in public markets, or any prospects or possibilities of such sales, disposals or other transfers, as to or against which the holders of our Shares may or may not have a right to vote or veto, could adversely impact the market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate. There can be no assurance that any of our major Shareholders will not sell, dispose of or otherwise transfer any Shares they may own now or in the future at the completion of the applicable lock-up periods.

Purchasers of Offer Shares will incur an immediate and substantial dilution as a result of the Global Offering.

The Offer Price of the Offer Shares is substantially higher than the net tangible book value per Share. Therefore, purchasers of the Offer Shares in the Global Offering will experience an immediate and substantial dilution in net tangible book value per Share as a result of the Global Offering.

We cannot guarantee the accuracy of the facts and statistics in this Prospectus relating to the Chinese economy or to the global industry in which we operate.

Facts, forecasts and other statistics in this Prospectus, relating to the Chinese economy or to the global oil and gas industry and market, are derived, in part, from official government sources. Our Company, the Underwriters, or any of its or their respective affiliates, or advisors, have not independently verified these materials and, therefore, make no representations as to the accuracy of such facts, forecasts and statistics. Due to possibly flawed or ineffective collection methods, discrepancies between published information and market practice, or other problems, the statistics in this Prospectus, including without limitation those in the section entitled "Industry Overview," may be inaccurate or may not be similar to statistics produced by other sources. Prospective investors should not place undue reliance on any of such information and statistics contained in this Prospectus.

We have included in this Prospectus forward-looking statements, that state our intentions, beliefs, expectations or predictions for the future, particularly in the sections entitled "Industry Overview", "Our Business", "Connected Transactions", and "Financial Information".

The forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies, and our various measures to effectuate such strategies;
- our dividend distribution plans;
- our capital expenditure plans;
- our operations and business prospects, including the development plans for our existing and new businesses;
- the regulatory environment, and the general industry outlook for global oil and gas exploration and production equipment;
- future developments in the oil and gas exploration and production equipment industry; and
- general economic trends in China.

In some cases, we use words such as "believe", "seek", "intend", "anticipate", "project", "plan", "potential", "will", "may", "should", "expect", and similar expressions, to identify forward-looking statements. All statements other than statements of historical facts in this Prospectus, including statements regarding our future financial position, strategy, projected costs, and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to be correct, and you are cautioned not to place undue reliance on such statements. Important factors that could cause actual events to differ materially from our expectations are disclosed in the section entitled "Risk Factors," and elsewhere, in this Prospectus. We undertake no obligation to publicly update or revise any forward-looking statements contained in this Prospectus, whether as a result of new information, future events or otherwise, except as required by law or the Listing Rules. All forward-looking statements contained in this Prospectus are qualified by reference to the cautionary statement contained in this paragraph.

Waivers from Strict Compliance with Rule 14A of the Listing Rules

Members of the Group have entered into and are expected to enter into certain transactions, which would constitute non-exempted continuing connected transactions of the Company under the Listing Rules after Listing. The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from strict compliance with the shareholders' approval and/or reporting and announcement requirements, set out in Chapter 14A of the Listing Rules for such non-exempted continuing connected transactions. Details of such waivers are contained in the section entitled "Connected Transactions" in this Prospectus.

Waiver from Strict Compliance with Rule 8.12 of the Listing Rules

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our Executive Directors must be ordinarily resident in Hong Kong.

Currently, the business and operations of the Group are primarily located, managed and conducted in the PRC. Therefore, for the purpose of the Group's operations, the Directors consider that it is not necessary for the Group to appoint a Director who is ordinarily resident in Hong Kong.

The Board of the Company consists of a total of thirteen directors, including three Executive Directors, three Non-executive Directors and seven Independent Non-executive Directors. The three Executive Directors are Mr. Zhang Mi, Mr. Ren Jie and Mr. Zhang Xu. All three Executive Directors are ordinarily resident in the PRC. To manage the operations of the Group, which are mainly in the PRC, the appointment of two additional Executive Directors who are resident in Hong Kong would not only increase administrative expenses, but would also reduce the effectiveness of the Board's management role, especially when business decisions are required to be made within a short period of time.

Accordingly, we have applied to the Stock Exchange for a waiver from strict compliance with the requirements of Rule 8.12 of the Listing Rules.

In order to maintain effective communication with the Stock Exchange, we have put in place the following measures.

(1) We have appointed two authorized representatives, pursuant to Rule 3.05 of the Listing Rules, who will act as one of our principal channels of communication with the Stock Exchange and ensure that the Company will comply with the Listing Rules at all times. The two authorized representatives are Mr. Zhang Mi, an Executive Director, and Ms. Leung Wai Han Corinna, the Joint Company Secretary of the Company. Ms. Leung is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time, upon the request of the Stock Exchange, and will be available by telephone and facsimile. Each of the two authorized representatives is authorized to communicate on our behalf with the Stock Exchange.

(2) The two authorized representatives have the means to contact all members of the Board (including the Independent Non-executive Directors), promptly as and when the Stock Exchange wishes to contact the Directors for any matters. To facilitate communication between the Stock Exchange, the authorized representatives and the Directors, we will implement a policy that (a) each Executive Director, Non-executive Director and Independent Non-executive Director must provide their mobile phone numbers, residential phone numbers and fax numbers to the authorized representatives; (b) in the event that an Executive Director, Non-executive Director or Independent Non-executive Director expects to travel and or otherwise be out of office, he will provide the phone number of the place of his accommodation to the authorized representatives; and (c) all the Executive Directors, Non-executive Directors and Independent Non-executive Directors will provide their mobile phone numbers, residential phone numbers, office phone numbers and fax numbers to the Stock Exchange.

(3) Each of the members of the Board has confirmed to us that each of them possesses valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet with Stock Exchange officials upon reasonable notice.

(4) We have appointed CCB International Capital Limited, as our Compliance Adviser, to act as our alternative channel of communication with the Stock Exchange, for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date.

(5) We will ensure that during the engagement period, the Compliance Adviser has access to our authorized representatives, the Directors and other senior officers, who will provide to the Compliance Adviser such information and assistance as the Compliance Adviser may reasonably require in connection with the performance of the Compliance Adviser's duties.

(6) During the engagement period, in the case of resignation by, or termination of, the Compliance Adviser, the Company will appoint a replacement Compliance Adviser within three months of the effective date of the resignation or termination, pursuant to Rule 3A.27 of the Listing Rules.

Wavier from Strict Compliance with Rule 8.17 of the Listing Rules

Pursuant to Rule 8.17 of the Listing Rules, our secretary must be ordinarily resident in Hong Kong, who has the requisite knowledge and experience to discharge the functions of secretary of our Company, and who (a) is an Ordinary Member of The Hong Kong Institute of Chartered Secretaries, a solicitor or a barrister, as defined in the Legal Practitioners Ordinance, or a professional accountant; or (b) is, by virtue of his academic or professional qualifications or relevant experience, in the opinion of the Stock Exchange, capable of discharging those functions.

We have appointed Dr. Liu Gangqiang ("Dr. Liu"), and Ms. Leung Wai Han Corinna ("Ms. Leung"), as Joint Company Secretaries of our Company. Since Dr. Liu does not, and is not expected to, reside in Hong Kong in the foreseeable future, and he does not possess the formal qualifications normally required under Rule 8.17(2) of the Listing Rules, we have applied to the Stock Exchange for a waiver from strict compliance with Rule 8.17 of the Listing Rules.

Ms. Leung is a senior manager of the Corporate Services Department of Tricor Services Limited. She is an associate of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She provides corporate services to both companies that are listed on the Main Board, Growth Enterprise Market of the Stock Exchange and private companies.

We have appointed Ms. Leung, who meets the requirements of Rule 8.17, to act as our Joint Company Secretary, to assist Dr. Liu in acquiring the necessary experience (as required by Rule 8.17(3) of the Listing Rules) to discharge his duties as Joint Company Secretary of our Company. Dr. Liu is expected to work closely with Ms. Leung in any communications with the Stock Exchange. Ms. Leung has been nominated by Tricor to be the Joint Company Secretary of the Company. Ms. Leung will provide company secretarial services to the Company on an ongoing basis, subject to her resignation or the termination of the agreement for company secretarial services, between the Company and Tricor. It is expected that she will assist Dr. Liu for a three-year period from the Listing Date.

The waiver from strict compliance with Rule 8.17 was granted for a period of three-years from the Listing Date. At the end of such three-year period, an evaluation of the qualifications and experience of Dr. Liu will be made, to determine whether the appointment of Dr. Liu as the Joint Company Secretary of the Company will satisfy the requirements of Rule 8.17.

Waivers from Strict Compliance with Rule 4.04(1) of the Listing Rules and Paragraph 27 and Paragraph 31 of the Third Schedule to the Companies Ordinance

In strict compliance with the requirements contained in (i) Rule 4.04(1) of the Listing Rules ("Rule 4.04(1)"); and (ii) paragraph 27 ("Paragraph 27") and paragraph 31 ("Paragraph 31") of the Third Schedule of the Companies Ordinance, the Company is required to produce full year audited accounts for the year 2007. The Company has applied to the SFC and the Stock Exchange for waivers from strict compliance with the requirements contained in (i) Rule 4.04(1) and (ii) Paragraph 27 and Paragraph 31 of the Third Schedule of the Companies Ordinance on the grounds that strict compliance with the requirements contained in (i) Rule 4.04(1) and (ii) Paragraph 27 and Paragraph 31 of the Third Schedule of the Companies Ordinance would be unduly burdensome for the Company in that there would not have been sufficient time for the Company to produce and the Reporting Accountants to audit the financial statements for the year ended December 31, 2007 prior to the Global Offering. A certificate of exemption from strict compliance with the requirements under Paragraph 27 and Paragraph 31 of the Third Schedule to the Companies Ordinance has been granted by the SFC to the Company under section 342A of the Companies Ordinance. The Stock Exchange has also granted its wavier to the Company from strict compliance with Rule 4.04(1) of the Listing Rules.

The Directors consider that all information reasonably necessary for the potential investors to make an informed assessment of the Group's activities and financial position has been included in this Prospectus.

The Directors confirm that they have performed sufficient due diligence on the Group to ensure that as at the date of this Prospectus, there has been no material adverse change in the financial or trading position of the Group since August 31, 2007 and there has been no event since August 31, 2007 which would materially affect the information shown in the accountants' report of the Group set out in Appendix I to this Prospectus. The Directors have further confirmed that the Reporting Accountants have disclosed all material events which have arisen since August 31, 2007 under the subsequent events note of the Accountants' Report as set out in Appendix I to this Prospectus.

Directors' Responsibility for the Contents of this Prospectus

This Prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this Prospectus misleading.

No person has been authorized to give any information or make any representations other than those contained in this Prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. Neither the delivery of this Prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this Prospectus or that the information in it is correct as of any subsequent time.

Underwriting

This Prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. The listing of our Shares on the Stock Exchange is sponsored by the Joint Sponsors. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. One of the conditions is that the Offer Price must be agreed between us and the Joint Global Coordinators on behalf of the Underwriters.

For applicants applying under the Hong Kong Public Offering, this Prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. For information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting".

Application for Listing on the Stock Exchange

We have applied to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering on the Stock Exchange including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option. Dealings in the Shares on the Stock Exchange are expected to commence at 9:30 a.m. (Hong Kong time) on March 7, 2008.

Restriction on Offer and Sale of Shares

Each person acquiring the Public Offer Shares under the Hong Kong Public Offering will be required to confirm, and is deemed by his acquisition of Public Offer Shares to have confirmed, that he is aware of the restrictions on offers of the Offer Shares described in this Prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit an offering of the Public Offer Shares or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

United States

The Offer Shares have not been and will not be registered under the Securities Act or any state securities laws of the United States for offer or sale in the Global Offering, including the International Offering. The Offer Shares may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. The Joint Global Coordinators, on behalf of the International Underwriters, have advised us that the International Underwriters propose to offer and sell the Offer Shares:

- in the United States, only through U.S. broker-dealers registered as such under the United States Securities Exchange Act of 1934, as amended to persons they reasonably believe to be QIBs in reliance on Rule 144A or another exemption from registration under the Securities Act; and

- outside the United States in offshore transactions in reliance on Regulation S under the Securities Act and in accordance with applicable foreign laws.

If you purchase the Offer Shares in the International Offering, you will be deemed to have made representations and agreements as described under "Notice to Investors" in the Offering Circular.

Canada

The Shares may not be offered, sold or distributed, directly or indirectly, in any province or territory of Canada or to or for the benefit of any resident of any province or territory of Canada, except pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer, sale or distribution is made, and only through a dealer duly registered under the applicable securities laws of that province or territory in circumstances where no exemption from the applicable registered dealer requirement is available.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each International Underwriter has represented and agreed that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), it has not made and will not make an offer of the Offer Shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Offer Shares, which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the Offer Shares to the public in that Relevant Member State at any time:

(a) to legal entities that are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the International Underwriters for any such offer; or

(d) in any other circumstances that do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the foregoing, the expression an "offer of shares to the public" in relation to any of the Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as the same may be varied in that Member State, by any measure implementing the Prospectus Directive in that Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

This Offering Circular and any other material in relation to the Shares is only being distributed to and is only directed at persons (i) who are outside the United Kingdom and (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, (the "Order") or (iii) high net worth entities and other persons to whom it may lawfully be communicated, under Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such new Shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Each of the International Underwriters has severally represented, warranted and agreed as follows: (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of securities in circumstances in which Section 21(1) of FSMA does not apply; and (2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to securities in, from or otherwise involving the United Kingdom.

Italy

The offering of the Offer Shares has not been registered with the Commissione Nazionale per le Società e La Borsa, ("CONSOB") in accordance with Italian securities legislation. Accordingly, (i) sales of the Offer Shares in the Republic of Italy shall be effected in accordance with all Italian securities, tax and other applicable laws and regulations and (ii) the Offer Shares have not been offered, sold or delivered, and will not be offered, sold or delivered, and copies of this Offering Circular or any other document relating to the Offer Shares have not been distributed in the Republic of Italy unless such offer, sale or delivery of the Offer Shares or distribution of copies of this Offering Circular or other documents relating to the Offer Shares in the Republic of Italy is to qualified investors (*operatori qualificati*), as defined by Articles 25 and 31(2) of CONSOB Regulation no. 11522 of July 1, 1998 as subsequently modified (Regulation 11522), except for individuals referred to in Article 31(2) of Regulation 11522 who exercise administrative, managerial or supervisory functions at a registered securities dealing firm (a *Società di Intermediazione Mobiliare*, or SIM), management companies (*società di gestione del risparmio*) authorized to manage individual portfolios on behalf of third parties and fiduciary companies authorized to manage individual portfolios pursuant to Article 60(4) of Legislative Decree no. 415 of July 23, 1996. Copies of this Offering Circular may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published in whole or in part. Any offer, sale or delivery of the Offer Shares or distribution of copies of this Offering Circular in Italy must be made solely by entities that are duly authorized to conduct such activities in Italy and must be in full compliance with the provisions contained in Legislative Decree no. 58 of February 24, 1998, Legislative Decree no. 385 of September 1, 1993 and any other applicable laws and regulations and possible requirements or limitations that may be imposed by the Italian competent authorities.

France

No offer or sale of the Offer Shares is being made, directly or indirectly, to the public in France and only qualified investors (*Investisseurs Qualifiés*) as defined in and in accordance with Article L.411-2 and D.411-1 to D.411-3 of the French Code *Monétaire et Financier*, as amended, acting for their own account, are eligible to accept the offering relating to the Offer Shares. This Offering Circular or any other offering material relating to the Global Offering has not been and shall not be distributed to the public in France. This Offering Circular has not been submitted for clearance by the *Autorité des marchés financiers*.

Australia

No prospectus or other disclosure document has been lodged with, or registered by, the Australian Securities and Investments Commission ("ASIC") in relation to the International Offering. The Offering Circular does not constitute a prospectus or other disclosure document under the Corporations Act 2001 (Cth) ("Corporations Act") and does not purport to include the information required for a prospectus or other disclosure document under the Corporations Act.

Any offer in Australia of the Offer Shares under this Offering Circular may only be made to persons ("Exempt Investors") who are "sophisticated investors" (within the meaning of section 708(8) of the Corporations Act), to "professional investors" (within the meaning of section 708(11) of the Corporations Act) or otherwise pursuant to one or more exemptions contained in section 708 of the Corporations Act so that it is lawful to offer the Offer Shares without disclosure to investors under Chapter 6D of the Corporations Act.

The Offer Shares applied for by Exempt Investors in Australia must not be offered for sale in Australia for 12 months from the date of issue under the Global Offering, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 of the Corporations Act or otherwise or where the offer is pursuant to a disclosure document which complies with Chapter 6D of the Corporations Act or is made where the body issued the relevant securities with disclosure under Chapter 6D of the Corporations Act.

Any person acquiring Offer Shares must observe such Australian on-sale restrictions.

Japan

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, as amended (the "Financial Instruments and Exchange Law"). The Offer Shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Kuwait

The Offer Shares have not been authorized or licensed for offering, marketing or sale in the State of Kuwait. The distribution of this Offering Circular and the offering and sale of the Offer Shares in the State of Kuwait are restricted by law unless a license is obtained from the Kuwaiti Ministry of Commerce and Industry in accordance with Law 31 of 1990. Persons into whose possession this Offering Circular comes are required by us and the International Underwriters to inform themselves about and to observe such restrictions. Investors in

Kuwait who approach us or any of the International Underwriters to obtain copies of this Offering Circular are required by us and the International Underwriters to keep such Offering Circular confidential and not to make copies thereof or distribute the same to any other person and are also required to observe the restrictions provided for in all jurisdictions with respect to offering, marketing and the sale of the Offer Shares.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Singapore Securities and Futures Act (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Offer Shares are subscribed or purchased under Section 275 by a relevant person which is:

(a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Offer Shares under Section 273 except:

    (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA;

    (2) where no consideration is given for the transfer; or

    (3) by operation of law.

United Arab Emirates

The Offer Shares are not offered or sold, and will not be offered or sold, directly or indirectly, in the United Arab Emirates, except (i) in compliance with all applicable laws and regulations of the United Arab Emirates, and (ii) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the United Arab Emirates. The information contained in this Offering Circular does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and is addressed only to persons who are sophisticated investors.

Cayman Islands

The Offer Shares are not offered or sold, and will not be offered or sold, directly or indirectly, to the public in the Cayman Islands.

PRC

The Offer Shares are not, and will not be, offered or sold, directly or indirectly, in the PRC (excluding Hong Kong for the purposes of this paragraph), nor may the Offer Shares be offered or sold to any person for re-offering or resale directly or indirectly to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

Our Shares will be Eligible for Admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second trading day after any trading day. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Professional Tax Advice Recommended

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscription for, purchasing, holding or disposing of, and dealing in, the Shares (or exercising rights attaching to them) under the laws of the place of your operations, domicile, residence, citizenship or incorporation. We emphasize that none of the Joint Global Coordinators, the Joint Sponsors, the Underwriters or us, any of our or their respective Directors, officers or any other person or party involved in the Global Offering accepts responsibility for your tax effects or liability resulting from your subscription for, purchase, holding or disposing of, or dealing in, our Shares or your exercise of any rights attaching to our Shares.

Share Register and Stamp Duty

All Shares issued by us pursuant to applications made in the Hong Kong Public Offering will be registered on our branch register of members to be maintained in Hong Kong. Our principal register of members will be maintained by the Company's Principal Share Registrar in the Cayman Islands.

Dealings in the Shares registered on our Hong Kong branch register will be subject to Hong Kong stamp duty.

Dividends Payable to Holders of Shares

Unless we determine otherwise, dividends will be paid in HK dollars to holders of our Shares as recorded on our register of members, by ordinary post at the Shareholders' risk to the registered address of each Shareholder.

Stabilization

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the Offer Price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, Morgan Stanley as stabilizing manager (the "Stabilizing Manager") or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager or any person acting for it to do this. Such stabilizing action, if taken, may be discontinued at any time, and is required to be brought to an end after a limited period. Any stabilizing action taken will be in accordance with applicable laws, rules and regulations on stabilization.

The number of International Offering Shares may be increased by up to an aggregate of 125,000,000 additional Shares, representing approximately 15% of the Shares initially available under the Global Offering through the exercise of the Over-allotment Option. The stabilization price will not exceed the initial Offer Price or other pricing limits stipulated by the Securities and Futures (Price Stabilizing) Rules of Hong Kong.

The possible stabilizing action which may be taken by the Stabilizing Manager in connection with the Global Offering may involve (among other things) (i) over-allocation of Shares, (ii) purchase of Shares, (iii) establishing, hedging and liquidating positions in Shares, (iv) exercising the Over-allotment Option in whole or in part and/or (v) offering or attempting to do any of the foregoing.

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilizing Manager may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager will maintain such a position;
- liquidation of any such long position by the Stabilizing Manager may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date, following announcement of the Offer Price, and is expected to expire on March 29, 2008, being the 30th day after the date expected to be the latest date for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above its Offer Price by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Procedure for Application for Public Offer Shares

The application procedure for the Public Offer Shares is set out in the section entitled "How to Apply for the Public Offer Shares" in this Prospectus and on the relevant Application Forms.

Structure of the Global Offering

Details of the structure of the Global Offering, including its conditions, are set out in the section entitled "Structure of the Global Offering" in this Prospectus.

Exchange Rate Conversion

Unless the context requires otherwise, the translation of HK$ into US$ made in this Prospectus is for illustration purpose only, at the rate of US$1.00 = HK$7.8004, US$1.00 = RMB7.1780, respectively. The rates are the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on February 15, 2008.

No representation is made that any amount in HK$ or, US$ or RMB could have been or could be converted at the above rates or at any other rates or at all.

Language

For ease of reference, the English names of PRC-established companies, government authorities and departments, entitles, documents and brand names have been included in this Prospectus as translations of their Chinese names for identification purpose only. In the event of any inconsistency, the Chinese version shall prevail.

Directors

Executive Directors

Name	Address	Nationality
Zhang Mi (張弭)	Block F, No.1, Section 1, East Guangdong Road, Guanghan City, Sichuan Province, PRC	Chinese
Ren Jie (任杰)	No. 1, 2/F., Unit 2, Block 1, No. 1, Section 1, East Guangdong Road, Guanghan City, Sichuan Province, PRC	Chinese
Zhang Xu (張旭)	No. 3-1, Unit 4, Block 26, No. 87, Section 2, South Zhongshan Road, Guanghan City, Sichuan Province, PRC	Chinese

Non-executive Directors

Wang Yaoxin (王堯鑫)	No. 261, Block 43, Guangyou Yuan, Section 2, South Zhongshan Road, Guanghan City, Sichuan Province, PRC	Chinese
Xiang Qingsheng (相慶生)	Flat E, 24/F, Block 2, Provident Centre, 23 Wharf Road, North Point, Hong Kong	Chinese
He Sean Xing (何欣)	Flat H, 21/F, Block 5, The Belcher's, 89 Pok Fu Lam Road, Hong Kong	Canadian

Independent Non-executive Directors

Qi Daqing (齊大慶)	C23A Jade Villas No. 8 Cuihu Road, Shang Zhuang, Haidian, Beijing, PRC	Chinese
Liu Xiaofeng (劉曉峰)	10 Maple Road West, Chateau Regalia, Tianzhu, Shunyi, Beijing, PRC	Chinese
Chen Guoming (陳國明)	No. 739, North 1 Road, Dongying, Shandong, PRC	Chinese
Liu Yinchun (劉銀春)	9-4-502 Mingyue Yuan Qingjiang Garden Xiaguan District Nanjing, Jiangsu, PRC	Chinese
Wang Li (王礫)	No. 8, Unit 2, Building 2 Jinhuige, Fongcaodi No. 1, Tongzilin Zhong Road Chengdu, PRC	Chinese

Name	Address	Nationality
Tai Kwok Leung Alexander (戴國良)	House K, Overthorpe No. 24-28 Mount Austin Road The Peak, Hong Kong	Australian
Wang Chunlin (王春林)	7C, Kar Man Court 1-7 Kin Wah Street North Point, Hong Kong	Chinese

Joint Global Coordinators, Joint Bookrunners, Joint Sponsors and Joint Lead Managers	Credit Suisse (Hong Kong) Limited 45/F Two Exchange Square, 8 Connaught Place, Central, Hong Kong Morgan Stanley Asia Limited 30/F Three Exchange Square, Central, Hong Kong
Co-Lead Manager	Core Pacific-Yamaichi International (Hong Kong) Limited 36/F, Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong
Co-Managers	CCB International Capital Limited CSC Securities (HK) Limited Guotai Junan Securities (Hong Kong) Limited ICEA Capital Limited Kingston Securities Limited Luen Fat Securities Company Limited Piper Jaffray Asia Securities Limited
Legal Advisors to the Company	*as to Hong Kong law:* Arculli Fong & Ng in association with King & Wood, PRC Lawyers 908, Hutchison House, Central, Hong Kong *as to U.S. law:* Latham & Watkins LLP 41st Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong *as to PRC law:* King & Wood 22nd Floor, City Tower, 86 Section One, Renmin Road South, Chengdu, Sichuan, PRC *as to Cayman Islands law:* Appleby 5511 The Center 99 Queen's Road Central Central Hong Kong

Legal Advisors to the Underwriters	*as to Hong Kong and U.S. law:* Herbert Smith 23/F, Gloucester Tower, 15 Queen's Road Central, Hong Kong *as to PRC law:* Commerce & Finance 6/F NCI Tower, A12 Jianguomen-wai Avenue, Chaoyang District, Beijing, PRC
Auditors and Reporting Accountants	KPMG Certified Public Accountants 8/F Prince's Building, 10 Chater Road, Central, Hong Kong
Property Valuer	Sallmanns (Far East) Limited 22/F, Siu On Center, 188 Lockhart Road, Wan Chai, Hong Kong
Independent Technical Consultant	Spears & Associates, Inc. 5110 South Yale, Suite 410 Tulsa, Oklahoma 74135 USA
Receiving Bankers	Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central, Hong Kong Industrial and Commercial Bank of China (Asia) Limited 33rd Floor, ICBC Tower, 3 Garden Road, Central, Hong Kong

Registered Office	Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108
Head Office	99 East Road, Information Park, Jinniu District Chengdu, Sichuan 610036 PRC
Place of Business in Hong Kong	Room 908, Hutchison House, Central, Hong Kong
Company's Website	www.hh-gltd.com (information contained in this website does not form part of this Prospectus)
Joint Company Secretaries	Liu Gangqiang Leung Wai Han Corinna (ACS, ACIS)
Qualified Accountant	Lu Hong (FCCA, HKICPA, CICPA)
Authorized Representatives	Zhang Mi Block F, No. 1 Section 1, East Guangdong Road, Guanghan City Sichuan Province, PRC Leung Wai Han Corinna Level 28, Three Pacific Place, 1 Queen's Road East Hong Kong
Compliance Adviser	CCB International Capital Limited Suite 3408 34/F Two Pacific Place 88 Queensway Admiralty, Hong Kong
Audit Committee	Qi Daqing (Chairman) Liu Xiaofeng Chen Guoming Liu Yinchun Wang Li Tai Kwok Leung Alexander Wang Chunlin
Remuneration Committee	He Sean Xing (Chairman) Zhang Mi Qi Daqing
Corporate Governance Committee	Liu Xiaofeng (Chairman) Qi Daqing Chen Guoming Liu Yinchun Wang Li Tai Kwok Leung Alexander Wang Chunlin

Principal Share Registrar and Transfer Office	Appleby Trust (Cayman) Ltd. Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands
Hong Kong Branch Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal Bankers	Bank of China, Deyang Branch No.26 Section Two West Changjian Road, Deyang City, Sichuan Province, PRC China Merchants Bank, Chengdu Branch No.8 Aviation Road, Chengdu City, Sichuan Province, PRC Industrial and Commercial Bank of China, Guanghan Sub-branch No.42 Section Three Hankou Road, Guanghan City, Sichuan Province, PRC China Construction Bank, Guanghan Sub-branch No.161 Section One North Zhongshan Road, Guanghan City, Sichuan Province, PRC

Certain information and statistics relating to our industry provided in this section and elsewhere in this Prospectus have been derived from official government sources. There can be no assurance that these sources have compiled such data and information on the same basis or with the same degree of accuracy or completeness as are found in other industries or other jurisdictions. Moreover, neither we nor any of our advisors, nor the Underwriters nor any of their advisors, have independently verified this information or these statistics.

We commissioned Spears & Associates, Inc., as technical consultants, to prepare an Independent Technical Report on The Global Land Drilling Rig Manufacturing Market, which is Appendix V to this Prospectus. Information and statistics from that Independent Technical Report have been included in this Prospectus. Spears & Associates, Inc. provides business planning, activity forecasts, market research, and consulting services to the worldwide petroleum equipment and service industry. The amount of fees payable to Spears & Associates, Inc. is not contingent on our Company's approval of its work. You should read the report in its entirety, including all assumptions.

Overview

The global oil and gas drilling market can generally be divided into offshore drilling rigs and land drilling rigs. According to Spears & Associates, Inc. ("Spears"), there were an estimated 4,704 active land rigs around the world in 2006. The North American market, consisting of Canada and the USA, is the largest land rig market in the world, accounting for 45% of active rigs in 2006. The remainder of the rig activity is found in the emerging markets of China (23%), Russia (14%), Latin America (6%), the former Soviet Union (the "FSU") excluding Russia (5%), and the Middle East (4%).

Historically, drilling activity and demand for drilling rigs have been indirectly linked to trends in oil and gas prices. Land drilling activity in the North American market is very closely linked to natural gas prices, as well as oil prices. In general, higher oil prices and scarcity of supply has resulted in the encouragement of natural gas drilling and development of natural gas drilling in certain emerging market countries, such as China, Indonesia and Russia. As drilling activity and rig utilization have increased, a shortage in the supply of rigs has resulted in increasing day rates. Higher day rates result in higher overheads. This gives drilling companies greater incentive to invest in drilling rigs and equipment.

For the six-year period of 2002 through 2007, Brent crude oil prices increased at a CAGR of 23.8% from an average price of US$25.02 per barrel in 2002, to US$72.71 per barrel in 2007. As of February 15, 2008, the Brent crude oil spot price closed at US$94.96 per barrel, Since January 2, 2008, the price per barrel has maintained at an average price of US$91.74. From 2002 through 2007, the global active land rig count grew from 3,013 to 4,951, a CAGR of 10.4%. International land rig day rate averages also grew over this period, from US$17,075 per day in 2002, to US$22,100 per day in 2006. Current global land rig utilization levels are approaching full capacity, which for non-state-owned drilling companies is typically approximately 70%, while for many state-owned drilling companies it is lower. The following table summarizes oil and gas prices and global rig activity.

Petroleum Prices and Global Rig Activity

	2002	2003	2004	2005	2006	2007
Average Brent Crude Oil Spot price (US$/bbl)	25.02	28.87	38.32	54.51	65.42	72.71
Average U.S. Henry Hub Gas (US$/MMBtu)	3.36	5.47	5.89	8.71	6.73	6.97
Global Active Land Rigs	3,013	3,512	3,664	4,270	4,704	4,951
Global Land Rig Average Utilization Rates	37%	44%	46%	53%	58%	59%
International Land Rig Day Rates (US$/day) (1)	$17,075	$18,400	$18,425	$18,800	$22,100	NA
Global Newbuild Land Rigs Delivered	184	211	216	226	536	751

Source: Bloomberg for oil and gas prices, Spears for rig-related data

(1) Excludes China and Russia land day rates

Global Drilling Markets

The Middle East remains the most prominent petroleum region in the world in terms of oil and gas reserves and oil production as of December 31, 2006. However, North America continues to be the leading gas producing region in the world, with Russia being the second largest. Land drilling activity depends not only on levels of oil reserves and production activity but also on the location of onshore oilfields the depth and productivity of those wells, and the size of oil fields within a given region. Levels of exploration, production strategy and capital from available exploration and development companies may vary. While China's reserves and production account for only 1.3% and 3.7% respectively of the global total, the China market accounts for approximately 23% of global active land rig activity. In contrast, the Middle East accounts for 53.7% and 24.2%, respectively of global reserves and production, but only accounts for approximately 4% of the global active land rig market. The following tables summarize global reserve estimates and production by region.

Global Petroleum Reserve Estimates (As of December 18, 2006)[1]

	Oil	Natural Gas	Total	
	(mmbbl)	(Bcf)	(mmboe)	*(%)*
Middle East	739,205	2,566,038	1,166,878	*53.7%*
Russia	60,000	1,680,000	340,000	*15.6%*
Africa	114,073	484,433	194,812	*9.0%*
Latin America	115,150	255,302	157,701	*7.3%*
FSU (Excluding Russia)[2]	38,886	334,800	94,686	*4.4%*
North America	26,967	262,331	70,689	*3.3%*
Asia (Excluding China)	15,721	308,217	67,091	*3.1%*
Europe	15,800	180,301	45,850	*2.1%*
China	16,000	80,000	29,333	*1.3%*
Oceania[3]	1,645	31,270	6,856	*0.3%*
World Total	**1,143,447**	**6,182,692**	**2,173,896**	***100.0%***

Source: U.S. Energy Information Administration, January 2007, PennWell Corporation, Oil & Gas Journal, Vol. 104.47 (December 18, 2006). Oil includes crude oil and condensate. Data for the United States is from the Energy Information Administration, U.S. Crude Oil, Natural Gas Liquids Reserves, 2005 Annual Report, DOE/EIA-0216(2005) (November 2006). Oil & Gas Journal's oil reserve estimate for Canada includes 5.2 billion barrels of conventional crude oil and condensate reserves and 174.0 billion barrels of oil sands reserves.

Note:

(1) Proven reserve estimates; exclude 170.4 billion bbl of Canadian oil sand reserve estimates; assumes a 6:1 ratio for (Natural gas) bcf to mmboe conversion.

(2) Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Lithuania, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

(3) Australia and New Zealand.

Global Petroleum Production (2006)

	Oil	Natural Gas	Total	
	(mmbbl/d)	(Bcf/d)	(mmboe/d)	*(%)*
Middle East	25.6	32.5	31.0	*24.2%*
North America	10.0	68.8	21.5	*16.8%*
Russia	9.8	59.2	19.7	*15.4%*
Latin America	10.6	18.2	13.6	*10.6%*
Africa	10.0	17.5	12.9	*10.1%*
Europe	5.4	28.4	10.1	*7.9%*
Asia (Excluding China)	3.7	27.1	8.2	*6.4%*
China	3.7	5.7	4.7	*3.7%*
FSU (Excluding Russia)[1]	2.4	16.2	5.1	*4.0%*
Australia	0.5	3.8	1.1	*0.9%*
World Total	**81.7**	**277.4**	**127.9**	***100.0%***

Source: BP Statistical Review of World Energy, 2007

(1) Azerbaijan, Kazakhstan, Turkmenistan, Ukraine and Uzbekistan.

Global Land Rig Market

Historically, the global land rig market has been dominated by activity in the North American markets of the USA and Canada. Driven by both increasing oil and gas prices, the North American active land rig count increased at CAGR of 18%, between 2002 and 2006. Drilling activity in emerging market countries have also increased significantly. China and Africa have been the fastest growing regions in terms of active land rig count, growing at a CAGR of 14.1% and 14.6%, respectively, between 2002 and 2006. For the year 2006, Spears estimates that over 2,560 active land rigs were drilling in the emerging market regions, accounting for 54.5% of active land rigs globally.

Global Average Active Land Rig Count

Year	China	Russia	FSU (excluding Russia)	Middle East	Latin America	Africa	Asia (Excluding China)	Emerging Market Total	Europe	North America	Global Total
2002	649	614	148	138	168	55	118	**1,890**	29	1,094	**3,013**
2003	799	628	148	147	188	61	116	**2,087**	32	1,403	**3,521**
2004	854	492	168	156	225	67	122	**2,083**	25	1,556	**3,664**
2005	1,058	530	201	167	251	76	128	**2,410**	21	1,838	**4,270**
2006	1,100	550	211	210	261	95	136	**2,562**	22	2,120	**4,704**
2002 through 2006 CAGR .	*14.1%*	*(2.7%)*	*9.3%*	*11.1%*	*11.6%*	*14.6%*	*3.6%*	***7.9%***	*(6.7%)*	*18.0%*	***11.8%***

Source: Spears

Demand for land rigs is driven by a number of factors, including wells drilled, well depth, geological conditions, climatic conditions and location. Typically, drilling more wells requires more transportation (mobilization) and set-up time. Travelling time between well sites and fields, must also be accounted for. Wells of greater depth or complexity require more drilling time. These factors can tie up rig supply, which means that in a given market it may be harder and more time consuming to drill. In addition to rig count, other quantitative data is also analyzed to understand drilling activity, including the number and depth of wells drilled in a given market. The following table summarizes key rig and drilling activity parameters across the major markets:

2006 Land Rig Global Activity

Countries/Region	Average active rigs	Utilization rate	Rig fleet as of Dec 31	Newbuild rigs	Wells drilled	Well footage (million feet)
China	1,100	54%	2,051	140	16,850	124.7
Russia	550	35%	1,469	40	4,753	40.3
Latin America	261	69%	387	10	4,481	27.4
FSU (excluding Russia)	211	41%	501	5	1,053	6.7
Middle East	210	86%	273	30	1,710	13.5
Asia (excluding China)	136	65%	209.2	4	1,655	8.3
Africa	95	43%	222	5	934	6.8
Subtotal	**2,562**	**50%**	**5,112**	**235**	**31,436**	**227.7**
North America	2,120	77%	2,753	301	76,389	388.2
Europe	22	19%	116	0	494	2.6
Total	**4,704**	**58%**	**7,981**	**536**	**108,319**	**618.5**

Source: Spears

Note: The totals and sub-totals in this chart are for illustrative purposes only; numbers may or may not add up due to rounding.

North America

Consisting of Canada and the USA, North America is the largest land rig market in the world in terms of active rigs and wells drilled. North America had an estimated 2,120 land rigs engaged in drilling operations in 2006. The North American land rig market consists of numerous contract drilling companies, with the largest companies including Nabors, Helmerich & Payne, Patterson Energy and Grey Wolf. Onshore drilling is primarily focused on conventional natural gas drilling, though non-conventional natural gas drilling, such as tight gas formations, coal bed methane, and shale gas, are increasing land rig demand. Spears estimates the total number of oil and gas wells drilled onshore in North America at 76,389, with a total estimated well footage of 388.2 million feet, during the year 2006. This is forecast to increase to 97,846 wells and a total of 506.7 million feet drilled per year, by 2012. To meet such demand, an estimated 635 new land rigs will be required from 2007 through 2012.

China

China is the second largest land rig market in the world in terms of active rigs and wells drilled. An estimated 1,100 land rigs were engaged in drilling operations in China in 2006. About 85% to 90% of the estimated 2,000 land rigs in China are owned by the drilling subsidiaries of two leading state-owned oil groups, CNPC and Sinopec. An estimated 200 to 300 land rigs are owned and operated by other Chinese operators and independent domestic drilling contractors, while fewer than 20 foreign-owned land rigs are in China at present. Spears estimates the total number of oil and gas wells drilled onshore in China at 16,850 with a total estimated well footage of 124.7 million feet, during the year 2006. This is forecast to increase to 21,321 wells and a total of 157.8 million feet drilled per year, by 2012. To meet such demand, an estimated 1,125 new land rigs will be required from 2007 through 2012.

Russia

Russia is the third-largest land rig market in the world, in terms of active rigs and well footage drilled. An estimated 550 land rigs were engaged in drilling operations in Russia in 2006. Rig drilling is dominated by in-house service firms, including RNGS run by Rosneft, Burgaz run by Gazprom and NvBN run by TNK-BP. Some of the rigs are owned by independent Russian drilling contractors, including BK Eurasia, Integra and Siberian Service Company. There are a few international drilling contractors present in the Russian market, including KCA Deutag of Germany, which is a unit of Abbot Group PLC. Spears estimates the total number of oil and gas wells drilled onshore in Russia at 4,753, with a total estimated well depth of 40.3 million feet, during the year 2006. This is forecast to increase to 6,261 wells and a total of 52.9 million feet drilled per year, by 2012. To meet such demand and high rig-replacement requirements, an estimated 705 new land rigs will be required from 2007 through 2012.

FSU (excluding Russia)

The FSU (excluding Russia) region is another potentially significant rig market, with an estimated 211 land rigs engaged in drilling operations in 2006. It is estimated that this region had a total land rig fleet of 505 rigs (including active and inactive rigs) as of May, 2007, of which 195 were in Ukraine, 100 were in Kazakhstan, 95 were in Turkmenistan, 90 were in Uzbekistan and 25 were in Azerbaijan. Almost all of these units are more than 20 years old and based on obsolete designs. Except for Kazakhstan, where most of the rig fleet is owned by foreign and private drilling contractors, most of the rig fleet in the FSU (excluding Russia) is owned by state-owned oil companies. Spears estimates the total number of oil and gas wells drilled onshore in FSU (excluding Russia) was 1,053, with a total estimated well footage of 6.7 million feet, during the year of 2006. This is forecast to increase to 1,411 wells and a total of 9.0 million feet drilled per year, by 2012. To meet this demand and replacement requirements, an estimated 87 new land rigs will be required from 2007 through 2012.

Middle East

The Middle East is home to the world's largest oil and gas reserves and the highest levels of oil production. However, due to the productivity of its wells, the region has a smaller rig market than many other regions. An estimated 210 land rigs were engaged in drilling operations in the Middle East in 2006, with the world's highest utilization level of 86%. Nabors, National Iranian Drilling Company (NIDC) and Arab Drilling Company have the largest rig fleets in this region. Saudi Arabia, Oman and Iran have the largest land rig fleets, consisting of 86, 56 and 51 respectively, as of November, 2007. Spears estimates the total number of oil and gas wells drilled onshore in the Middle East was 1,710 with a total estimated well footage of 13.5 million feet, during the year 2006. This is forecast to increase to 2,267 wells and a total of 18.1 million feet drilled per year, by 2012. To meet this demand and rig replacement requirements, an estimated 130 newbuild land rigs will be required from 2007 through 2012.

Latin America

Latin America is one of the largest land rig markets in the world, and the fourth-largest in terms of land wells drilled in 2006. An estimated 261 land rigs were engaged in drilling operations in the Latin America market in 2006. Pemex and San Antonio are estimated to have the largest rig fleets in this region. Mexico, Argentina and Venezuela are the countries with the largest land rig fleets, accounting for approximately 27%, 25% and 23%, respectively of the total rig fleet size in Latin America, as of May, 2007. Spears estimates the total number of oil and gas wells drilled onshore in Latin America at 4,481 with a total estimated well footage of 27.4 million feet, during the year 2006. This is forecast to increase to 5,525 wells and a total of 33.3 million feet drilled per year, by 2012. To meet this demand and rig replacement requirements, an estimated 115 newbuild land rigs will be required from 2007 through 2012.

Africa

The most active land rig markets in Africa are located in Algeria, Egypt and Libya. An estimated 95 land rigs were engaged in drilling operations in Africa in 2006. ENTP, Great Wall, EDC and Enafor are the companies with the largest rig fleets in this region. Algeria, Egypt and Libya have the largest land rig fleets, with 91, 44 and 33 land rigs, respectively, as of May, 2007. Spears estimates the total number of oil and gas wells drilled onshore in Africa at 934 with a total estimated well footage of 6.8 million feet, during the year 2006. This is forecast to increase to 1,501 wells and a total of 10.8 million feet drilled per year, by 2012. To meet this demand and rig replacement requirements, an estimated 85 newbuild land rigs will be required from 2007 through 2012.

Global New Rig Demand

Demand for newbuild land rigs is driven by a combination of demand for additional rigs, new rig technologies or capabilities (such as greater drilling depth), and retirement of existing, aging or obsolete rigs. Some idle rigs may be reactivated, some rigs may be "assembled" from existing components.

Between 2002 and 2006, approximately 1,373 newbuild rigs were delivered to the market. Newbuilds increased 137%, from 226 in 2005, to 536 in 2006, largely due to demand indirectly related to increases in worldwide oil prices and North American natural gas prices. Global construction of new land rigs is forecast to be over 2,900 rigs between 2007 and 2012, averaging approximately 491 new rigs a year. By 2012, virtually all of the global demand for new rigs is expected to be linked to the need to replace worn-out or obsolete units. The following table shows the historical and forecast movements in the global land rig market through 2012.

Global Land Rig Movements

Year	Active Rigs	Rig Fleet as at 1 Jan	New builds	Moved In or Assembled	Retirements	Rig Fleet as at 31 Dec
2002	3,013	8,183	184	180	481	8,066
2003	3,521	8,066	211	293	621	7,949
2004	3,664	7,949	216	434	498	8,101
2005	4,270	8,101	226	296	570	8,053
2006	4,704	8,053	536	234	498	8,325
2002-2006 Total			**1,373**	**1,437**	**2,668**	
2007	4,951	8,325	751	318	462	8,932
2008	5,104	8,932	445	140	489	9,029
2009	5,283	9,029	391	95	484	9,030
2010	5,483	9,030	430	70	482	9,048
2011	5,682	9,048	455	60	483	9,080
2012	5,869	9,080	475	50	486	9,119
2007-2012 Total			**2,947**	**733**	**2,886**	

Source: Spears

Note: The totals and sub-totals in this chart are for illustrative purposes only; numbers may or may not add up due to rounding.

The global land rig construction market was driven by the North American market in 2006 and 2007, when newbuilds in North America accounted for approximately half of the global total. After 2007, with the near-term build-out of the North American market complete, global new land rig construction is expected to return to 400 to 450 units per year during 2008 to 2010, with significant demand shifting to the emerging market regions. China and Russia are expected to have the largest demand for newly built land rigs, and are forecast to account for 42.1% and 36.8% of global demand for new rigs in 2012, respectively. The following table summarizes historic and forecasted global demand for new land rigs by region.

Global New Land Rig Demand

Year	China	Russia	FSU (excluding Russia)	Middle East	Latin America	Africa	Asia (excluding China)	Emerging market total	Europe	North America	Global total
2002	125	50	—	—	—	—	—	**175**	—	9	**184**
2003	125	20	—	—	—	—	—	**145**	—	66	**211**
2004	130	15	—	—	—	—	—	**145**	—	71	**216**
2005	135	5	—	10	5	5	—	**160**	—	66	**226**
2006	140	40	5	30	10	5	4	**235**	—	301	**536**
2002-2006 Total	**655**	**130**	**5**	**40**	**15**	**10**	**4**	**860**	—	**513**	**1,373**
2007	175	70	10	30	10	10	10	**316**	—	435	**751**
2008	180	85	10	20	25	15	10	**345**	—	100	**445**
2009	185	100	10	20	25	15	11	**366**	—	25	**391**
2010	190	125	19	20	25	15	11	**405**	—	25	**430**
2011	195	150	19	20	20	15	11	**430**	—	25	**455**
2012	200	175	19	20	10	15	11	**450**	—	25	**475**
2007-2012 Total	**1,125**	**705**	**87**	**130**	**115**	**85**	**64**	**2,312**	**—**	**635**	**2,947**

Source: Spears

Note: The totals and sub-totals in this chart are for illustrative purposes only; numbers may or may not add up due to rounding.

Demand for new land rigs in China is forecast to remain strong through 2012, driven primarily by the development of major new oil fields, as well as continued drilling of mature oilfields, such as at the Daqing oilfield (Heilongjiang province). CNPC, China's largest oil and gas producer, plans to boost gas production by 1.06 Tcf per year, to 2.50 Tcf per year, by 2010. It is scheduled to develop five new gas fields over the next three years, including the Longgang and Xujiahe fields (in Sichuan province), the Sulige field (in the Ordos basin), and the Dinan and Tazhong fields (in the Tarim basin). In addition, CNPC plans to begin development of the Nanpu oilfield (in Hebei province) in 2008, and to maintain large-scale oil drilling activities at Daqing.

Demand for new rigs in Russia is forecast to grow rapidly, between 2007 and 2012 primarily due to the aging, mechanical-driven land rig fleet. According to the Union of Manufacturers of Oil and Gas Equipment of Russia, approximately 32% (491 rigs) of the current drilling rig fleet was manufactured more than 15 years ago. These rigs are approaching the end of their useful lives and are expected to be replaced with new units in the coming years. As a result, rig upgrades and replacement are expected to drive the increase of demand for new land rigs in Russia.

Major Land Rig Manufacturers

Global land rig manufacturing is dominated by manufacturers based in the USA and China, with several smaller manufacturers in Germany, Romania and Russia. Historically, Chinese manufacturers, though producing more drilling rigs, have lagged behind their Western counterparts in technology. In the last few years, the leading

Chinese rig manufacturers have advanced their rig technology beyond that of their Russian counterparts and are approaching that of their competitors in the USA and Europe, but at substantially lower costs for similar rigs.

National Oilwell Varco ("NOV") is the world's largest land drilling rig and rig component manufacturer. It is based in the USA, with manufacturing facilities in the USA, Canada, UAE, Norway, the Netherlands and China. In 2001, NOV formed a joint venture with Lanzhou Lanshi Group, in Gansu province, China, to manufacture land rigs and workover equipment in China. The name of the joint venture company is Lanzhou LS-National Oilwell Petroleum Engineering. NOV has been an innovator in rig technologies, including top-drive systems, and generally focuses its rig and component sales on the high-performance drilling market.

According to the Independent Technical Report in Appendix V of this Prospectus, the Company is the world's second largest land rig manufacturer in terms of revenue and production volume in 2006 and the largest land rig manufacturer in China in terms of both 2006 revenue and number of drilling rigs produced. The Company currently has approximately 20% to 30% of the Chinese domestic land rig market, and it is one of the largest rig exporters in China. The Company's export prices are about 20% to 25% below that of Western rig makers for comparable land rigs. In 2006, the Company sold 82 land rigs.

Baoji Oilfield Machinery Company ("BOMCO") is the third-largest land rig manufacturer in the world and the second largest land rig manufacturer in China. BOMCO is a wholly-owned subsidiary of CNPC. BOMCO currently owns approximately 40% of the Chinese domestic land rig market, where its sales are concentrated. However, it is increasingly focusing on markets outside China. BOMCO's export prices are about 20% to 25% below that of Western rig makers for comparable land rigs.

Bentec GmbH Drilling & Oilfield Systems ("Bentec") of Germany is a private company, based in Germany and part of the Abbot Group PLC. It is developing its rigs to penetrate the Russian market and is planning to open a manufacturing facility in Tyumen, Russia, in 2008. Its affiliated company, KCA Deutag, is a drilling contractor that operates several land rigs in Russia. Bentec's rigs are typically priced below NOV rigs, but above Chinese rigs, for comparable land rigs. Its products include mobile rigs and low-temperature rigs, both of which are intended for the Russian market. In 2006, Bentec sold five land rigs.

Land drilling rig manufacturers which primarily serve their domestic markets include Uralmash, a subsidiary of Integra (Russia), Taylor Rig (USA), Shengli Gaoyuan (China), Liaohe (China), Zhongyuan Mainrig (China), Zhongyuan Zuansan (China), and Shanghai Sangao (China).

PRC Laws and Regulations Relating to the Industry

The manufacture of petroleum drilling rigs and components must comply with the Regulations on the Administration of Production Permits for Industrial Products (《工業產品生產許可證管理條例》), promulgated by the State Council of the PRC on July 9, 2005, and its Implementation Rules (《實施辦法》), promulgated by the State Quality Inspection Bureau on September 15, 2005. Products listed in the Industrial Products Catalogue are subject to the Production Permit System; a manufacturer must not manufacture any product listed in the Industrial Products Catalogue, unless a Production Permit for such product has been obtained.

On December 2, 2005, the NDRC promulgated the Industry Restructuring Catalogue (《產業結構調整指導目錄》), to facilitate industry restructuring in accordance with government policy. This applies to all companies in China and classifies the "Design and manufacture of sets of 7,000 or more meter depth drilling rigs" as an encouraged category.

PRC Laws and Regulations Relating to Foreign Investment

Under the updated Industrial Guidance Catalogue for Foreign Investment (《外商投資產業指導目錄(2007年修訂)》), jointly issued by the NDRC and the Ministry of Commerce on November 30, 2004 and revised on October 31, 2007, effective on December 1, 2007, foreign investment in "Manufacturing of petroleum exploration, drilling and gathering equipment: floating drilling system and floating manufacturing system of working depth > 500m, subsea production and gathering equipment of working depth > 600m, winch of power > 3,000 KW, top drive of 850 KW and above, drilling pump of power > 1,800 KW for deep sea petroleum drilling, underground petroleum driller with drilling depth of 9,000 metres and above and desert petroleum driller, reciprocating piston compressor of 80 tons and above for oil refinery device with capacity of 10 million tons/year, digital-controlled petroleum deep well logging device, petroleum driller mud hole device." is categorized as an encouraged investment. According to the Provisions on Guiding the Foreign Investment Direction (《指導外商投資方向規定》), and the Comments Regarding Further Encouraging Foreign Investment (《關於當前進一步鼓勵外商投資的意見》), an encouraged foreign investment is entitled to receive certain benefits and incentives from the government, mainly in terms of taxation, including but not limited to: (a) the local income tax of any enterprise with foreign investment, which operates in an industry or undertakes a project encouraged by the state, may be exempted or reduced, at the discretion of the People's Government of the province, autonomous region or municipality directly under the Central Government; (b) domestic equipment purchased by such enterprise is subject to a VAT Refund Policy; and (c) as to certain foreign investment, equipment imported for the enterprise's own use, within the total amount of investment, is exempt from tariffs and import-stage value-added tax.

Pursuant to the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), which is SAFE Circular No. 75, issued on October 21, 2005, effective on November 1, 2005, (i) a PRC citizen residing in the PRC, (a "PRC Resident"), must register with the local branch of SAFE before he or she establishes or controls an overseas special purpose vehicle ("SPV"), for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC Resident contributes the assets of or its equity interests in a domestic enterprise to an overseas SPV, or engages in overseas financing after contributing assets or equity interests to an overseas SPV, such PRC Resident must register his or her interest in the overseas SPV or any changes to his or her interest in the overseas SPV with the local branch of SAFE; and (iii) when the overseas SPV undergoes a material event outside of China, such as change in share capital or merger and acquisition, the PRC Resident must, within 30 days after the occurrence of such event, register such change with the local branch of SAFE.

Under SAFE Circular No. 75, failure to comply with the registration procedures may result in penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the overseas SPV.

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "New M&A Rules"), to regulate foreign investment in PRC

domestic enterprises. The New M&A Rules provide that the Ministry of Commerce must be notified in advance of any transaction in which a foreign investor takes control of a PRC domestic enterprise, and if any of the following situations exists: (i) the transaction involves an important industry in China; (ii) the transaction may affect national "economic security"; or (iii) the PRC domestic enterprise has a well-known trademark or historical Chinese trade name in China. The New M&A Rules contain a provision requiring overseas SPVs, formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC issued a clarification that sets forth the criteria and process for obtaining any required approval from the CSRC.

Miscellaneous

Protection of Intellectual Property

The PRC laws and regulations concerning the protection of intellectual property include, but are not limited to: the Patent Law of the PRC and its Implementing Regulations (《中華人民共和國專利法》及其《實施細則》); the Paris Convention for the Protection of Industrial Property (《保護工業產權巴黎公約》) of the World Intellectual Property Organization; and the General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》).

Environmental Protection

The PRC laws and regulations concerning environmental protection, include but are not limited to: the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), promulgated and effective on December 26, 1989, the Air Pollution Prevention Law of the PRC (《中華人民共和國大氣污染冶法(2000年修正)》), promulgated on April 29, 2000, effective September 1, 2000; the Water Pollution Prevention Law of the PRC, and its Implementing Regulations (《中華人民共和國水污染防治法 (96修正)》及其《實施細則》), promulgated in 1996 and 2000, respectively; the Rules on the Administration concerning Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), promulgated and effective on November 29, 1998; and the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects (《建設項目竣工環境保護驗收管理辦法》), promulgated December 27, 2001, effective February 1, 2002.

Pursuant to such laws and regulations, the discharge and disposal of toxic and hazardous materials, including but not limited to a manufacturer's waste water, solid waste and waste gases, must comply with the applicable national and local standards. Otherwise, a manufacturer may be ordered to take corrective actions within a certain period of time, be subject to penalties, or ordered to shut down. Before a construction project begins, an environmental impact assessment report is required to be submitted to the relevant environmental protection authority for approval, and an acceptance inspection by the relevant environmental protection authority is required before the finished project commences operations.

Taxation in the PRC

On January 1, 2008, the Foreign-funded Enterprise and Foreign Enterprise Income Tax Law of the PRC (《中華人民共和國外商投資企業和外國企業所得稅法》) was abolished, and the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), promulgated on March 16, 2007, became effective. Pursuant to the Enterprise Income Tax Law of the PRC, the income tax rate for both domestic-funded enterprises and foreign-funded enterprises will be 25%.

VAT Refund

Under PRC law, a manufacturing company established in the PRC is entitled to a refund of, or exemption from, certain PRC value-added tax ("VAT") on its products exported to other countries.

For details please refer to: the PRC Imported and Exported Goods Taxation Administration Rules (《中華人民共和國進出口貨物征稅管理辦法》), effective on March 1, 2005; the State Tax Bureau Circular regarding Issues of Tax Refund (or Exemption), for Exported Goods (《國家稅務總局關於出口貨物退(免)稅若干問題的通知》), effective on November 18, 2003; and the Administration Rules regarding Tax Refund (or Exemption) for Exported Goods (《出口貨物退(免)稅管理辦法》), effective on May 1, 2005.

Taxation in the USA

For United States federal income tax purposes, a limited liability company ("LLC") may be treated as a disregarded entity, a partnership or a corporation. Honghua America, LLC is currently classified as a partnership for United States federal income tax purposes. A partnership is not subject to United States federal income tax itself; rather, income or loss of a partnership "flows through" to the partners, who are taxed in their individual capacities on their distributive shares of partnership taxable income.

Taxation in the State of Texas

Texas recently created the Texas Margin Tax, effective January 1, 2007, with the first returns due in May, 2008. The new tax will impose a 1% "taxable margin tax" on the "taxable margin" of a taxable entity. The taxable margin is determined by first determining a taxable entity's total revenue. From this amount, the entity will choose to deduct either its cost of goods sold or total compensation, up to $300,000 per employee, indexed for inflation. If the entity's taxable margin is greater than 70% of its total revenue, the entity is taxed only on 70% of its total revenue. The entity will then apportion to the state the amount of revenue from business done in the state and will subtract any other allowable deductions to determine the entity's taxable margin. Once the entity's taxable margin is determined, a tax rate of 1% is applied to that margin.

Laws of Egypt

Civil law: The Egyptian Civil Law was promulgated on July 29, 1948. The Civil Law governs all civil transactions between individuals or corporations (assigned personal) including contracts, sales, purchases, renting, and pledging.

Corporation law: The Egyptian Corporation Law was promulgated in 1981. It governs the establishment and operation of companies, including limited liability companies and joint stock companies, including but not limited to assembly meetings, board meetings, capital stock and dividend allotment.

Investment law: The Egyptian Investment Law was promulgated on November 5, 1997. It governs investments, including preferential treatment, guarantees, taxes and customs.

Capital market law: The Egyptian Capital Market Law became effective in 1992. It governs the purchase and sale of the stock of companies.

Environmental law: The Egyptian Environmental Law became effective on January 28, 1994. It governs the activities of individuals and corporations that might have an impact on the environment.

Labor law: The Egyptian Labor Law was promulgated on July 4, 2003. It governs employment relations, labor, penalties and work permits.

Financial law: The Egyptian Finance Law was promulgated in 1999. It governs banking and financial transactions.

Export Business

According to the Foreign Trade Law (《對外貿易法》), amended on April 6, 2004, and the Record Filing and Registration of Foreign Trade Operators Procedures (《對外貿易經營者備案登記辦法》), promulgated by the Ministry of Commerce on June 25, 2004, a foreign trade operator, engaging in the import or export of goods or technologies, must make the appropriate filings at and registrations with the Ministry of Commerce or the organization designated by the Ministry of Commerce.

Foreign Exchange

Pursuant to the Regulations on the Management of Foreign Exchange (《外匯管理條例》), as amended on January 14, 1997, payments in international transactions, such as the sale or purchase of goods, in foreign currencies, are not subject to PRC governmental control or restrictions, and certain organizations inside the PRC, including foreign-invested enterprises, may buy, sell and/or remit foreign currencies, at those banks authorized to conduct foreign exchange business, upon providing valid commercial documents. However, approval from the State Administration of Foreign Exchange is required if the transaction involves a transfer of capital, such as the sale or purchase of shares.

On July 21, 2005, the People's Bank of China issued a Public Announcement on Improving the Reform of the RMB Exchange Rate Regime ([2005]16), which announced that the PRC would reform the exchange rate regime by moving to a managed floating exchange rate, based on market supply and demand with reference to a basket of currencies. RMB would no longer be pegged to US Dollars.

Dividend Distribution

Pursuant to the PRC Law on Foreign-funded Enterprises, amended on October 31, 2000, and the Rules for the Implementation of the PRC Law on Foreign-funded Enterprises (《中華人民共和國外資企業法實施細則》), amended on April 12, 2001, before dividends are distributed, a foreign-funded enterprise must pay certain taxes and retain certain funds, such as reserve funds and welfare funds. Upon approval by the competent governmental authorities, foreign investors may utilize RMB dividends to invest or re-invest in enterprises established in China.

Overview

Our Company, through Asia Harbour, owns equity interest in Honghua Company and HH Egyptian Company. Honghua Company is our PRC operating subsidiary, and it owns equity interest in each of Youxin Company, Honghua International, Hongtian Company and Honghua America. Honghua Company, Youxin Company, Honghua International and Hongtian Company are PRC operating companies. Our offshore companies comprise Honghua America, Golden Coast Company and Lucky Wish. The Company, together with its subsidiaries, form the Group for Listing.

The Group is principally engaged in manufacturing drilling rigs, rig parts and components and in providing drilling-related training, as well as after-sales services, to its customers.

Prior to the Listing, the Group comprising our Company and its subsidiaries underwent a Reorganization, which steps are summarized as follows:-

1. Our Company was incorporated in the Cayman Islands with limited liability on June 15, 2007. It is owned by Ally Giant, the Financial Investors (namely Carlyle Funds, Vincera Group, DPF, IP Cathay, COOS) and Nabors International as to approximately 64.7%, 17.3% and 18% respectively immediately before the Listing.

2. Asia Harbour was incorporated in Hong Kong with limited liability on July 8, 2006. Its one subscriber share was subsequently taken up by Ally Giant which was wholly-owned by Ample Chance. For the purpose of the Reorganization, Asia Harbour acquired Honghua Company on August 24, 2006. In preparation for the Global Offering, the Company acquired Asia Harbour from Ally Giant and became the holding company of the Group on October 16, 2007.

3. Honghua Company was incorporated in the PRC as a limited liability company on December 31, 1997. It was initially owned by Honghua Industrial, Oil Drilling Plant and 12 individual shareholders. As an employee benefit offered by Oil Drilling Plant, 841 employees were offered the opportunity to invest in Honghua Company. Fu Chonglin represented the 841 employees and was registered as a shareholder holding an equity interest of approximately 37.5% in Honghua Company. In 2000, the employees of Oil Drilling Plant elected 11 representatives in lieu of Fu Chonglin, who transferred his entire equity interest in Honghua Company to these 11 representatives. In 2003, Mr. Zhang Mi, the Chairman of Honghua Company, and 22 other individual shareholders formed the Concert Group for the purpose of consolidating control of Honghua Company. In aggregate, the Concert Group held approximately 35.438% of Honghua Company's equity. There were several increases of registered capital as well as equity interest transfers between June 2000 and December 2005 that resulted in Honghua Company being 16.336% owned by Huasheng Oil Company and approximately 83.664% owned by 34 individual shareholders. In January 2006, Honghua Company reduced its registered capital and repurchased all of the equity interest held by the 11 registered shareholders in order to consolidate the control and ownership of the Concert Group in Honghua Company. In April 2006, in order to further consolidate control and ownership, Honghua Company reduced its registered capital again and entered into an equity buy-out arrangement with Huasheng Oil Company and its other shareholders. On June 28, 2006, Honghua Company was owned by 21 shareholders, 20 of whom were members of the Concert Group holding approximately 99.297% of Honghua Company's equity. On August 11, 2006, Honghua Company entered into a capital increase agreement with 20 members of the Concert Group and 14 other individuals for the purposes of expansion and development. For the purpose of the Reorganization in preparation for Listing, Asia Harbour acquired the entire interest in Honghua Company from the 34 individual shareholders on August 24, 2006. Honghua Company was then converted from a domestic enterprise into a wholly-foreign owned enterprise and was wholly-owned by Asia Harbour. After the completion of Reorganization, Honghua Company became an indirectly wholly-owned subsidiary of the Company.

4. HH Egyptian Company was a joint venture company established in Egypt on April 24, 2007 pursuant to a joint venture agreement between Honghua Company, Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company and Tharwa Petroleum Company. Asia Harbour replaced Honghua Company and became a party to the joint venture agreement pursuant to a letter of declaration signed on January 8, 2007.

5. Honghua International was incorporated in the PRC as a limited liability company on January 13, 2004. It was initially 40% owned by Honghua Company and 60% owned by 20 individuals. There was an increase of registered capital in September 2005 and several transfers of equity interest from September 2005 to July 2006 resulting in Honghua International being 80% owned by Honghua Company and 20% owned by 13 individual shareholders. After completion of the Reorganization, Honghua International became an indirectly owned subsidiary of the Company.

6. Youxin Company was incorporated in the PRC as a limited liability company on August 7, 1998 and was initially owned by five individual shareholders. There were several increases in Youxin Company's registered capital and transfers of equity interests in Youxin Company from November 2000 to August 2006. Upon completion of the Reorganization, Youxin Company was 80% owned by Honghua Company and 20% owned by nine individual shareholders.

7. Honghua America was formed in the State of Texas in the United States as a limited partnership on October 11, 2004. It was initially 2% owned by NCE Management with the other 98% being owned by Sue Ann Ma. There was a series of transfers of equity interest in Honghua America from October 2004 to November 2006. In December 2006, Honghua America was converted to a limited liability company at which point it was 80% owned by Honghua Company and 20% owned by NCE Management Inc.

8. Hongtian Company was incorporated in the PRC as a limited liability company on June 6, 2001. It was initially owned entirely by 25 individual shareholders. There were several increases of registered capital and transfers of equity interest from July 2003 to August 2006. As of August 2006, Hongtian Company was 80% owned by Honghua Company and 20% owned by 12 individual shareholders. After completion of the Reorganization, Hongtian Company became an indirectly owned subsidiary of the Company.

9. Golden Coast Company was incorporated in the United Arab Emirates with limited liability on November 28, 2006. It is wholly-owned by Honghua International.

10. Lucky Wish was incorporated in the BVI with limited liability on February 2, 2005. On December 5, 2005, one share was allotted to Liu Zhi on trust for Honghua International. As advised by our PRC legal advisor, King & Wood, approval from the relevant PRC commerce authorities would be required for the trust arrangement between Honghua International and Liu Zhi. As the said approval had not been obtained by the Company, the Company is currently taking steps to close down Lucky Wish after becoming aware of a possible deviation of the trust arrangement from the relevant PRC rules and regulations.

Details of the equity interest transactions and shareholding structure of the Group are set out below.

Honghua Company

The history of the Group can be traced back to December 31, 1997, when Honghua Company was established as a limited liability company with a registered capital of RMB800,000. As of the date of its establishment, Honghua Company was owned approximately 22.150% by Honghua Industrial, approximately 11.075% by Oil Drilling Plant and approximately 66.775% by 12 individual shareholders. Details of the shareholdings are as follows:

Shareholder	Approximate equity interest
Honghua Industrial	22.150%
Oil Drilling Plant	11.075%
12 Individual Shareholders	
Fu Chonglin (付崇林)	37.500%
Zhang Mi (張弭)	4.976%
He Guangfu (何光福)	3.340%
Ren Jie (任杰)	3.051%
Zuo Huixian (左輝先)	2.844%
Zhang Zongyou (張宗友)	2.805%
Zhang Yanyong (張彥永)	2.561%
Zhang Xu (張旭)	2.400%
Fan Bing (范兵)	2.264%
Liu Xuetian (劉學田) (deceased)	2.049%
Chen Zongliang (陳宗良)	2.024%
Zhou Bing (周兵)	0.961%
Total:	**100.000%**

Honghua Industrial was a collectively-owned enterprise, established in the PRC on June 17, 1993, and was principally engaged in the processing, manufacturing, transportation and repair of oil equipment; drilling and oilfield construction, installation and technical design and advisory services; water and electricity equipment installation and repair; metal materials, construction materials, electrical and mechanical products; daily necessities, and wholesale foods. Honghua Industrial made its capital contribution in the sum of RMB177,200, being an approximately 22.150% equity interest in Honghua Company, by way of asset injection. The assets injected included equipment and machinery. Except for the above, Honghua Industrial did not transfer any of its business, assets or personnel to Honghua Company. Oil Drilling Plant was a state-owned enterprise, established in the PRC on December 28, 1993, and was principally engaged in manufacturing oil drilling equipment, appliances and accessories, and transportation of cargo.

Zhang Mi and 11 other individual shareholders were former colleagues and through their work together had established mutual trust and understanding. They decided to establish Honghua Company with Honghua Industrial and Oil Drilling Plant in order to build their investments in the oil drilling equipment industry.

As a benefit offered by Oil Drilling Plant, the employees of Oil Drilling Plant were offered through the trade union, the opportunity to invest in Honghua Company. 841 employees of Oil Drilling Plant collectively invested an aggregate of RMB300,000 in Honghua Company when Honghua Company was established in 1997. Fu Chonglin represented those 841 employees, holding an approximately 37.5% equity interest in Honghua Company. Fu Chonglin was then registered as a shareholder of Honghua Company with the relevant Administration of Industry and Commerce in order to enable those employees of Oil Drilling Plant, as investors

of Honghua Company, to comply with the requirements of the PRC Company Law, which restrict the number of shareholders of a limited company to no more than 50. Fu Chonglin is an Independent Third Party. Except for Fu Chonglin, all the other individual shareholders, namely Zhang Mi, He Guangfu, Ren Jie, Zuo Huixian, Zhang Zongyou, Zhang Yanyong, Zhang Xu, Fan Bing, Liu Xuetian (deceased), Chen Zongliang and Zhou Bing (collectively and excluding Fu Chonglin, the "Initial Individual Shareholders") held their equity interests for themselves and were members of the Concert Group formed on June 19, 2003. Seven of the Initial Individual Shareholders, namely Zhang Mi, Ren Jie, Zuo Huixian, Zhang Yanyong, Zhang Xu, Fan Bing and Zhou Bing, remain shareholders of the Group.

The Company's PRC legal advisor, King & Wood, has advised us that:

According to China's currently enforceable laws, regulations, rules and interpretations, "illegal fund raising activity" is the conduct of raising funds from the public without approval from the governmental authorities and it usually contains the following fundamental legal characteristics:

(1) Obtaining no approvals from relevant governmental departments which have the authority to approve, obtaining approvals from governmental departments which have no authority to approve, or obtaining approvals from governmental departments which are acting ultra-vires in giving the approval;

(2) Giving warranties to repay the subscribers, either in cash or in kind;

(3) Raising funds from unspecified people, i.e. the public; and

(4) Covering the illegal characteristics of the conduct by using a legal format.

As the 841 employees of Oil Drilling Plant were represented by Fu Chonglin who was registered as one of the shareholders of Honghua Company, the 841 employees were not unspecified people as referred to in above (3). Since the investment was an employee benefit given by Oil Drilling Plant, Honghua Company's acceptance of the arrangements by its shareholder, Oil Drilling Plant, does not constitute an "illegal fund raising activity" or violate any compulsory requirements under applicable PRC laws.

On June 18, 2000, a shareholders' resolution was passed to increase the registered capital of Honghua Company from RMB800,000 to RMB4,080,000 for the purpose of expansion of scale and production.

On September 16, 2000, Honghua Industrial entered into a transfer agreement with Song Shuqing, Deng Meng, Yuan Guiqi and the Initial Individual Shareholders, pursuant to which Honghua Industrial agreed to transfer approximately 8.860%, 4.430%, 4.430% and 4.430% equity interest in Honghua Company, respectively, to each of Song Shuqing, Deng Meng, Yuan Guiqi and the Initial Individual Shareholders ((Zhang Mi (approximately 0.753%), Ren Jie (approximately 0.462%), Zhang Xu (approximately 0.363%), Zhang Yanyong (approximately 0.387%), Zuo Huixian (approximately 0.430%), Liu Xuetian (deceased) (approximately 0.310%), Fan Bing (approximately 0.343%), Zhou Bing (approximately 0.146%), He Guangfu (approximately 0.506%), Chen Zongliang (approximately 0.306%) and Zhang Zongyou (approximately 0.425%)) for considerations of RMB70,880, RMB35,440, RMB35,440 and RMB35,440, which considerations were determined with reference to their capital contributions to the then existing registered capital of Honghua Company. The Initial Individual Shareholders paid the said RMB35,440 in proportion to the equity interests they acquired from Honghua Industrial. Song Shuqing, Deng Meng and Yuan Guiqi are Independent Third Parties. Upon completion of the said equity transfers, Honghua Industrial ceased to own any equity interest in Honghua Company.

On the same date, Oil Drilling Plant entered into a transfer agreement with Deng Meng and Yuan Guiqi, pursuant to which Oil Drilling Plant agreed to transfer to each of Deng Meng and Yuan Guiqi half of its equity interest in Honghua Company. Upon completion of the said equity transfers, Oil Drilling Plant ceased to own any equity interest in Honghua Company.

In June 2000, employees of Oil Drilling Plant elected 11 individuals, namely Huang Dequan (黃德全), Wang Yaoxin′ (王堯鑫), Li Yan (李燕), Chen Zhenghua (陳正華), Shi Shuming (石述明), Wang Wei (王偉), Zhou Tao (周濤), Ni Xiurong (倪修榮), Yang Xuefeng (楊學鋒), Yang Yuanchun (陽遠春) and Yu Zhenghua (余正華), in lieu of Fu Chonglin as their representatives. On September 16, 2000, Fu Chonglin transferred all his equity interest in Honghua Company to these 11 representatives (as to approximately 5.881% to Huang Dequan, 5.425% to Wang Yaoxin, 4.538% to Li Yan, 4.281% to Chen Zhenghua, 4.238% to Shi Shuming, 3.281% to Wang Wei, 2.694% to Zhou Tao, 2.388% to Ni Xiurong, 1.988% to Yang Xuefeng, 1.588% to Yang Yuanchun and 1.200% to Yu Zhenghua, respectively). Wang Yaoxin is a Non-executive Director, and the other ten individuals are Independent Third Parties.

The Company recognised only these 11 representatives (and not the 728 employees other than the said 11 representatives) as registered shareholders under PRC law. The management of Honghua Company was responsible for the registration of these 11 representatives as the registered shareholders with the relevant authority. The Company was neither required to keep, nor did it possess, any information as to whether these 11 shareholders acted on their own accord and at their own discretion, or at the direction of third parties. The Company has no information on, and was not required to inquire into, whether the said employees of Oil Drilling Plant actually directed these 11 shareholders how to vote at any shareholders' meetings of Honghua Company.

The table below shows details of the voting pattern of these 11 representatives at the shareholders' meetings of Honghua Company for the period from December 30, 1997 to January 7, 2006:

Honghua Company

Shareholders' Meeting Statistics (Representatives of the employees of Oil Drilling Plant)

✓ = **For; x = Against;** Period: December 30, 1997 to January 7, 2006

Name of Shareholder	2000										2001						2002											
Date of Shareholders' Meeting	18/06							03/08	28/09	30/11	16/03	6/6	8/6	19/09	06/04		28/04											
	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28		
Wang Yaoxin	✓	✓	✓		✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Shi Shuming	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		
Li Yan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Yang Xuefeng	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Zhou Tao	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		
Ni Xiurong	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Yu Zhenghua	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓												
Yang Yuanchun	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Huang Dequan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓												
Wang Wei	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓																	
Chen Zhenghua	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Zhi Rongmu													✓		✓	✓	✓	✓	✓	✓			✓	✓	✓	✓		
Xing Manrong																	✓		✓		✓	✓	✓					
Liu Chuanjun																												

Name of Shareholder	2003											2004			2005				2006				
Date of Shareholders' Meeting	29/03						11/11				20/12	20/02		05/04	01/04			25/12	07/01	07/01	07/01		
	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49		
Wang Yaoxin	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	x	✓	✓	✓	✓		
Shi Shuming	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓		
Li Yan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	✓	✓	✓	✓		
Yang Xuefeng	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓					✓	✓	x	✓	✓	✓	✓		
Zhou Tao	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	✓	✓	✓	✓		
Ni Xiurong	✓	✓	✓	✓	✓	✓				✓		✓	✓	✓	✓	✓	x	✓	✓	✓	✓		
Yu Zhenghua	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓								✓	✓	✓	✓		
Yang Yuanchun	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	x	✓	✓	✓	✓		
Huang Dequan																							
Wang Wei																							
Chen Zhenghua																							
Zhi Rongmu	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		
Xing Manrong	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓								✓	✓	✓	✓		
Liu Chuanjun	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓							✓	✓	✓	✓		

Note:

On June 9, 2000, 11 individuals, namely, Wang Yaoxin, Shi Shuming, Li Yan, Yang Xuefeng, Zhou Tao, Ni Xiurong, Yu Zhenghua, Yang Yuanchun, Huang Dequan, Wang Wei and Chen Zhenghua were elected as shareholder representatives of 728 employees of Oil Drilling Plant. Following later elections, Wang Wei was substituted by Zhi Rongmu on March 31, 2001, Chen Zhenghua was substituted by Liu Chuanjun on June 12, 2002 and Huang Dequan was substituted by Xing Manrong on April 28, 2002.

The 25 individual shareholders contributed RMB3,280,000, towards an increase in the registered capital of Honghua Company. On December 28, 2000, a new business license was issued by the Administration of Industry and Commerce of Siuchan, Guanghan concerning such increase in the registered capital. Upon completion of the said equity transfers and capital increase, Honghua Company was owned by the 25 individual shareholders as follows:

Shareholder	Approximate equity interest
Initial Individual Shareholders	
Zhang Mi	5.729%
He Guangfu	3.845%
Ren Jie	3.513%
Zuo Huixian	3.274%
Zhang Yanyong	2.949%
Zhang Zongyou	3.230%
Zhang Xu	2.763%
Fan Bing	2.606%
Liu Xuetian (deceased)	2.359%
Chen Zongliang	2.330%
Zhou Bing	1.107%
Sub-total:	***33.705%***
Other shareholders	
Deng Meng	9.968%
Yuan Guiqi	9.968%
Song Shuqing	8.860%
Huang Dequan	6.089%
Wang Yaoxin	5.362%
Chen Zhenghua	4.401%
Li Yan	4.243%
Shi Shuming	4.095%
Wang Wei	3.386%
Zhou Tao	2.674%
Ni Xiurong	2.460%
Yang Xuefeng	1.965%
Yu Zhenghua	1.223%
Yang Yuanchun	1.601%
Sub-total:	***66.295%***
Total:	**100.000%**

On April 6, 2002, Song Shuqing agreed to transfer all his equity interest in Honghua Company to Huasheng Oil Company. Upon completion of the said equity transfer, Huasheng Oil Company owned an approximately 8.860% equity interest in Honghua Company, while the other 24 individual shareholders owned the remaining approximately 91.140% equity interest. Huasheng Oil Company was a collectively-owned enterprise, established by the Labour Union of Sichuan Oil Management Bureau (四川石油管理局工會), in the PRC on October 4, 1993. It was principally engaged in investment and asset management, provision of oil related economic and technology consultation advice, tenancy and retail and wholesale of commodities. Except for its shareholding in Honghua Company, Huasheng Oil Company is an Independent Third Party.

On April 28, 2002, Deng Meng and Yuan Guiqi agreed to transfer an approximately 7.966% equity interest in Honghua Company to Huasheng Oil Company. Upon completion of the said transfer, the equity interest held by Huasheng Oil Company in Honghua Company increased to approximately 16.826%.

On April 28, 2002, shareholders' resolutions were passed (i) to increase the registered capital of Honghua Company, from RMB4,080,000 to RMB10,505,550, for Honghua Company's expansion and development, and (ii) to approve the additional capital contributions from Honghua Company's risk liability fund, surplus reserve fund and undistributed profit, as to RMB122,220, RMB2,101,110 and RMB4,202,220, respectively. According to King & Wood, our PRC legal advisor, the capital increase from Honghua Company's risk liability fund, surplus reserve fund and undistributed profit, as approved by shareholders' resolutions, was not contrary to the relevant PRC laws and regulations at the relevant times.

On June 22, 2002, a shareholders' resolution was passed to approve various equity transfers among shareholders between 2001 and 2002. Details of the equity transfers are as follows :

Date of the agreement	Transferor	Transferee	Approximate equity interest transferred
June 20, 2002	Huang Dequan	Xing Manrong	6.0395%
April 28, 2002	Chen Zhenghua	Liu Chuanjun	4.4009%
March 11, 2001	Wang Wei	Zhi Rongmu	3.3860%
June 20, 2002	Li Yan	Zhou Tao	0.1171%
June 20, 2002	Huang Dequan	Shi Shuming	0.0450%
June 20, 2002	Liu Chuanjun	Zhi Rongmu	0.0390%
June 20, 2002	Yu Zhenghua	Zhi Rongmu	0.0380%
June 20, 2002	Wang Yaoxin	Zhi Rongmu	0.0260%
June 20, 2002	Wang Yaoxin	Yang Xuefeng	0.0156%
June 20, 2002	Wang Yaoxin	Zhou Tao	0.0086%
June 20, 2002	Huang Dequan	Zhou Tao	0.0040%

Upon completion of the said equity transfers, Huang Dequan, Wang Wei and Chen Zhenghua ceased to own any equity interest in Honghua Company. Zhi Rongmu, Liu Chuanjun and Xing Manrong, the new registered shareholders of Honghua Company, were elected by the employees of Oil Drilling Plant to represent them and replace Wang Wei, Chen Zhenghua and Huang Dequan respectively.

Honghua Company filed the increase of registered capital to RMB10,505,550 with the Administration of Industry and Commerce of Sichuan, Guanghan, in late 2002. On January 29, 2003, a new business license reflecting the increase in the registered capital of Honghua Company was issued by the Administration of Industry and Commerce of Sichuan, Guanghan. Upon completion of the said capital increase and equity transfers, Honghua Company was owned approximately 16.336% by Huasheng Oil Company and 83.664% by 37 individual shareholders as follows:

Shareholder	Approximate equity interest
Initial Individual Shareholders	
Zhang Mi	5.563%
He Guangfu	3.734%
Ren Jie	3.411%
Zuo Huixian	3.179%
Zhang Zongyou	3.136%
Zhang Yanyong	2.863%
Zhang Xu	2.683%
Fan Bing	2.530%
Liu Xuetian (deceased)	2.290%
Chen Zongliang	2.262%
Zhou Bing	1.075%
Sub-total:	***32.726%***

Shareholder	Approximate equity interest
Other shareholders	
Deng Meng	5.811%
Yuan Guiqi	5.811%
Wang Yaoxin	5.158%
Shi Shuming	4.020%
Li Yan	4.006%
Zhou Tao	2.723%
Ni Xiurong	2.388%
Yang Xuefeng	1.923%
Yang Yuanchun	1.554%
Yu Zhenghua	1.151%
Sub-total:	***34.545%***
New Shareholders	
Xing Manrong (幸滿容)	5.864%
Liu Chuanjun (劉傳俊)	4.235%
Zhi Rongmu (支榮模)	3.388%
Liu Zhi (劉智)	0.970%
Tang Ying (唐穎)	0.194%
Zheng Yong (鄭勇)	0.194%
Ao Pei (敖沛)	0.194%
Tian Diyong (田弟勇)	0.194%
Lu Lan (呂蘭)	0.194%
Chen Jun (陳俊)	0.194%
Li Hanqiang (李漢強)	0.194%
Shen Dingjian (沈定建)	0.121%
Wang Jiangyang (王江陽)	0.114%
Liu Yingguo (劉映國)	0.114%
Liu Lulu (劉露璐)	0.114%
Tian Yu (田雨)	0.114%
Sub-total:	***16.392%***
Total:	**83.664%**

Liu Zhi, Tang Ying, Zheng Yong, Ao Pei, Tian Diyong, Lu Lan, Chen Jun, Li Hanqiang, Shen Dingjian, Wang Jiangyang, Liu Yingguo, Liu Lulu and Tian Yu were core operational, management and technical personnel of Honghua Company. Having a personal stake in Honghua Company would motivate these personnel to optimise their performance and efficiency and retain them for the long-term growth and profitability of Honghua Company.

On March 29, 2003, shareholders' resolutions were passed to further increase the registered capital of Honghua Company from RMB10,505,550 to RMB21,011,100 for Honghua Company's expansion and development and to approve the increase of the registered capital by way of surplus reserve fund and undistributed profit. The shareholders contributed to the increase in registered capital of Honghua Company in proportion to their shareholdings. On June 19, 2003, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan reflecting the increase in the registered capital.

For the purpose of better management and operation and stable development of Honghua Company, Zhang Mi, the chairman of Honghua Company (who had been a shareholder of Honghua Company since its establishment) and 22 other individual shareholders, namely Ren Jie, Liu Zhi, Zheng Yong, Zuo Huixian, Zhang Xu, Wang Jiangyang, Chen Jun, Fan Bing, Zhang Yanyong, Ao Pei, Tian Diyong, Shen Dingjian, Liu Xuetian (deceased), Zhou Bing, Lu Lan, Tian Yu, Li Hanqiang, Liu Yingguo, Liu Lulu, He Guangfu, Zhang Zongyou and Chen Zongliang, all being core operational, management or technical personnel of Honghua Company entered

into an oral agreement (the "Oral Agreement") on June 19, 2003, pursuant to which they formed the Concert Group, with the intention of consolidating the control of Honghua Company. The Concert Group in total held an approximately 35.438% equity interest in Honghua Company at that time.

On October 31, 2003, various individual shareholders entered into equity transfer agreements to dispose of their equity interests in Honghua Company. Details of the equity transfers are as follows:

Transferor	Transferee	Approximate equity interest transferred
Xing Manrong	Yu Zhenghua	0.040%
	Li Yan	0.038%
	Zhi Rongmu	0.019%
	Shi Shuming	0.001%
Shi Shuming	Tian Diyong	0.019%
	Xing Manrong	0.011%
	Wang Yaoxin	0.006%
Wang Yaoxin	Shen Dingjian	0.019%
	Zhou Tao	0.019%
	Tang Ying	0.019%
	Lu Lan	0.013%
	Shi Shuming	0.013%
	Zhi Rongmu	0.007%
Yang Yuanchun	Li Yan	0.019%
Yu Zhenghua	Liu Chuanjun	0.019%
Yang Xuefeng	Zheng Yong	0.019%
Ni Xiurong	Wang Yaoxin	0.019%
Li Yan	Shi Shuming	0.019%
Liu Chuanjun	Zhi Rongmu	0.019%

The said equity transfers were not filed with the Administration of Industry and Commerce of Sichuan, Guanghan at the relevant time. On December 25, 2005, shareholders' resolutions were passed to approve the equity transfers and to increase the registered capital by capitalization of the profit for the year of 2002. As such, the equity interests transferred were doubled. The equity transfers were subsequently filed with the Administration of Industry and Commerce of Sichuan, Guanghan and completed on February 17, 2006.

Details of the Acting In Concert Arrangement are set out below in the sub-section entitled "Ownership Continuity and Control".

On December 1, 2005, three members of the Concert Group, He Guangfu, Chen Zongliang and Zhang Zongyou, agreed to transfer all their equity interests, in aggregate approximately 9.132%, in Honghua Company, to other members of the Concert Group, leaving Zhang Mi and 19 others members of the Concert Group. He Guangfu, Chen Zongliang and Zhang Zongyou agreed to dispose of their interests in Honghua Company as part of their retirement from Honghua Company. On the same date, further various equity transfers occurred between the individual shareholders, and all the transfers of equity interests were completed on February 17, 2006. Details of the equity transfers are as follows:

Transferor	Transferee	Consideration (RMB)	Approximate equity interest transferred
He Guangfu	Zheng Yong	784,480.00	3.734%
Zhang Zongyou	Zhang Mi	3,861,739.31	3.136%
Chen Zongliang	Zhang Mi	2,786,135.71	2.262%
Zhi Rongmu	Ren Jie	47,080.00	0.224%
	Ao Pei	37,175.00	0.177%
	Zhou Tao	31,860.00	0.152%
	Wang Jiangyang	10,615.00	0.051%
	Liu Zhi	10,000.00	0.048%
	Lu Lan	2,650.00	0.013%
Liu Chuanjun	Fan Bing	23,895.00	0.114%
	Ao Pei	17,965.00	0.086%
	Zhi Rongmu	7,965.00	0.038%
	Wang Jiangyang	7,965.00	0.038%
	Zuo Huixian	7,965.00	0.038%
	Zheng Yong	7,965.00	0.038%
Yang Xuefeng	Zheng Yong	7,965.00	0.038%
	Fan Bing	5,315.00	0.025%
	Xing Manrong	5,000.00	0.024%
	Wang Yaoxin	2,650.00	0.013%
Zhou Tao	Ren Jie	17,580.00	0.084%
	Zhang Yanyong	15,930.00	0.076%
	Fan Bing	15,930.00	0.076%
	Yang Yuanchun	7,965.00	0.038%
	Tian Diyong	7,965.00	0.038%
	Wang Yaoxin	2,000.00	0.010%
Ni Xiurong	Wang Yaoxin	7,965.00	0.038%
	Zhou Tao	7,965.00	0.038%
	Lu Lan	7,965.00	0.038%
Yu Zhenghua	Zhang Xu	7,965.00	0.038%
	Ao Pei	7,965.00	0.038%
Yang Yuanchun	Wang Jiangyang	27,965.00	0.133%
	Liu Chuanjun	15,930.00	0.076%
	Ren Jie	15,930.00	0.076%
	Lu Lan	7,965.00	0.038%
Wang Yaoxin	Lu Lan	35,000.00	0.167%
	Wang Jiangyang	28,895.00	0.138%
	Liu Chuanjun	10,000.00	0.048%
	Ren Jie	7,965.00	0.038%
	Tang Ying	7,965.00	0.038%
	Liu Zhi	5,000.00	0.024%
	Shi Shuming	2,900.00	0.014%
	Zhou Tao	1,500.00	0.007%

Transferor	Transferee	Consideration (RMB)	Approximate equity interest transferred
Shi Shuming	Tian Diyong	15,930	0.076%
	Wang Jiangyang	15,930	0.076%
	Zhou Bing	14,180	0.067%
	Liu Zhi	7,965	0.038%
	Zhang Yanyong	2,665	0.013%
	Zhi Rongmu	2,650	0.013%
Li Yan	Liu Chuanjun	15,930	0.076%
	Tian Yu	15,930	0.076%
	Ren Jie	14,060	0.067%
	Zhi Rongmu	7,965	0.038%
	Zhou Bing	7,965	0.038%
	Shi Shuming	3,315	0.016%
	Wang Jiangyang	2,000	0.010%
Xing Manrong	Zhi Rongmu	23,895	0.114%
	Yang Yuanchun	20,000	0.095%
	Liu Zhi	18,500	0.088%
	Ren Jie	18,580	0.088%
	Wang Yaoxin	3,765	0.018%
	Ni Xiurong	2,917	0.014%
	Liu Chuanjun	1,200	0.006%

On December 4, 2005, Zhou Tao agreed to transfer approximately 0.038% equity interest in Honghua Company to Liu Xuetian (deceased).

Upon completion of the said equity transfers on February 17, 2006, Honghua Company was owned as to approximately 16.336% by Huasheng Oil Company and approximately 83.664% by 34 individual shareholders as follows:

Shareholder	Approximate equity interest
Concert Group	
Zhang Mi	10.960%
Zheng Yong	4.042%
Ren Jie	3.988%
Zuo Huixian	3.217%
Zhang Yanyong	2.951%
Fan Bing	2.745%
Zhang Xu	2.721%
Liu Xuetian (deceased)	2.328%
Zhou Bing	1.180%
Liu Zhi	1.168%
Wang Jiangyang	0.559%
Ao Pei	0.495%
Lu Lan	0.474%
Tian Diyong	0.346%
Chen Jun	0.194%
Li Hanqiang	0.194%
Tian Yu	0.190%
Shen Dingjian	0.159%
Liu Yingguo	0.114%
Liu Lulu	0.114%
Sub-total:	***38.139%***

Shareholder	Approximate equity interest
Other shareholders	
Deng Meng	5.811%
Yuan Guiqi	5.811%
Xing Manrong	5.288%
Wang Yaoxin	4.635%
Liu Chuanjun	4.089%
Li Yan	3.762%
Shi Shuming	3.761%
Zhi Rongmu	3.016%
Zhou Tao	2.599%
Ni Xiurong	2.251%
Yang Xuefeng	1.786%
Yang Yuanchun	1.327%
Yu Zhenghua	1.118%
Tang Ying	0.270%
Sub-total:	***45.524%***
Total:	**83.664%**

As of December 31, 2005, 728 employees of Oil Drilling Plant through 11 representatives had invested an aggregate of RMB7,066,615 in Honghua Company. After various shareholding changes and capital increases as described above, as of December 31, 2005, the 11 representatives of the said 728 employees, namely, Xing Manrong, Wang Yaoxin, Liu Chuanjun, Shi Shuming, Li Yan, Zhi Rongmu, Zhou Tao, Ni Xiurong, Yang Xuefeng, Yang Yuanchun and Yu Zhenghua, were registered as shareholders of Honghua Company, together holding an approximately 33.632% equity.

On January 7, 2006, a shareholders' resolution was passed to reduce the registered capital of Honghua Company, from RMB21,011,100 to RMB13,944,485, to consolidate the control and ownership of the Concert Group in Honghua Company. Honghua Company entered into an equity repurchase agreement with 11 individual shareholders, on January 12, 2006, pursuant to which Honghua Company repurchased all the equity interest held by the 11 registered shareholders, at a consideration of RMB7.077 per share, which was determined with reference to the audited net asset value of Honghua Company of RMB94,560,000 as of June 30, 2005, plus a premium of approximately 57.27%. The consideration was arrived at after arm's length negotiations between the parties. Details of the equity repurchases are as follows:

Transferor	Consideration (RMB)	Approximate equity interest transferred
Xing Manrong	6,513,016.81	5.288%
Wang Yaoxin	5,708,957.75	4.635%
Liu Chuanjun	5,036,022.64	4.089%
Li Yan	4,633,360.09	3.762%
Shi Shuming	4,632,598.10	3.761%
Zhi Rongmu	3,714,824.07	3.016%
Zhou Tao	3,200,814.43	2.599%
Ni Xiurong	2,771,698.40	2.251%
Yang Xuefeng	2,199,301.48	1.786%
Yang Yuanchun	1,634,008.84	1.327%
Yu Zhenghua	1,377,065.63	1.118%

On April 26, 2006, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan, reflecting the capital reduction and equity repurchase. The registered capital of Honghua Company was thereby reduced from RMB21,011,100 to RMB13,944,485, and Honghua Company was then owned approximately 24.615% by Huasheng Oil Company and approximately 75.385% by 23 individual shareholders, as follows:

Shareholder	**Approximate equity interest**
Concert Group	
Zhang Mi	16.515%
Zheng Yong	6.090%
Ren Jie	6.008%
Zuo Huixian	4.847%
Zhang Yanyong	4.447%
Fan Bing	4.137%
Zhang Xu	4.100%
Liu Xuetian (deceased)	3.508%
Zhou Bing	1.778%
Liu Zhi	1.760%
Wang Jiangyang	0.842%
Ao Pei	0.745%
Lu Lan	0.715%
Tian Diyong	0.521%
Chen Jun	0.293%
Li Hanqiang	0.293%
Tian Yu	0.286%
Shen Dingjian	0.240%
Liu Yingguo	0.172%
Liu Lulu	0.172%
Sub-total:	***57.468%***
Other shareholders	
Deng Meng	8.755%
Yuan Guiqi	8.755%
Tang Ying	0.407%
Sub-total:	***17.917%***
Huasheng Oil Company	24.615%
Total:	**100%**

Upon completion of the capital reduction, the Concert Group's equity interest in Honghua Company increased, from approximately 38.139% to approximately 57.468%.

On April 25, 2006, shareholders' resolutions were passed to reduce the registered capital of Honghua Company, from RMB13,944,485 to RMB8,070,305, to further consolidate control and ownership of the Concert Group in Honghua Company. Honghua Company entered into an equity buy-out agreement with Huasheng Oil Company, Deng Meng and Yuan Guiqi, on May 22, 2006, pursuant to which Honghua Company repurchased all the equity interest held by Huasheng Oil Company, Deng Meng and Yuan Guiqi (approximately 24.615%, 8.755% and 8.755% respectively), at a consideration of RMB5.466 per share, which was determined with reference to the net asset value of Honghua Company as of March 31, 2006, according to Beijing Zhongkehua Certified Public Accountants Co., Ltd (北京中科華會計師事務所有限公司). The consideration was arrived at after arm's length negotiations between the parties. The consideration per share for the equity repurchase in April, 2006 was lower than that of January, 2006 because the shareholders of Honghua Company agreed to bear the individual income tax for those individual shareholders for the equity repurchases of January, 2006 but not for those of April, 2006. For the equity repurchases in January, 2006, the shareholders received the consideration net

of individual income tax; whereas for the equity repurchases in April, 2006, Honghua Company did not pay such individual income tax. Huasheng Oil Company disposed of its equity interest in Honghua Company in order to concentrate its resources and investments in oil resources-related industries, e.g. natural gas. Huasheng Oil Company, Deng Meng and Yuan Guiqi disposed of their entire equity interests in Honghua Company in order to liquidate their investments and to support the corporate restructuring for the proposed listing of our Group.

On June 28, 2006, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan reflecting the capital reduction and share repurchases. The registered capital of Honghua Company was thereby reduced, from RMB13,944,485 to RMB8,070,305, and Honghua Company was owned by 21 individual shareholders, as follows:

Shareholder	**Approximate equity interest**
Concert Group	
Zhang Mi	28.536%
Zheng Yong	10.522%
Ren Jie	10.382%
Zuo Huixian	8.375%
Zhang Yanyong	7.684%
Fan Bing	7.147%
Zhang Xu	7.084%
Liu Xuetian (deceased)	6.061%
Zhou Bing	3.072%
Liu Zhi	3.042%
Wang Jiangyang	1.454%
Ao Pei	1.287%
Lu Lan	1.235%
Tian Diyong	0.900%
Chen Jun	0.506%
Li Hanqiang	0.506%
Tian Yu	0.495%
Shen Dingjian	0.415%
Liu Yingguo	0.297%
Liu Lulu	0.297%
Sub-total:	***99.297%***
Other shareholder	
Tang Ying	0.703%
Total:	**100.000%**

Upon completion of the capital reduction, the Concert Group's equity interest in Honghua Company increased, from approximately 57.468% to approximately 99.297%.

On August 11, 2006, a shareholders' resolution was passed to increase the registered capital of Honghua Company, from RMB8,070,305 to RMB18,750,000, for Honghua Company's expansion and development. On the same date, Honghua Company entered into a capital increase agreement with 20 members of the Concert Group and 14 other individuals. Details of the shareholding in Honghua Company after the capital increase are as follows:

Shareholder	**Approximate equity interest**
Concert Group	
Zhang Mi	36.000%
Ren Jie	7.894%
Zheng Yong	5.600%
Liu Zhi	5.600%
Zuo Huixian	4.373%
Zhang Xu	4.213%
Fan Bing	4.160%
Liu Xuetian (deceased)	3.733%
Zhang Yanyong	3.707%
Zhou Bing	2.032%
Wang Jiangyang	1.067%
Chen Jun	0.943%
Ao Pei	0.703%
Lu Lan	0.681%
Tian Yu	0.410%
Li Hanqiang	0.367%
Tian Diyong	0.363%
Shen Dingjian	0.285%
Liu Yingguo	0.160%
Liu Lulu	0.128%
Sub-total:	***82.419%***
Other shareholders	
Zhang Cong	4.550%
Yang Hong	3.192%
Zhao Ping	2.485%
Luo Qiping	1.600%
Liu Gangqiang	0.960%
Di Xiaohong	0.917%
Ma Limin	0.875%
Xu Chuan	0.763%
Chen Zhen	0.720%
Liu Yonghong	0.667%
Tang Ying	0.319%
Tian Daoyun	0.213%
Di Baiwei	0.160%
Li Ping	0.160%
Sub-total:	***17.581%***
Total:	**100.000%**

Except for Zhang Cong who is the brother of Zhang Mi and a director holding a 9% equity interest in Hongtian Company and Zhao Ping who is a director holding a 4.799% equity interest in Youxin Company, the other 12 non-Concert Group shareholders are Independent Third Parties. These new shareholders are important members of management and represent a core group of technicians of Honghua Company. The Directors believe that having a personal stake in Honghua Company will motivate these personnel to optimise their performance and efficiency and retain them for the long-term growth and profitability of Honghua Company.

On August 17, 2006, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan, reflecting the increase of registered capital.

On August 24, 2006, a shareholders' resolution was passed to increase the registered capital of Honghua Company from RMB18,750,000 to RMB72,000,000 for the purpose of the Listing and in order to enjoy the benefits provided to foreign-invested enterprises under Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) promulgated on August 8, 2006. Further to the shareholders' resolutions and for the purpose of the Reorganization, Asia Harbour entered into an equity purchase and capital increase agreement with 34 individual shareholders on August 24, 2006. Pursuant to this agreement, Asia Harbour acquired the entire equity interest in Honghua Company from the 34 individual shareholders at a total consideration of U.S. dollars equivalent to RMB155,000,000. The consideration was determined with reference to an independent valuation of the net asset value of Honghua Company as of July 31, 2006 by Beijing Zhongkehua Certified Public Accountants Co., Ltd. (北京中科華會計師事務所有限公司) plus the cash capital contribution made by the shareholders at the time, pursuant to the shareholders' resolutions of Honghua Company dated August 11, 2006. On August 24, 2006, Asia Harbour, as sole shareholder, appointed its directors, Zhang Mi, Ren Jie, Zhang Xu, Wang Yaoxin, Liu Zhi and Zheng Yong members of the board of directors of Honghua Company with immediate effect.

The consideration paid to each shareholder is as follows :

Shareholder	Consideration (RMB)
Zhang Mi	55,800,000
Ren Jie	12,235,700
Liu Zhi	8,680,000
Zheng Yong	8,680,000
Zhang Cong	7,052,500
Zuo Huixian	6,778,150
Zhang Xu	6,530,150
Fan Bing	6,448,000
Liu Xuetian (deceased)	5,786,150
Zhang Yanyong	5,745,850
Yang Hong	4,947,600
Zhao Ping	3,851,750
Zhou Bing	3,149,600
Luo Qiping	2,480,000
Wang Jiangyang	1,653,850
Liu Gangqiang	1,488,000
Chen Jun	1,461,650
Di Xiaohong	1,421,350
Ma Limin	1,356,250
Xu Chuan	1,182,650
Chen Zhen	1,116,000
Ao Pei	1,089,650
Lu Lan	1,055,550
Liu Yonghong	1,033,850
Tian Yu	635,500
Li Hanqiang	568,850
Tian Diyong	562,650
Tang Ying	494,450
Shen Dingjian	441,750
Tian Daoyun	330,150
Di Baiwei	248,000
Li Ping	248,000
Liu Yingguo	248,000
Liu Lulu	198,400
Total:	**155,000,000**

Asia Harbour also contributed U.S. dollars equivalent to RMB53,250,000, as an increase in the registered capital of Honghua Company.

Asia Harbour was incorporated in Hong Kong with limited liability on July 8, 2006. At the time Asia Harbour agreed to acquire the equity interest in Honghua Company from the 34 shareholders (including the Concert Group) on August 24, 2006, Asia Harbour was wholly-owned by Ally Giant, which in turn was wholly-owned by Ample Chance, which in turn was owned by Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview, all BVI-incorporated companies as to approximately 36%, 19.09%, 18.51%, 12.71%, 10.50% and 3.19%, respectively. The ultimate shareholders of Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview were the same 34 shareholders as those of Honghua Company. The shareholdings of these 34 shareholders in Ally Giant, through those BVI companies, are in proportion to their equity interests in Honghua Company.

Ally Smooth was wholly-owned by Zhang Mi. Charm Moral was owned by Ren Jie, Liu Zhi and Zheng Yong, as to approximately 41.34%, 29.33% and 29.33%, respectively. Beauty Clear was owned by Zhang Cong, Zuo Huixian, Zhang Xu, Zhao Ping, Wang Jiangyang, Chen Jun and Ma Limin as to approximately 24.58%, 23.63%, 22.77%, 13.43%, 5.76%, 5.10% and 4.73%, respectively. Believe Power was owned by Fan Bing, Zhang Yanyong, Luo Qiping, Liu Gangqiang, Chen Zhen, Ao Pei, Tian Diyong, Shen Dingjian and Tian Daoyun, as to approximately 32.72%, 29.16%, 12.59%, 7.55%, 5.66%, 5.53%, 2.85%, 2.24% and 1.68%, respectively. Benefit Way was owned by Liu Xuetian (deceased), Zhou Bing, Di Xiahong, Xu Chuan, Lu Lan, Liu Yonghong, Tian Yu, Li Hanqiang, Tang Ying, Liu Yingguo, Li Ping, Di Baiwei and Liu Lulu, as to approximately 35.57%, 19.36%, 8.74%, 7.27%, 6.49%, 6.35%, 3.91%, 3.50%, 3.03%, 1.52%, 1.52%, 1.52% and 1.22%, respectively. Birdview was wholly-owned by Yang Hong. Among these named individual shareholders, twenty are members of the Concert Group, namely, Zhang Mi, Ren Jie, Liu Zhi, Zheng Yong, Zuo Huixian, Zhang Xu, Wang Jiangyang, Chen Jun, Fan Bing, Zhang Yanyong, Ao Pei, Tian Diyong, Shen Dingjian, Liu Xuetian (deceased), Zhou Bing, Lu Lan, Tian Yu, Li Hanqiang, Liu Yingguo and Liu Lulu. For details of the Concert Group, please refer to the sub-section entitled "Concert Group" below.

Upon completion of the equity transfer on September 15, 2006, Honghua Company was converted from a domestic enterprise into a wholly-foreign owned enterprise and was owned as to 100% by Asia Harbour. A business license was issued by the Administration of Industry and Commerce of Sichuan, Deyang on September 15, 2006 reflecting its conversion into a wholly-foreign owned enterprise and the increase of the registered capital. Honghua Company's entire registered capital increase of RMB72,000,000 was paid up on December 12, 2006. A business license was issued by the Administration of Industry and Commerce of Sichuan, Deyang on December 12, 2006 reflecting the full payment of additional registered capital. After completion of the Reorganization, Honghua Company became an indirectly wholly-owned subsidiary of the Company. King & Wood, our PRC legal advisors have confirmed that the conversion of Honghua Company into a wholly foreign-owned enterprise by December 2006 ensures its compliance with applicable PRC laws and regulations.

Youxin Company

Youxin Company was established as a limited liability company with a registered capital of RMB400,000 on August 7, 1998. As at the date of establishment, Youxin Company was owned by Lin Ning (林寧), Zhao Ping (趙平), Liu Hongbin (劉洪賓), Yang Renkui (楊仁奎) and Dai Huayin (代華銀) as to 20% each. These five shareholders were former friends and had established mutual trust and understanding. They decided to establish Youxin Company for their own investment in the oil drilling equipment industry and were employees of Youxin Company. Dai Huayin is the brother-in-law of Zhang Mi. Liu Hongbin is the father of Liu Zhi and the other shareholders are Independent Third Parties.

On November 6, 2000, a shareholders' resolution was passed to increase the registered capital of Youxin Company from RMB400,000 to RMB1,080,000 for expansion and development. Four individual shareholders, Lin Ning, Zhao Ping, Liu Hongbin and Dai Huayin, each contributed RMB120,000 to the said increase of the registered capital. Yang Renkui did not make any additional contribution. Yang Wenjun (楊文君), an employee of Youxin Company, contributed RMB200,000 as a private investment in the oil drilling equipment industry. On November 20, 2000, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan reflecting this increase. Upon completion of the capital increase, Lin Ning, Zhao Ping, Liu Hongbin, Yang Renkui, Dai Huayin and Yang Wenjun owned approximately 18.519%, 18.519%, 18.519%, 7.407%, 18.519% and 18.519% equity interest in Youxin Company, respectively. Yang Wenjun is an Independent Third Party.

On November 1, 2002, Yang Wenjun agreed to transfer approximately 2.963% and 15.556% equity in Youxin Company to Zhao Ping and Zhang Mi for consideration of RMB32,000 and RMB168,000, respectively. The consideration was determined with reference to the capital contributions made by Yang Wenjun to the registered capital of Youxin Company.

On the same date, Yang Renkui agreed to transfer approximately 7.407% equity interest in Youxin Company to Zhao Ping at a consideration of RMB80,000. The consideration was determined with reference to Yang Renkui's capital contribution to the registered capital of Youxin Company.

Upon completion of the equity transfers, Yang Wenjun and Yang Renkui ceased to own any equity interest in Youxin Company.

On November 3, 2002, a shareholders' resolution was further passed to increase the registered capital of Youxin Company from RMB1,080,000 to RMB4,200,000. Lin Ning, Zhao Ping, Liu Hongbin and Dai Huayin contributed an additional RMB262,000, RMB749,100, RMB367,000 and RMB367,000, respectively to the registered capital of Youxin Company. 26 individual shareholders contributed to the increase of registered capital of Youxin Company as their private investment in the oil drilling equipment industry, as a result of which Youxin Company was owned by 30 individual shareholders as follows:

Shareholder	Approximate equity interest
Zhao Ping	22.598%
Dai Huayin	13.500%
Liu Hongbin	13.500%
Lin Ning	11.000%
Zhang Mi	4.000%
Liu Zhi	4.000%
Zhang Changlun	3.000%
Ju Lang	3.000%
Xie Xiaohong	3.000%
Yuan Da	2.000%
Qu Xiaonan	1.919%
Zhang Xu	1.917%
Chen Yaling	1.200%
Zeng Xianglong	1.190%
Li Lanxi	1.000%
Ma Zhaoyi	1.000%
Zhou Bing	1.000%
Zhang Yanyong	1.000%
Xiao Kaiyun	1.000%
Lin Ye	1.000%
Zhuang Jiandong	1.000%
Fang Yong	1.000%
Zheng Yong	1.000%
Xiao Mingsheng	1.000%
Jia Zhiyuan	1.000%
Xu Chuan	1.000%
Liu Xuetian (deceased)	0.724%
Luo Qiping	0.500%
Li Xia	0.476%
Di Xiaohong	0.476%
Total:	**100.000%**

Zhang Mi and Zhang Xu are executive Directors, and together with Liu Zhi, Zhou Bing, Zhang Yanyong, Zheng Yong and Liu Xuetian (deceased), are Substantial Shareholders and Existing Shareholders of our Company. Zhao Ping, Xu Chuan, Luo Qiping and Di Xiaohong are also Existing Shareholders of our Company.

Relationships between Youxin Company's shareholders and our Shareholders are set out as follows:

Youxin Company Shareholder	Relationship with our Shareholder
Dai Huayin	Brother-in-law of Zhang Mi, our executive Director and Substantial Shareholder
Liu Hongbin	Father of Liu Zhi, our Substantial Shareholder
Fang Yong	Brother-in-law of Wang Jiangyang, our Substantial Shareholder
Li Xia	Niece of Liu Xuetian (deceased), our Substantial Shareholder before his death
Qu Xiaonan	Spouse of Fan Bing, our Substantial Shareholder
Yuan Da	Spouse of Ren Jie, our executive Director and Substantial Shareholder

Of the current shareholders of Youxin Company, Lin Ning, Zeng Xianglong, Li Lanxi, Ma Zhaoyi, Xiao Kaiyun, Lin Ye, Zhuang Jiandong, Xiao Minsheng and Jia Zhiyuan are Independent Third Parties.

On February 18, 2003, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan reflecting the increase in registered capital. Upon completion of the capital increase, 30 individual shareholders owned almost the entire equity interest in Youxin Company.

At the time of the formation of the Concert Group, on June 19, 2003, seven members of the Concert Group, namely, Zhang Mi, Liu Zhi, Zhou Bing, Zhang Yanyong, Zheng Yong, Liu Xuetian (deceased) and Zhang Xu, together with their relatives as described above, namely, Dai Huayin, Liu Hongbin, Fang Yong, Li Xia, Qu Xiaonan, and Yuan Da, held approximately 46.034% equity interest in Youxin Company.

On May 13, 2003, a shareholders' resolution was passed to increase the registered capital of Youxin Company from RMB4,200,000 to RMB5,880,000 for Youxin Company's expansion and development and to allow payments towards the capital increase by way of dividend issued by Youxin Company. The shareholders of Youxin Company contributed an additional RMB1,680,000 to the registered capital of Youxin Company in proportion to their equity interest in Youxin Company. On June 5, 2003, a new business license was issued by the Administration of Industry and Commerce of Sichuan, Guanghan reflecting the increase in the registered capital. Upon completion of the said capital increase, Youxin Company was owned by thirty individual shareholders.

On July 18, 2006, Liu Hongbin, Lin Ning and Xiao Minsheng agreed to transfer approximately 13.5%, 6% and 1% equity interest at consideration of RMB793,800, RMB352,800 and RMB58,000 in Youxin Company to Liu Zhi, Zhao Ping and Zhang Changlun, respectively. The consideration was determined with reference to their capital contributions to registered capital of Youxin Company.

On July 18, 2006, Honghua Company entered into an equity transfer agreement with each of the 20 individual shareholders, pursuant to which Honghua Company agreed to purchase from their entire equity interest in Youxin Company to consolidate the group structure for Listing. Details of the equity transfers are as follows:

Transferor	Consideration (RMB)	Approximate equity interest transferred
Zhao Ping	3,610,452	23.799%
Liu Zhi	2,654,820	17.500%
Dai Huayin	2,048,004	13.500%
Lin Ning	758,520	5.000%
Zhang Mi	606,816	4.000%
Yuan Da	303,408	2.000%
Qu Xiaonan	291,024	1.918%
Zhang Xu	290,766	1.917%
Zeng Xianglong	180,600	1.190%
Jia Zhiyuan	151,704	1.000%
Ma Zhaoyi	151,704	1.000%
Li Lanxi	151,704	1.000%
Zhang Yanyong	151,704	1.000%
Zhou Bing	151,704	1.000%
Zheng Yong	151,704	1.000%
Xu Chuan	151,704	1.000%
Liu Xuetian (deceased)	109,650	0.723%
Luo Qiping	75,852	0.500%
Di Xiaohong	72,240	0.476%
Li Xia	72,240	0.476%
Total:	**12,136,320**	**80.000%**

The consideration was determined with reference to the unaudited net asset value of Youxin Company as of June 30, 2006.

Upon completion of the equity transfers on August 23, 2006, Youxin Company was owned as to 80% by Honghua Company and 20% by nine individual shareholders as follows:

Shareholder	Approximate equity interest
Honghua Company	80.000%
Zhao Ping	4.799%
Zhang Changlun	4.000%
Ju Lang	3.000%
Xie Xiaohong	3.000%
Chen Yaling	1.201%
Lin Ye	1.000%
Zhuang Jiandong	1.000%
Xiao Kaiyun	1.000%
Fang Yong	1.000%
Total:	**100.000%**

After completion of the Reorganization, Youxin Company became an 80% indirectly owned subsidiary of the Company. The nine individual shareholders are core members of the operational staff of Youxin Company.

Each of the members of the Concert Group and their relatives who were or are the shareholders and/or directors of Youxin Company since the formation of the Concert Group, on June 19, 2003, voted according to

instructions of the Concert Group in the shareholders' and board meetings of Youxin Company. The Concert Group has, since its formation, through its members and their relatives controlled Youxin Company.

Honghua International

Honghua International was established as a limited liability company with a registered capital of RMB2,000,000, on January 13, 2004. As of its establishment, Honghua International was owned as to 40% by Honghua Company and 60% by 20 individuals as follows:

Shareholder	Approximate equity interest
Honghua Company	40.000%
Liu Zhi	13.400%
Ren Jie	7.300%
Liu Xuetian (deceased)	4.200%
Ma Limin	4.200%
Luo Qiping	3.600%
Zhang Yanyong	3.400%
Zhou Bing	3.200%
Zhang Xu	2.300%
Fan Bing	2.300%
Xu Chuan	2.100%
Di Xiaohong	2.000%
Zheng Yong	2.000%
Shu Yuanbin	1.600%
Zuo Huixian	1.500%
Chen Jun	1.500%
Li Hanqiang	1.400%
Tian Diyong	1.100%
Ao Pei	1.100%
Chen Zhen	1.000%
Wang Jiangyang	0.800%
Total:	**100.000%**

Liu Zhi, Ren Jie, Liu Xuetian (deceased), Zhang Yanyong, Zhou Bing, Zhang Xu, Fan Bing, Zheng Yong, Zuo Huixian, Chen Jun, Tian Diyong, Ao Pei, Li Hanqiang and Wang Jiangyang, members of the Concert Group, collectively held an approximately 45.5% equity interest of Honghua International.

On September 26, 2005, a shareholders' resolution was passed to increase the registered capital of Honghua International from RMB2,000,000 to RMB3,200,000. Except for Ao Pei and Li Hanqiang, all the individual shareholders contributed to the increase by RMB1,200,000. Upon completion of the capital increase, Honghua International was owned as to 25% by Honghua Company and 75% by 20 individual shareholders as follows:

Shareholder	Approximate equity interest
Honghua Company	25.000%
Liu Zhi	14.594%
Ren Jie	11.750%
Liu Xuetian (deceased)	6.375%
Ma Limin	4.813%
Luo Qiping	4.438%
Zhou Bing	3.313%
Zhang Xu	3.000%
Xu Chuan	2.875%
Di Xiaohong	2.813%
Zheng Yong	2.813%
Fan Bing	2.688%
Zuo Huixian	2.656%
Chen Jun	2.500%
Zhang Yanyong	2.250%
Shu Yuanbin	1.938%
Chen Zhen	1.875%
Tian Diyong	1.625%
Wang Jiangyang	1.125%
Li Hangiang	0.875%
Ao Pei	0.688%
Total:	**100.000%**

On October 16, 2005 and October 20, 2005, Zhang Yanyong and Zhou Bing agreed to transfer their 0.300% and 0.400% equity interests in Honghua International to Liu Zhi at consideration of RMB6,000 and RMB8,000, respectively. The consideration was determined with reference to their capital contributions to the registered capital of Honghua International. Upon completion of the equity transfers, Honghua International was owned as to 25% by Honghua Company and as to 75% by 20 individual shareholders as follows:

Shareholder	Approximate equity interest
Honghua Company	25.000%
Liu Zhi	14.856%
Ren Jie	11.750%
Liu Xuetian (deceased)	6.375%
Ma Limin	4.813%
Luo Qiping	4.438%
Zhou Bing	3.163%
Zhang Xu	3.000%
Xu Chuan	2.875%
Di Xiaohong	2.813%
Zheng Yong	2.813%
Fan Bing	2.688%
Zuo Huixian	2.656%
Chen Jun	2.500%
Zhang Yanyong	2.138%
Shu Yuanbin	1.938%
Chen Zhen	1.875%
Tian Diyong	1.625%
Wang Jiangyang	1.125%
Li Hanqiang	0.875%
Ao Pei	0.688%
Total:	**100.000%**

On January 20, 2006, a new business license was issued by the Administration of Industry and Commerce, Sichuan, Guanghan reflecting this.

On July 18, 2006, various shareholders entered into an equity transfer agreement with Honghua Company, pursuant to which the shareholders agreed to transfer an aggregate of approximately 55% equity interest in Honghua International to Honghua Company. Details of the equity transfers are as follows:

Transferor	Consideration (RMB)	Approximate equity interest transferred
Ren Jie	1,436,320	11.750%
Liu Zhi	1,061,960	8.688%
Liu Xuetian (deceased)	550,080	4.500%
Luo Qiping	542,440	4.438%
Zhang Xu	366,720	3.000%
Xu Chuan	351,440	2.875%
Zheng Yong	343,800	2.813%
Di Xiahong	343,800	2.813%
Fan Bing	328,520	2.688%
Shu Yuanbin	236,840	1.938%
Chen Zhen	229,200	1.875%
Tian Diyong	198,640	1.625%
Ma Limin	191,000	1.563%
Zhang Yanyong	191,000	1.563%
Wang Jiangyang	137,520	1.125%
Li Hanqiang	106,960	0.875%
Ao Pei	84,040	0.688%
Zhou Bing	22,920	0.188%
Total:	**6,723,200**	**55.000%**

The consideration was determined with reference to the independent valuation of the unaudited net asset value of Honghua International as of June 30, 2006.

On the same date, Liu Zhi, Liu Xuetian (deceased), Zhang Yanyong and Zuo Huixian entered into various equity transfer agreements to dispose of all of their equity interest in Honghua International. Details of the equity transfers are as follows:

Transferor	Transferee	Consideration (RMB)	Approximate equity interest transferred
Liu Zhi	Liu Yonghong	88,000	2.750%
Liu Xuetian (deceased)	Liu Yonghong	40,000	1.250%
Liu Zhi	Li Ping	32,000	1.000%
Liu Zhi	Wang Wei	23,000	0.719%
Liu Zhi	Chen Honghong	20,000	0.625%
Liu Zhi	Xue Yuqing	20,000	0.625%
Liu Xuetian (deceased)	Zhang Aimin	20,000	0.625%
Zhang Yanyong	Zhang Wei	16,000	0.500%
Zuo Huixian	Mo Kunrong	15,000	0.469%
Zhang Yanyong	Jiang Ping	6,000	0.188%
Liu Zhi	Jiang Ping	6,000	0.188%

Upon completion of the equity transfers, Honghua International was owned as to 80% by Honghua Company and 20% by 13 individual shareholders as follows:

Shareholder	Approximate equity interest
Honghua Company	80.000%
Liu Yonghong	4.000%
Ma Limin	3.250%
Zhou Bing	3.125%
Chen Jun	2.500%
Zuo Huixian	2.188%
Li Ping	1.000%
Wang Wei	0.719%
Zhang Aimin	0.625%
Chen Honghong	0.625%
Xue Yuqing	0.625%
Zhang Wei	0.500%
Mo Kunrong	0.469%
Jiang Ping	0.375%
Total:	20.000%

After completion of the Reorganization, Honghua International became 80% indirectly owned by the Company.

None of the members of the Concert Group who is or has been a shareholder and/or director of Honghua International since its establishment, on January 13, 2004, has a relative who is also a shareholder or director of Honghua International and who has voted under the instructions of the Concert Group in the shareholder and board meetings of Honghua International. The Concert Group has, at all times, controlled Honghua International.

Hongtian Company

Hongtian Company was established as a limited liability company with a registered capital of RMB1,180,000, on June 6, 2001. At the time of its establishment, Hongtian Company was owned by 25 individuals as follows:

Shareholder	Approximate equity interest
Zhang Cong (張聰)	20.847%
Yuan Da (袁達)	5.254%
Wang Jiangyang (王江陽)	5.085%
Tang Ying (唐穎)	5.085%
Yi Langlin (易琅琳)	4.237%
Xiao Wei (肖薇)	3.898%
Ma Jing (馬兢)	3.814%
Shi Li Feng (石立峰)	3.814%
Zhang Jiancheng (張建成)	3.814%
Zhu Qixian (朱奇先)	3.814%
Liu Hong (劉鴻)	3.559%
Qu Yihong (曲一紅)	3.517%
Qu Xiaonan (曲曉楠)	3.390%
Bian Weidi (卞維娣)	3.390%
Xu Guomei (胥國梅)	3.390%
Qin Xiaoqiang (秦小強)	3.136%
Wang Daihua (王代華)	3.136%
Jiang Xingzhong (薑興忠)	3.136%
Ma Shuangfu (馬雙富)	2.542%
Wan Xiahong (萬小宏)	2.542%
Zhang Tiansheng (張天生)	1.822%
Zeng Xianglong (曾祥龍)	1.695%
Ma Zhaoyi (馬昭儀)	1.695%
Li Meijuan (李梅娟)	1.695%
Du Zexia (杜澤霞)	1.695%
Total:	**100.000%**

The relationship between Hongtian Company's individual shareholders and our Shareholders are set out as follows:

Hongtian Company Shareholder	Relationship with our Shareholders
Zhang Cong	Brother of Zhang Mi, our executive Director and Substantial Shareholder
Qu Xiaonan	Spouse of Fan Bing, our Substantial Shareholder
Xiao Wei	Spouse of Liu Zhi, our Substantial Shareholder
Liu Hong	Spouse of Zhang Xu, our executive Director and Substantial Shareholder
Yuan Da	Spouse of Ren Jie, our executive Director and Substantial Shareholder
Qu Yihong	Spouse of Liu Xuetian (deceased), our Substantial Shareholder before this death
Bian Weidi	Spouse of Zheng Yong, our Substantial Shareholder
Xu Guomei	Spouse of Zhang Yanyong, our Substantial Shareholder
Du Zexia	Spouse of Di Xiaohong, our Existing Shareholder
Yi Langlin	Spouse of Zhang Mi, our executive Director and Substantial Shareholder

Wang Jiangyang and Tang Ying are Existing Shareholders. The shareholders comprised mainly technicians and spouses of the management of Honghua Company. The 25 individual shareholders were friends who established Hongtian Company as an investment in the oil drilling equipment industry.

On July 16, 2003, various individual shareholders entered into equity transfer agreements to dispose of their equity interest in Hongtian Company. The consideration was determined with reference to their contributions to the registered capital of Hongtian Company. Details of the equity transfers are as follows:

Transferor	Transferee	Consideration (RMB)	Approximate equity interest transferred
Ma Jing	Wang Jiangyang	45,000	3.814%
Shi Li Feng	Zhang Cong	45,000	3.814%
Zhang Jiancheng	Xiao Wei	45,000	3.814%
Zhu Qixian	Yi Langlin	45,000	3.814%
Jiang Xingzhong	Yuan Da	37,000	3.315%
Qin Xiaoqiang	Bian Weidi	37,000	3.315%
Wang Daihua	Liu Hong	37,000	3.315%
Ma Shuangfu	Qu Yihong	30,000	2.542%
Wan Xiaohong	Xu Guomei	30,000	2.542%
Zhang Tiansheng	Qu Xiaonan	21,500	1.822%

Upon completion of the equity transfers on August 5, 2003, Ma Jing, Shi Li Feng, Zhang Jiancheng, Zhu Qixian, Jiang Xingzhong, Qin Xiaoqiang, Wang Daihua, Ma Shuangfu, Wan Xiaohong and Zhang Tiansheng disposed of all their equity interest in Hongtian Company, and Hongtian Company was owned by 15 individual shareholders, as follows:

Shareholder	Approximate equity interest
Zhang Cong	24.661%
Wang Jiangyang	8.898%
Yuan Da	8.390%
Yi Langlin	8.051%
Xiao Wei	7.712%
Liu Hong	6.695%
Bian Weidi	6.525%
Qu Yihong	6.059%
Xu Guomei	5.932%
Qu Xiaonan	5.212%
Tang Ying	5.085%
Zeng Xianglong	1.695%
Ma Zhaoyi	1.695%
Li Meijuan	1.695%
Du Zexia	1.695%
Total:	**100.000%**

On July 26, 2004, a shareholders' resolution was passed to increase the registered capital of Hongtian Company, from RMB1,180,000 to RMB3,540,000, for Hongtain Company's expansion and development and to approve the increase in registered capital by using Hongtian Company's undistributed profits. The shareholders contributed to the increase in registered capital of Hongtian Company in proportion to their equity interests. On August 18, 2004, a new business license was issued by the Administration of Industry and Commerce of Chengdu, reflecting this increase in the registered capital. Upon completion of the capital increase, the equity interest of each shareholder in Hongtian Company remained unchanged.

On August 29, 2005, a shareholders' resolution was passed to further increase the registered capital of Hongtian Company from RMB3,540,000 to RMB7,000,000 for Hongtain Company's further expansion and development. Except for Zeng Xianglong, Tang Ying, Li Meijuan and Ma Zhaoyi, all the shareholders made

additional capital contributions to Hongtian Company. On September 23, 2005, a new business license was issued by the Administration of Industry and Commerce of Chengdu reflecting the increase in the registered capital. Upon completion of the said capital increase, Hongtian Company was owned by 15 individual shareholders as follows:

Shareholder	Approximate equity interest
Zhang Cong	35.371%
Yi Langlin	10.057%
Wang Jiangyang	8.029%
Yuan Da	7.571%
Xiao Wei	7.057%
Liu Hong	5.914%
Bian Weidi	5.029%
Qu Yihong	4.843%
Xu Guomei	4.714%
Qu Xiaonan	4.557%
Tang Ying	2.571%
Du Zexia	1.714%
Li Meijuan	0.857%
Zeng Xianglong	0.857%
Ma Zhaoyi	0.857%
Total:	**100.000%**

On July 30, 2006, Honghua Company entered into an equity transfer agreement with various shareholders, pursuant to which Honghua Company agreed to purchase from those shareholders all of their equity interest in Hongtian Company, making up 80% equity, for the purpose of consolidating the Group structure for the Listing. Details of the equity transfers are as follows:

Transferor	Consideration (RMB)	Approximate equity Interest transferred
Zhang Cong	7,281,720	19.371%
Yi Langlin	3,780,480	10.057%
Yuan Da	2,846,100	7.571%
Xiao Wei	2,652,780	7.057%
Liu Hong	2,223,180	5.914%
Bian Weidi	1,890,240	5.029%
Qu Yihong	1,820,430	4.843%
Xu Guomei	1,772,100	4.714%
Qu Xiaonan	1,713,030	4.557%
Wang Jiangyang	1,514,340	4.029%
Tang Ying	966,600	2.571%
Du Zexia	644,400	1.714%
Li Meijuan	322,200	0.857%
Zeng Xianglong	322,200	0.857%
Ma Zhaoyi	322,200	0.857%
Total:	**30,072,000**	**80.000%**

The consideration was determined with reference to the unaudited net asset value of Hongtian Company, as of June 30, 2006. Upon completion of the above equity transfers, Xiao Wei, Yi Langlin, Yuan Da, Bian Weidi, Liu Hong, Qu Yihong, Xu Guomei, Qu Xiaonan, Du Zexia, Tang Ying, Li Meijuan, Zeng Xianglong and Ma Zhaoyi ceased to be shareholders of Hongtian Company.

On July 31, 2006, Zhang Cong entered into equity transfer agreements with various individuals, pursuant to which he agreed to transfer his equity interest in Hongtian Company to those individuals. Details of the equity transfers are as follows:

Transferee	Consideration (RMB)	Approximate equity interest transferred
Li Qin (李芹)	168,000	2.400%
Che Mingzhe (車明者)	84,000	1.200%
Hu Likang (胡立康)	56,000	0.800%
Huang Sheng (黃勝)	42,000	0.600%
Liao Wenzhong (廖文忠)	28,000	0.400%
Chen Tao (陳濤)	28,000	0.400%
He Yugang (何玉剛)	21,000	0.300%
Luo Laijun (羅來軍)	21,000	0.300%
Huang Huijian (黃輝建)	21,000	0.300%
Zheng Liang (鄭亮)	21,000	0.300%

The consideration was determined with reference to Zhang Cong's capital contributions to the registered capital of Hongtian Company and the individuals paid the consideration to Zhang Cong in proportion to the equity interests they acquired from him. These new individual shareholders are core members of the operational staff of Hongtian Company.

Upon completion of the equity transfers on August 22, 2006, Hongtian Company was owned as to 80% by Honghua Company and 20% by 12 individual shareholders, as follows:

Shareholder	Approximate equity interest
Zhang Cong	9.000%
Wang Jiangyang	4.000%
Li Qin	2.400%
Che Mingzhe	1.200%
Hu Likang	0.800%
Huang Sheng	0.600%
Liao Wenzhong	0.400%
Chen Tao	0.400%
He Yugang	0.300%
Luo Laijun	0.300%
Huang Huijian	0.300%
Zheng Liang	0.300%
Total:	**20.000%**

After completion of the Reorganization, Hongtian Company became an 80% indirectly owned subsidiary of the Company.

Offshore Companies

Formation of Honghua America

Honghua America was established in the State of Texas as a limited partnership on October 11, 2004. At the time of its establishment, it was owned as to 2% by NCE Management, Inc. and 98% by Sue Ann Ma. Sue Ann Ma is a US resident. Her shareholding in Honghua America was for the purpose of compliance with Texas law for establishing a Texas company.

Sue Ann Ma, an Independent Third Party, on the date of establishment of Honghua America entered into an agreement with Zhang Mi, Zhang Yanyong, Ao Pei and Huang Zhun, pursuant to which Sue Ann Ma assigned an aggregate of 98% equity interest in Honghua America to Zhang Mi, Zhang Yanyong, Ao Pei and Huang Zhun (24.5% to each of them) at par value. Upon completion of the above assignments on October 11, 2004, Sue Ann Ma ceased to be a shareholder of Honghua America and Honghua America was owned as to 2% by NCE Management Inc. and 24.5% by each of Zhang Mi, Zhang Yanyong, Ao Pei and Huang Zhun.

On October 11, 2004, Honghua Company entered into an agreement with Zhang Mi, Zhang Yanyong, Ao Pei and Huang Zhun, pursuant to which Honghua Company acquired an aggregate 51% equity interest in Honghua America (12.75% equity interest from each of them) at par value. Upon completion of the above assignments Honghua America was owned as to 2% by NCE Management Inc., 51% by Honghua Company and 11.75% by each of Zhang Mi, Zhang Yanyong, Ao Pei and Huang Zhun. The equity transfers were made for the purpose of obtaining work visas for the PRC employees.

Zhang Mi, a member of the Concert Group, has been the Chairman of Honghua America since its establishment on October 11, 2004, and is a director of Honghua Company, Honghua International and HH Egyptian Company. Zhang Yanyong and Ao Pei, both members of the Concert Group, have been the President and the Treasurer of Honghua America, respectively, since its establishment. Huang Zhun has been the Secretary of Honghua America since its establishment.

On November 1, 2006, Honghua Company entered into an agreement with Zhang Yanyong, Huang Zhun and Ao Pei, pursuant to which Honghua Company acquired an aggregate of 29% equity interest in Honghua America (as to 5.5%, 11.75% and 11.75% respectively). NCE Management Inc. also entered into an agreement with Zhang Yanyong and Zhang Mi pursuant to which NCE Management Inc. acquired 11.75% and 6.25% equity interest in Honghua America, respectively. Upon completion of the above assignments, Honghua America was owned as to 20% by NCE Management Inc. and 80% by Honghua Company. The equity transfers were made for the purpose of consolidating the Group structure for the Listing.

On December 19, 2006, Honghua America was converted from a limited partnership to a limited liability company. Honghua America was owned as to 80% by Honghua Company and 20% by NCE Management Inc.

NCE Management Inc., is currently owned as to 45.9% by Zhang Yanyong, a member of the Concert Group and a Substantial Shareholder, 23.9% by Huang Zhun, 20.35% by Ao Pei, a member of the Concert Group and a Substantial Shareholder and 9.85% by Chen Guo. Except for their shareholding in NCE Management Inc., which holds a 20% equity interest in Honghua America, Huang Zhun and Chen Guo are Independent Third Parties.

Formation of Lucky Wish and Golden Coast Company

To help expand Honghua Company's international market and to facilitate the export business of Honghua International, Honghua International decided to establish Lucky Wish and Golden Coast Company.

Lucky Wish was incorporated in the BVI with limited liability on February 2, 2005. Its authorized share capital is USD50,000 divided into 50,000 shares of USD1.00 each. On December 5, 2005, one share was allotted to Liu Zhi on trust for Honghua International. Since mid 2005, Honghua Company has faced an increased international demand for drilling rigs and equipment. Honghua International was new to the international market and unfamiliar with the trading environment. The Group decided that, in order to establish a name for itself in the international market, it should incorporate an overseas company so as to create an appropriate platform from which to trade. As incorporation of an overseas company required complicated procedures and took time in the PRC, the Company decided to enter into a trust arrangement in order to capture this business opportunity. The Group has, pursuant to a letter issued by the Bureau of Commerce of Sichuan Province dated October 29, 2007,

arranged to close down Lucky Wish after becoming aware of a possible deviation of the trust arrangement from the relevant PRC rules and regulations. The Group is currently (i) gathering the financial information of Lucky Wish; (ii) collecting accounts receivables of Lucky Wish; (iii) settling the debts and liabilities of Lucky Wish; and (iv) liaising with BVI counsel for the purpose of closing down Lucky Wish. Lucky Wish will be closed down as soon as the relevant procedures required under BVI law are complete.

Golden Coast Company was incorporated in the United Arab Emirates with limited liability on November 28, 2006. Its authorized share capital is UAE Dirhams 1,000,000. Honghua International subscribed for one share for UAE Dirhams 1,000,000 and wholly owns Golden Coast Company.

Formation of HH Egyptian Company

On December 26, 2006, Honghua Company, Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company and Tharwa Petroleum Company (Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company and Tharwa Petroleum Company collectively the "Egyptian Shareholders") entered into a joint venture agreement to establish HH Egyptian Company in Egypt, with an authorized share capital of US$30,000,000 and issued share capital of US$12,000,000, divided into 12,000 shares of US$1,000 each.

On January 8, 2007, Honghua Company and Asia Harbour signed a letter of declaration, pursuant to which Asia Harbour replaced Honghua Company as party to the joint venture agreement for the establishment of HH Egyptian Company.

Upon formation of HH Egyptian Company on April 24, 2007, Asia Harbour, Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company, and Tharwa Petroleum Company held 50%, 25%, 10% and 15% equity interests in HH Egyptian Company, respectively.

The Egyptian Shareholders are engaged in, among other things, oil and gas exploration, development and production of petroleum and provision of petroleum services inside and outside Egypt. The Egyptian Shareholders are owned by Independent Third Parties.

Principal terms of the joint venture agreement are set out below.

HH Egyptian Company's objectives are to construct and operate a plant in Egypt for the manufacturing, assembly, and provision of services related thereto including the maintenance, repair, overhaul, painting, testing of onshore drilling rigs and offshore drilling equipment, workover rigs for the oil and gas industry and manufacturing of any other components in Egypt. HH Egyptian Company has the sole right to sell the products of Honghua Company to the oil and gas industry in Egypt. In addition, HH Egyptian Company will sell all products assembled and/or manufactured in Egypt by the HH Egyptian Company to purchasers in North Africa and surrounding countries and in any other country to be agreed by the joint venture parties. None of the joint venture parties may set up a new company with any other party and/or participate in a company or joint venture that has the same business objectives as HH Egyptian Company in Egypt, the North African countries or any other countries approved by the board members. Asia Harbour shall not compete with HH Egyptian Company in Egypt, the North African countries or other countries approved by the board.

The joint venture parties have agreed that for a period of five years from the date of incorporation, they shall not transfer their shares in HH Egyptian Company. However, during those five years, the Egyptian Shareholders may sell or transfer shares of HH Egyptian Company to the other Egyptian Shareholder(s) as long as they maintain a minimum of 3% shareholding in HH Egyptian Company. No restrictions are imposed after the expiry of this five year period. Each joint venture party has the right of first refusal.

The board of directors of HH Egyptian Company consists of a minimum of eight members, of which six are permanent and two are non-permanent members. The Egyptian Shareholders and Asia Harbour are each entitled to nominate four members to the board. The Egyptian Shareholders and Asia Harbour are each entitled to nominate an equal number of additional directors on any proportional increase in board composition. Any board decision shall be by majority vote of six directors.

HH Egyptian Company shall operate for an initial term of 20 years, subject to extension by mutual agreement by the joint venture parties and approval by the relevant Egyptian authorities. HH Egyptian Company has obtained all approvals required for operation, i.e. the approvals issued by the General Authority for Investment and Industrial Development Authority and commenced business on May 22, 2007.

Reorganization

In connection with the Global Offering, we underwent the Reorganization as described below in anticipation of the Listing of the Shares on the Stock Exchange.

Formation of Asia Harbour as an investment holding company

On July 8, 2006, Asia Harbour was incorporated in Hong Kong with limited liability with an authorized share capital of HK$10,000, divided into 10,000 shares of HK$1.00 each. On the same date, one share was allotted and issued to the initial subscriber, Gold Regal Development Limited. On August 18, 2006, Ally Giant acquired from Gold Regal Development Limited the share in Asia Harbour, for a consideration of HK$1.00.

Ally Giant is wholly-owned by Ample Chance, which in turn is owned by Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview, all BVI incorporated companies as to approximately 36%, 19.09%, 18.51%, 12.71%, 10.50% and 3.19%, respectively. The ultimate shareholders of Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview were the same 34 shareholders as those of Honghua Company. The shareholdings of these 34 shareholders in Ally Giant, through those BVI companies, are in proportion to their equity interests in Honghua Company.

Shareholder	Approximate equity interest in Honghua Company before acquisition by Asia Harbour	Approximate equity interest in Asia Harbour
Concert Group		
Zhang Mi	36.000%	36.000%
Ren Jie	7.894%	7.894%
Zheng Yong	5.600%	5.600%
Liu Zhi	5.600%	5.600%
Zuo Huixian	4.373%	4.373%
Zhang Xu	4.213%	4.213%
Fan Bing	4.160%	4.160%
Liu Xuetian (deceased)	3.733%	3.733%
Zhang Yanyong	3.707%	3.707%
Zhou Bing	2.032%	2.032%
Wang Jiangyang	1.067%	1.067%
Chen Jun	0.943%	0.943%
Ao pei	0.703%	0.703%
Lu Lan	0.681%	0.681%
Tian Yu	0.410%	0.410%
Li Hanqiang	0.367%	0.367%
Tian Diyong	0.363%	0.363%
Shen Dingjian	0.285%	0.285%
Liu Yingguo	0.160%	0.160%
Liu Lulu	0.128%	0.128%
Sub-total:	***82.419%***	***82.419%***
Other shareholders		
Zhang Cong	4.550%	4.550%
Yang Hong	3.192%	3.192%
Zhao Ping	2.485%	2.485%
Luo Qiping	1.600%	1.600%
Liu Gangqiang	0.960%	0.960%
Di Xiaohong	0.917%	0.917%
Ma Limin	0.875%	0.875%
Xu Chuan	0.763%	0.763%
Chen Zhen	0.720%	0.720%
Liu Yonghong	0.667%	0.667%
Tang Ying	0.319%	0.319%
Tian Daoyun	0.213%	0.213%
Di Baiwei	0.160%	0.160%
Li Ping	0.160%	0.160%
Sub-total:	***17.581%***	***17.581%***
Total:	**100.000%**	**100.000%**

Ally Smooth was wholly-owned by Zhang Mi. Charm Moral was owned by 3 individuals, Ren Jie, Liu Zhi and Zheng Yong as to approximately 41.34%, 29.33% and 29.33%, respectively. Beauty Clear was owned by

seven individuals, Zhang Cong, Zuo Huixian, Zhang Xu, Zhao Ping, Wang Jiangyang, Chen Jun and Ma Limin as to approximately 24.58%, 23.63%, 22.77%, 13.43%, 5.76%, 5.10% and 4.73%, respectively. Believe Power was owned by nine individuals, Fan Bing, Zhang Yanyong, Luo Qiping, Liu Gangqiang, Chen Zhen, Ao Pei, Tian Diyong, Shen Dingjian and Tian Daoyun, as to approximately 32.72%, 29.16%, 12.59%, 7.55%, 5.66%, 5.53%, 2.85%, 2.24% and 1.68%, respectively. Benefit Way was owned by thirteen individuals, Liu Xuetian (deceased), Zhou Bing, Di Xiaohong, Xu Chuan, Lu Lan, Liu Yonghong, Tian Yu, Li Hanqiang, Tang Ying, Liu Yingguo, Li Ping, Di Baiwei and Liu Lulu, as to approximately 35.57%, 19.36%, 8.74%, 7.27%, 6.49%, 6.35%, 3.91%, 3.50%, 3.03%, 1.52%, 1.52%, 1.52% and 1.22%, respectively. Birdview was wholly-owned by Yang Hong. Among these named shareholders, twenty are members of the Concert Group, namely, Zhang Mi, Ren Jie, Liu Zhi, Zheng Yong, Zuo Huixian, Zhang Xu, Wang Jiangyang, Chen Jun, Fan Bing, Zhang Yanyong, Ao Pei, Tian Diyong, Shen Dingjian, Liu Xuetian (deceased), Zhou Bing, Lu Lan, Tian Yu, Li Hanqiang, Liu Yingguo and Liu Lulu. For details of the Concert Group, please see the sub-section entitled "Concert Group" below.

On October 29, 2007, twelve shareholders transferred their entire interests held in the BVI companies, to other BVI companies of which the shares are held by Equity Trustee, as the trustee for the family trusts, as follows:

(a) Zhang Mi transferred his 100% equity interest in Ally Smooth, to Wealth Afflux Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The ZYL Family Trust, a discretionary trust established by Zhang Mi for his family members.

(b) Ren Jie transferred his approximately 41.34% equity interest in Charm Moral, to Mowbray Worldwide Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The RJDJ Victory Trust, a discretionary trust established by Ren Jie for his family members.

(c) Liu Zhi transferred his approximately 29.33% equity interest in Charm Moral, to Ecotech Enterprises Corporation, a BVI company, which is wholly held by Equity Trustee, as trustee of The LZWM Family Trust, a discretionary trust established by Liu Zhi for his family members.

(d) Zhang Cong transferred his approximately 24.58% equity interest in Beauty Clear, to Otama Company Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The ZCYC Family Trust, a discretionary trust established by Zhang Cong for his family members.

(e) Zuo Huixian transferred his approximately 23.63% equity interest in Beauty Clear, to Vast & Fast Corporation, a BVI company, which is wholly held by Equity Trustee, as trustee of The ZHH Family Trust, a discretionary trust established by Zuo Huixian for his family members.

(f) Zhang Xu transferred his approximately 22.77% equity interest in Beauty Clear, to Cavendish Global Corporation, a BVI company, which is wholly held by Equity Trustee, as trustee of The Hong Xu Family Trust, a discretionary trust established by Zhang Xu for his family members.

(g) Zhao Ping transferred his approximately 13.43% equity interest in Beauty Clear, to Airtech Investments Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The ZPL Family Trust, a discretionary trust established by Zhao Ping for his family members.

(h) Fan Bing transferred his approximately 32.72% equity interest in Believe Power, to Brondesbury Enterprises Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The FBX Family Trust, a discretionary trust established by Fan Bing for his family members.

(i) Luo Qiping transferred his approximately 12.59% equity interest in Believe Power, to Oriental Starz Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The LQ Family Trust, a discretionary trust established by Luo Qiping for his family members.

(j) Liu Gangqiang transferred his approximately 7.55% equity interest in Believe Power, to Tech Express Enterprises Inc., a BVI company, which is wholly held by Equity Trustee, as trustee of The LGJT Family Trust, a discretionary trust established by Liu Gangqiang for his family members.

(k) Liu Xuetian (deceased) transferred his approximately 35.57% equity interest in Benefit Way, to Dobson Global Inc., a BVI company, which is wholly held by Equity Trustee, as trustee of The LXYY Family Trust, a discretionary trust established by Liu Xuetian (deceased) for his family members.

(l) Zhou Bing transferred his approximately 19.36% equity interest in Benefit Way, to Darius Enterprises Limited, a BVI company, which is wholly held by Equity Trustee, as trustee of The Fang Zhou Family Trust, a discretionary trust established by Zhou Bing for his family members.

Acquisition of Honghua Company by Asia Harbour

For the Reorganization, Asia Harbour entered into an equity purchase and capital increase agreement with 34 individual shareholders, on August 24, 2006, pursuant to which Asia Harbour acquired the entire equity interest in Honghua Company from the 34 individual shareholders, at a total consideration of U.S. dollars equivalent to RMB155,000,000, which was determined with reference to an independent valuation of the net asset value of Honghua Company, as of July 31, 2006, plus the cash capital contributions made by the shareholders at the time, pursuant to the shareholder's resolutions of Honghua Company dated August 24, 2006. Asia Harbour also contributed U.S. dollars equivalent to RMB53,250,000, as an increase in the registered capital of Honghua Company which, under PRC law, should be paid to Honghua Company within 3 months after obtaining the business license of a wholly foreign-owned enterprise. Upon completion of the equity transfer and the capital increase, Honghua Company was converted from a domestic enterprise into a wholly foreign-owned enterprise, and its registered capital increased from RMB18,750,000 to RMB72,000,000. Honghua Company was then owned 100% by Asia Harbour. After completion of the Reorganization, Honghua Company became an indirectly wholly-owned subsidiary of the Company.

Incorporation of the Company

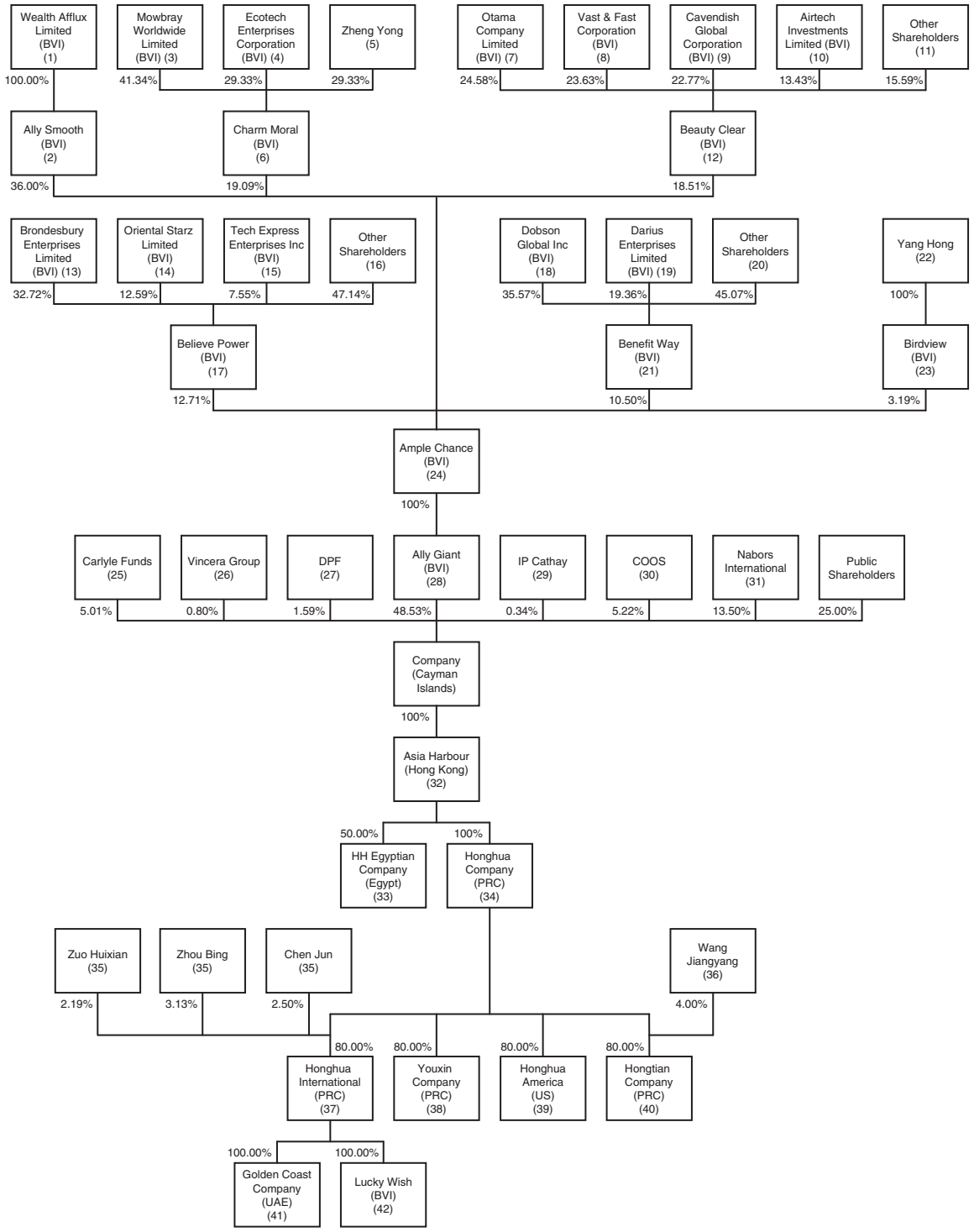
In preparation for the Global Offering, the Company was incorporated in the Cayman Islands on June 15, 2007. One Share was allotted and issued nil paid to Reid Services Limited on June 15, 2007 and transferred to Ally Giant on the same date.

On October 16, 2007, the Company acquired Asia Harbour from Ally Giant. In consideration of this acquisition, the Company credited the one nil paid Share in the Company issued to Ally Giant, as fully paid, and further allotted and issued 2,499,999,999 fully paid up Shares to Ally Giant on October 16, 2007. Our Company became the holding company of the Group on October 16, 2007.

As part of the Reorganization, the Company became the holding company for our various operating subsidiaries. 20 of the Existing Shareholders are members of the Concert Group. For details of the Concert Group, please refer to the sub-section entitled "Concert Group" below. Our Existing Shareholders own direct or indirect equity interests in the BVI companies, namely, Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview. These BVI companies wholly own Ample Chance which in turn wholly owns Ally Giant which in turn owned the entire issued share capital of the Company before the investments by the Financial Investors.

Pursuant to the terms of the Note Instrument and an agreement dated October 16, 2007, Ally Giant transferred approximately 6.7%, 1.0%, 0.5%, 2.1% and 7.0% equity in the Company to Carlyle Funds, Vincera Group, IP Cathay, DPF and COOS, respectively. For details of the transfers, please refer to the sub-section entitled "Financial Investors" below.

The following chart sets out the structure of the Group, immediately following completion of the Global Offering, taking no account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or the Pre-IPO Share Option Scheme (and assuming the Over-allotment Option is not exercised).



The shareholding percentages of Carlyle Funds, Vincera Group, DPF, IP Cathay and COOS are subject to increase to approximately 5.5%, 0.9%, 1.7%, 0.4% and 5.7%, respectively, at the option of each respective entity,

in the event Ally Giant's net income based on its audited 2007 financial statements shows an annual growth rate of less than 40%, but greater than 30%. The shareholding held by Ally Giant will be adjusted to approximately 47.4% accordingly. For details, please refer to the subsection entitled "Financial Investor" below.

Notes:

1. Wealth Afflux Limited was incorporated in the BVI with limited liability on September 6, 2007. It is wholly held by Equity Trustee, as trustee of The ZYL Family Trust, a discretionary trust established by Zhang Mi for his family members. Zhang Mi is an Executive Director. Zhang Mi has been a Director, General Manager and shareholder of Honghua Company since December 31, 1997. Zhang Mi is also a Director of Honghua International, Honghua America and HH Egyptian Company.
2. Ally Smooth was incorporated in the BVI with limited liability on July 5, 2006. It is an investment holding company and our Substantial Shareholder. It is wholly-owned by Wealth Afflux Limited.
3. Mowbray Worldwide Limited was incorporated in the BVI with limited liability on May 16, 2007. It is wholly held by Equity Trustee, as trustee of The RJDJ Victory Trust, a discretionary trust established by Ren Jie for his family members. Ren Jie joined the Group in December, 1997. He is an Executive Director. He is also a Director and a Deputy General Manager of Honghua Company, and a Director of Youxin Company and Honghua International.
4. Ecotech Enterprises Corporation was incorporated in the BVI with limited liability on September 6, 2007. It is wholly held by Equity Trustee, as trustee of The LZWM Family Trust, a discretionary trust established by Liu Zhi for his family members. Liu Zhi joined the Group in November, 2000. He is a Deputy General Manager of Honghua Company and a Director and General Manager of Honghua International. Mr. Liu is also a Director of Hongtian Company and HH Egyptian Company.
5. Zheng Yong owns approximately 29.33% of Charm Moral. Zheng Yong joined the Group in November, 1998. He is a Director of Plant No. 2 (二分廠主任) of Honghua Company.
6. Charm Moral was incorporated in the BVI with limited liability on July 18, 2006. It is an investment holding company and is owned approximately 41.34% by Mowbray Worldwide Limited, approximately 29.33% by Ecotech Enterprises Corporation and approximately 29.33% by Zheng Yong.
7. Otama Company Limited was incorporated in the BVI with limited liability on May 16, 2007. It is wholly held by Equity Trustee, as trustee of The ZCYC Family Trust, a discretionary trust established by Zhang Cong for his family members. Zhang Cong joined the Group in May, 2001 and is a Director and General Manager of Hongtian Company.
8. Vast & Fast Corporation was incorporated in the BVI with limited liability on September 6, 2007. It is wholly held by Equity Trustee, as trustee of The ZHH Family Trust, a discretionary trust established by Zuo Huixian for his family members. Zuo Huixian joined the Group in December 1997. He is a Director and Chief Financial Officer (財務負責人) of Honghua International and Director of Finance (財務部主任) of Hongtian Company.
9. Cavendish Global Corporation was incorporated in the BVI with limited liability on September 18, 2007 and it is wholly held by Equity Trustee, as trustee of The Hong Xu Family Trust, a discretionary trust established by Zhang Xu for his family members. Zhang Xu joined the Group in December, 1997, and he is a Director and a Director of the Finance (財務部主任) of Honghua Company.
10. Airtech Investments Limited was incorporated in the BVI with limited liability on September 6, 2007. It is wholly held by Equity Trustee, as trustee of The ZPL Family Trust, a discretionary trust established by Zhao Ping for his family members. Zhao Ping joined the Group in August, 1998, and is a Director and General Manager of Youxin Company.
11. Other shareholders of Beauty Clear are Wang Jiangyang, Chen Jun and Ma Limin (holding approximately 5.76%, 5.10% and 4.73%, respectively). Wang Jiangyang joined the Group in October, 1998, and is a Director and Deputy General Manager of Hongtian Company. Chen Jun joined the Group in December, 1997 and he is the Director of Technical Centre of Research and Development, Chengdu (技術中心成都研究部主任), of Honghua Company. Ma Limin joined the Group in November, 2001 and is a General Manager of Golden Coast Company.
12. Beauty Clear was incorporated in the BVI with limited liability on July 21, 2006. It is an investment holding company and is owned approximately 24.58%, 23.63%, 22.77%, 13.43%, 5.76%, 5.10% and 4.73% by Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Wang Jiangyang, Chen Jun and Ma Limin, respectively.
13. Brondesbury Enterprises Limited was incorporated in the BVI with limited liability on April 26, 2007. It is wholly held by Equity Trustee, as trustee of The FBX Family Trust, a discretionary trust established by Fan Bing for his family members. Fan Bing joined the Group in December, 1997 and is a Director of the Assets and Property Department (資產物業部主任) of Honghua Company.
14. Oriental Starz Limited was incorporated in the BVI with limited liability on September 6, 2007. It is wholly held by Equity Trustee, as trustee of The LQ Family Trust, a discretionary trust established by Luo Qiping for his family members. Luo Qiping joined the Group in December, 1999. He is a Director of Honghua International. and a Deputy General Manager of Honghua Company.
15. Tech Express Enterprises Inc. was incorporated in the BVI with limited liability on September 6, 2007. It is wholly held by Equity Trustee, as trustee of The LGJT Family Trust, a discretionary trust set up by Liu Gangqiang for his family members. Liu Gangqiang joined the Group in March, 2004 and he is the secretary to the board of directors of Honghua Company, and joint company secretary of the Company.
16. Other shareholders of Believe Power are Zhang Yangyong, Chen Zhen, Ao Pei, Tian Diyong, Shen Dingjian and Tian Daoyun (i.e. holding approximately 29.16%, 5.66%, 5.53%, 2.85%, 2.24% and 1.68%, respectively). Zhang Yanyong joined the Group in December, 1997, and is President of Honghua America. Chen Zhen joined the Group in October, 2003, and is the Director of Human Resources (人力資源部主任) for Honghua Company. Ao Pei joined the Group in November, 1998, and he is treasurer of Honghua America. Tian Diyong joined the Group in November, 1998, and is Director in the Technical Centre of Research of Drilling Equipment (技術中心鉆采裝備研究所主任) of Honghua Company. Shen Dingjian joined the Group in October, 1998, and is assistant director of Storage and Transport (儲運部主任助理) for Honghua Company. Tian Daoyun joined the Group in July, 2003, and is the Director of Plant No. 3 of Honghua Company.

17. Believe Power was incorporated in the BVI with limited liability on July 21, 2006. It is an investment holding company and is owned approximately 32.72%, 12.59%, 7.55%, 29.16%, 5.66%, 5.53%, 2.85%, 2.24% and 1.68% by Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises Inc., Zhang Yanyong, Chen Zhen, Ao Pei, Tian Diyong, Shen Dingjian and Tian Daoyun, respectively.
18. Dobson Global Inc., was incorporated in the BVI with limited liability on September 18, 2007. It is wholly held by Equity Trustee, as trustee of The LXYY Family Trust, a discretionary trust established by Liu Xuetian (deceased) for his family members. Liu Xuetian (deceased) joined the Group in December, 1997 and passed away on January 23, 2008. He was a Director of Honghua International and Manager of the Engineering Services Department (工程服務公司經理) of Honghua Company.
19. Darius Enterprises Limited was incorporated in the BVI with limited liability on September 18, 2007. It is wholly held by Equity Trustee, as trustee of The Fang Zhou Family Trust, a discretionary trust established by Zhou Bing for his family members. Zhou Bing joined the Group in December 1997, and he is a Deputy General Manager of Honghua International.
20. Other shareholders of Benefit Way are Di Xiaohong, Xu Chuan, Lu Lan, Liu Yonghong, Tian Yu, Li Hanqiang, Tang Ying, Liu Yingguo, Li Ping, Di Baiwei and Liu Lulu (holding approximately 8.74%, 7.27%, 6.49%, 6.35%, 3.91%, 3.50%, 3.03%, 1.52%, 1.52%, 1.52% and 1.22%, respectively.) Di Xiaohong joined the Group in April, 2000. He is a Director of Honghua International and a director of Storage and Transport Department (儲運部主任) of Honghua Company. Xu Chuan joined the Group in November, 2001, and she is a Director and General Manager of HH Egyptian Company. Lu Lan joined the Group in December, 1997, and is an assistant director in the Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所主任助理) of Honghua Company. Liu Yonghong joined the Group in August, 2004, and is a Deputy General Manager of Honghua International. Tian Yu joined the Group in October, 1999, and is vice head of department in the Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所副所長) of Honghua Company. Li Hanqiang joined the Group in November, 1998, and is a chief engineer in the Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所主任工程師) of Honghua Company. Tang Ying joined the Group in November, 1998, and is an engineer in the Technical Engineering Services Department of Honghua Company. Liu Yingguo joined the Group in December, 1997, and is a senior technician in the Engineering Services Department (工程服務公司高級技師) of Honghua Company. Li Ping joined the Group in March, 2006, and is a Deputy General Manager of Honghua International. Di Baiwei joined the Group in April, 2006 and he is the Manager of the Sales Department of Honghua Company. Liu Lulu joined the Group in December, 1997, and is an assistant director in the office in the Technical Centre (技術中心辦公室主任助理) of Honghua Company.
21. Benefit Way was incorporated in the BVI with limited liability on July 7, 2006. It is an investment holding company and is owned approximately 35.57%, 19.36%, 8.74%, 7.27%, 6.49%, 6.35%, 3.91%, 3.50%, 3.03%, 1.52%, 1.52%, 1.52% and 1.22% by Dobson Global Inc., Darius Enterprises Limited, Di Xiaohong, Xu Chuan, Lu Lan, Liu Yonghong, Tian Yu, Li Hanqiang, Tang Ying, Liu Yingguo, Li Ping, Di Baiwei and Liu Lulu, respectively.
22. Yang Hong owns 100% of Birdview. Yang Hong joined the Group in July, 2003, and is a secretary in the office administration department of Honghua Company.
23. Birdview was incorporated in the BVI with limited liability on July 21, 2006. It is an investment holding company and is wholly-owned by Yang Hong.
24. Ample Chance was incorporated in the BVI with limited liability on July 13, 2006. It is an investment holding company and is owned by Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview, as to 36%, approximately 19.09%, 18.51%, 12.71%, 10.50% and 3.19%, respectively.
25. Carlyle Funds entered into the Investment Agreement with Ally Giant and others. For details, please refer to the sub-section entitled "Financial Investors" below.
26. Vincera Group entered into the Investment Agreement with Ally Giant and others. For details, please refer to the sub-section entitled "Financial Investors" below.
27. DPF entered into the Investment Agreement with Ally Giant and others. For details, please refer to the sub-section entitled "Financial Investors" below.
28. Ally Giant was incorporated in the BVI with limited liability on July 10, 2006. It is an investment holding company and is wholly-owned by Ample Chance.
29. IP Cathay entered into the Investment Agreement with Ally Giant and others. For details, please refer to sub-section entitled "Financial Investors" below.
30. COOS entered into the Investment Agreement with Ally Giant and others. For details, please refer to the sub-section entitled "Financial Investors" below.
31. Nabors International (as transferee) entered into a share transfer agreement with Ally Giant (as transferor) and the Company (as warrantor). For details, please refer to the sub-section entitled "Strategic Investor" below.
32. Asia Harbour was incorporated in Hong Kong with limited liability on July 8, 2006. It is an investment holding company and is our wholly-owned subsidiary.
33. HH Egyptian Company was incorporated in Egypt with limited liability on April 24, 2007. It is owned 50% by Asia Harbour and 50% by Petroleum Projects and Technical Consultations Company (25%), Engineering For the Petroleum and Process Industries Company (10%) and Tharwa Petroleum Company (15%). Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company and Tharwa Petroleum Company are substantial shareholders of HH Egyptian Company.
34. Honghua Company was established in the PRC on December 31, 1997. It is wholly-owned by Asia Harbour and is our indirect wholly-owned subsidiary.
35. Zhou Bing, Chen Jun and Zuo Huixian are members of the Concert Group, and hold approximately an 3.125%, 2.5% and 2.188% equity interest in Honghua International, respectively.
36. Wang Jiangyang is a member of the Concert Group, and holds approximately 4% of Hongtian Company.

37. Honghua International was established in the PRC on January 13, 2004. It is owned 80% by Honghua Company and 20% by 13 individuals, Liu Yonghong (approximately 4.000%), Ma Limin (approximately 3.250%), Zhou Bing (approximately 3.125%), Chen Jun (approximately 2.500%), Zuo Huixian (approximately 2.188%), Li Ping (approximately 1.000%), Wang Wei (approximately 0.719%), Zhang Aimin (approximately 0.625%), Chen Honghong (approximately 0.625%), Xue Yuqing (approximately 0.625%), Zhang Wei (approximately 0.500%), Mo Kunrong (approximately 0.469%) and Jiang Ping (approximately 0.375%). Zhou Bing, Chen Jun and Zuo Huixian are members of the Concert Group, and the other shareholders are Independent Third Parties.
38. Youxin Company was established in the PRC on August 7, 1998. It is owned 80% by Honghua Company and as to 20% by nine individuals, namely, Zhao Ping (approximately 4.799%), Zhang Changlun (approximately 4.000%), Ju Lang (approximately 3.000%), Chen Yaling (approximately 1.201%), Lin Ye (approximately 1.000%), Zhuang Jiandong (approximately 1.000%), Xiao Kaiyun (approximately 1.000%), Xie Xiaohong (approximately 3.000%) and Fang Yong (approximately 1.000%). Zhao Ping is a Director of Youxin Company and Fang Yong is the brother-in-law of Wang Jiangyang. The other shareholders are Independent Third Parties.
39. Honghua America was formed in the State of Texas, as a limited partnership on October 11, 2004 and converted into a limited liability company on December 19, 2006. It is owned 80% by Honghua Company and 20% by NCE Management Inc., a substantial shareholder of Honghua America.
40. Hongtian Company was established in the PRC on June 6, 2001. It is owned 80% by Honghua Company and 20% by 12 individual shareholders, namely, Zhang Cong (approximately 9.000%), Wang Jiangyang (approximately 4.000%), Che Mingzhe (approximately 1.200%), Li Qin (approximately 2.400%), Hu Likang (approximately 0.800%), Huang Sheng (approximately 0.600%), Liao Wenzhong (approximately 0.400%), Chen Tao (approximately 0.400%), He Yugang (approximately 0.300%), Luo Laijun (approximately 0.300%), Huang Huijian (approximately 0.300%) and Zheng Liang (approximately 0.300%). Zhang Cong and Wang Jiangyang are Directors of Hongtian Company. Zhang Cong is the brother of Zhang Mi and Wang Jiangyang is a member of the Concert Group, and the other individual shareholders are Independent Third Parties.
41. Golden Coast Company was incorporated in United Arab Emirates with limited liability on November 28, 2006. It is wholly-owned by Honghua International.
42. Lucky Wish was incorporated in the BVI with limited liability on February 2, 2005. It is wholly held by Liu Zhi, on trust for Honghua International through a trust arrangement between Liu Zhi and Honghua International (holding one ordinary share of Lucky Wish by Liu Zhi on trust for Honghua International). The Group has, pursuant to a letter issued by the Bureau of Commerce of Sichuan Province dated October 29, 2007, arranged to close down Lucky Wish after becoming aware of a possible deviation of the trust arrangement from the relevant PRC rules and regulations. The Group is currently (i) gathering the financial information of Lucky Wish; (ii) collecting accounts receivables of Lucky Wish; (iii) settling the debts and liabilities of Lucky Wish; and (iv) liaising with BVI counsel for the purpose of closing down Lucky Wish. Lucky Wish will be closed down as soon as the relevant procedures required under BVI law are complete.

Financial Investors

In order to finance the acquisition of our PRC operating subsidiaries and to contribute to the increase in registered capital of Honghua Company, as part of the Reorganization, Ally Giant entered into an Investment Agreement with the Financial Investors on November 29, 2006, as supplemented by an agreement dated March 19, 2007.

Pursuant to the Investment Agreement, the Financial Investors agreed to subscribe for convertible notes (the "Notes") in an aggregate principal amount of USD57,000,000, from Ally Giant. The subscription amount (the "Subscription Amount') paid by each Financial Investor for its respective Note is as follows:

Financial Investors	Subscription Amount (USD)
Carlyle Funds	
Carlyle Asia Growth Partners III, L.P.	10,535,800
CAGP III Co-Investment, L.P.	464,200
Carlyle/Riverstone Global Energy and Power Fund III (Cayman), L.P.	7,311,700
C/R Energy III Frontier Partnership, L.P.	3,317,600
C/R Energy Coinvestment III (Cayman), L.P.	370,700
Subtotal for Carlyle Funds:	22,000,000
Vincera Group	
Hua VII Venture Capital Corporation	1,800,000
Vincera Growth Capital I Limited	1,200,000
Preen Group Limited	500,000
Sub-total for Vincera Group:	3,500,000
Other Financial Investors	
IP Cathay	1,500,000
DPF	7,000,000
COOS	23,000,000
TOTAL:	57,000,000

Subscription for Notes by the Financial Investors was made following thorough due diligence procedures, analysis of PE multiples of trading comparables at the time as well as evaluation of the potential investment risk. The price was determined by arm's length negotiations between the Company and Financial Investors. Based on the Financial Investors' investment amount of USD57,000,000, and the Company's 432,272,161 issued Shares to Financial Investors, their effective investment per Share in the Company is USD0.1319 or HK$1.0295. Assuming the mid-point of the indicative share price range of HK$3.83, the discount percentage of the investment cost paid by the Financial Investors against the IPO Offer Price is 73.1%.

CAGP Funds and Carlyle/Riverstone Funds are private equity funds. CAGP Funds principally focus on investment in fast-growing companies in China, India, Japan and South Korea. Carlyle/Riverstone Funds principally focus on energy-related investments worldwide. CAGP Funds and Carlyle/Riverstone Funds are investment funds within Carlyle Funds. Except for the investment in Ally Giant and the Company by Carlyle Funds, Carlyle Funds has no relationship with IP Cathay, DPF, COOS (as defined below) or Vincera Group (as defined below).

Carlyle Funds is a Financial Investor of the Company. Both the Directors and Carlyle Funds believe that Carlyle Funds' global network and previous investments and expertise in the energy sector can benefit the Company.

Except for its investment in Ally Giant and the Company, Carlyle Funds is independent from and not connected with the Company (and its subsidiaries), the Directors or the shareholders of the Company.

Hua VII Venture Capital Corporation ("Hua VII"), a Taiwan-registered private equity fund, and Vincera Growth Capital I Limited ("VGC I"), a BVI-registered private equity fund, are both managed by Vincera Capital.

Preen Group Limited ("Preen"), a BVI-registered company established for the purpose of co-investments by employees of Vincera Capital. Hua VII, VGC I and Preen are all managed by Vincera Capital. Vincera Capital is a private equity management firm with offices in Taipei and Shanghai. IP Cathay is registered in the BVI and its principal business is venture capital investment. Its major limited partners are Runner Investment Pte Ltd., (Singapore) AXA Capital Asia, LP (France) and Siguler Guff BRIC Opportunities Funds (USA). Except for the investment in Ally Giant or the Company (as the case may be), Vincera Group has no relationship with IP Cathay, DPF, Carlyle Funds or COOS, and IP Cathay has no relationship with Carlyle Funds, Vincera Group, DPF or COOS.

Vincera Group and IP Cathay are Financial Investors of the Company. Both Vincera Group and IP Cathay are Independent Third Parties. They seek financial returns in return for providing funding support to the Company. Vincera Group will continue to explore possible areas of providing value-added services to the Group in terms of introduction of suppliers, customers, strategic partners, etc. and advising on day-to-day operations, financing activities, strategic alliances and visibility in the capital market.

Except for its investment in Ally Giant or the Company, Vincera Group is independent from and not connected with the Company (and its subsidiaries), the Directors or the shareholders of the Company.

DPF is a joint venture between Value Partners Ltd. and Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (a Dutch development bank). DPF invests primarily in private mezzanine instruments of medium-sized enterprises that are domiciled or do business predominantly in mainland China. Except for its investment in Ally Giant or the Company, DPF has no relationship with the other Financial Investors.

DPF is a Financial Investor of the Company. Both the Directors and DPF believe that apart from providing additional capital to support the Group's capital needs, DPF will provide guidance on the Group's corporate governance and introduce additional strategic and Financial Investors to the Group.

Except for its investment in Ally Giant and the Company, DPF is independent from and not connected with the Company (and its subsidiaries), the Directors or the shareholders of the Company.

COOS is a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of CNOOC. The CNOOC Group is one of the largest state-owned oil corporations and a dominant offshore oil and gas producer in China. It is principally engaged in six business sectors, including oil and gas exploration and development, technical services, logistics services and new energies developments, chemicals and fertilizer production and refining, natural gas and power generation, and financial services. Except for its investment in Ally Giant or the Company, COOS has no relationship with the other Financial Investors.

The CNOOC Group is one of the largest state-owned oil corporations in China and is an important offshore oil and gas producer in China. It seeks suitable investment opportunities in the oil and gas-related industries, from time to time, and it considers the Notes issued by Ally Giant to be a suitable investment opportunity.

Except for its investment in Ally Giant, COOS is independent from and not connected with the Company (and its subsidiaries), the Directors, or the shareholders of the Company.

Pursuant to the terms of the Note Instrument, all the Notes must be converted into shares of Ally Giant (or exchanged into Shares of the Company) at an initial conversion rate as described below (the "Conversion Ratio"), automatically and concurrently upon receipt of a listing approval for a Qualified IPO (as defined below), from an Approved Stock Exchange (as defined below).

"Qualified IPO" means an underwritten registered initial public offering of the shares of Ally Giant (or the Shares of the Company) on an Approved Stock Exchange, at a pre-offering valuation of Ally Giant of at least twice the 2006 Total Company Valuation, and raising at least US$80 million by way of a new issuance and/or offer for sale and/or placement of its securities. A Qualified IPO shall be deemed to have taken place on the date on which dealings in the Shares commences on the Approved Stock Exchange.

"2006 Total Company Valuation" means four to six times the net income of Ally Giant for the year ended December 31, 2006, excluding all option-related expenses in connection with the issuance and conversion of the Notes ("2006 Net Income"), as calculated in accordance with the formula below.

"Approved Stock Exchange" means inter alia, the Stock Exchange.

The initial Conversion Ratio is defined as the ratio which will result in the percentage of Ally Giant's shares being owned by the Financial Investor (the "Investor's Ownership in Ally Giant"), on a fully-diluted basis, as determined by the following formula:

(a) If the net income of Ally Giant for the year ended December 31, 2007, excluding all option-related expenses in connection with the issuance and conversion of the Notes ("2007 Net Income"), grows at a rate equal to or greater than 40% over the year 2006, the Investors' Ownership in Ally Giant = the Subscription Amount / (Ally Giant's 2006 Net Income * 6), in which case 2006 Total Company Valuation shall be 6 times Ally Giant's 2006 Net Income;

(b) If Ally Giant's 2007 Net Income grows at a rate of equal to or greater than 30% but less than 40% over the year of 2006, the Investors' Ownership in Ally Giant = the Subscription Amount / (Ally Giant's 2006 Net Income * 5.5), in which case 2006 Total Company Valuation shall be 5.5 times of Ally Giant's 2006 Net Income;

(c) If Ally Giant's 2007 Net Income grows at a rate of equal to or greater than 20% but less than 30% over the year of 2006, the Investors' Ownership in Ally Giant = the Subscription Amount / (Ally Giant's 2006 Net Income * 5), in which case 2006 Total Company Valuation shall be 5 times of Ally Giant's 2006 Net Income; or

(d) If Ally Giant's 2007 Net Income grows at a rate of less than 20% over the year of 2006, the Investors' Ownership in Ally Giant = the Subscription Amount / (Ally Giant's 2006 Net Income * 4), in which case 2006 Total Company Valuation shall be 4 times of Ally Giant's 2006 Net Income.

Notwithstanding the foregoing, if there occurs a Qualified IPO before the 2007 Net Income becomes available, the Investors' ownership shall be calculated as set out below.

Under the terms of the Note Instrument, if the 2007 Net Income is less than 40% in 2006, Ally Giant must use its best efforts to cause Ally Giant (or the Company, as the case may be) to issue, within five business days after the availability of the 2007 Net Income, additional shares to the Financial Investors, on a pro rata basis, so that the aggregate amount of the outstanding Shares held by the Financial Investors after such issuance will be equal to the applicable amount calculated pursuant to the relevant formula as if the 2007 Net Income had been available to the parties before the occurrence of such Qualified IPO. This term will survive Listing.

Pursuant to the above conditions, the conversion price ("Conversion Price") applicable to the Notes shall be the result of dividing (i) the aggregate Principal Amount of all Notes by (ii) the Common Stock Equivalent Outstanding (as defined below) multiplied by the applicable Conversion Ratio, subject to adjustment for stock splits, stock dividends, recapitalization or any other similar events.

"Common Stock Equivalent Outstanding" means the number of shares in Ally Giant equal to the sum of (a) all shares of Ally Giant outstanding at the time in question, plus (b) all shares of Ally Giant issuable upon conversion of all Notes, or other shares or securities directly or indirectly convertible into or exchangeable for the shares of Ally Giant ("Convertible Securities"), that are outstanding at the time in question, plus (c) all shares of Ally Giant that are issuable upon the exercise of options outstanding at the time in question, assuming that the conversion or exchange into the shares of all such options is to purchase or acquire Convertible Securities into or for the shares of Ally Giant.

On October 16, 2007, all the Financial Investors agreed to convert their Notes into Shares of the Company, notwithstanding that the 2007 Net Income was not yet available. As a result, the Financial Investors received an aggregate of approximately 17.3% of our issued share capital. Details are as follows:

Financial Investors	Approximate percentage of interest immediately before Global Offering(%)	Approximate percentage of interest immediately after Global Offering (assuming no exercise of the Over-allotment option) (%)
Carlyle Funds		
Carlyle Asia Growth Partners III, L.P.	3.2	2.4
CAGP III Co-Investment, L.P.	0.2	0.1
Carlyle/Riverstone Global Energy and Power Fund III (Cayman), L.P.	2.2	1.7
C/R Energy III Frontier Partnership, L.P.	1.0	0.7
C/R Energy Coinvestment III (Cayman), L.P.	0.1	0.1
Sub-total:	6.7	5.0
Vincera Group		
Hua VII Venture Capital Corporation	0.5	0.4
Vincera Growth Capital I Limited	0.4	0.3
Preen Group Limited	0.1	0.1
Sub-total:	1.0	0.8
Other Financial Investors		
IP Cathay	0.5	0.4
DPF	2.1	1.6
COOS	7.0	5.2
Total:	17.3	13.0

Ally Giant and the Financial Investors have agreed to make adjustment by way of transfer of shares in our Company between themselves, in accordance with the formula set out in the Note Instrument, as soon as reasonably practicable after the availability of the 2006 Net Income and the 2007 Net Income figures, subject to compliance with the Listing Rules.

As a result of the above transactions, the Financial Investors became our Shareholders, holding an aggregate of approximately 17.3% of the issued share capital of our Company, immediately before completion of the Global Offering, and approximately 13.0% immediately upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Each of the Financial Investors will hold less than 10% issued shares in the Company immediately before the Global Offering. None of them are connected persons of our Company. Their subscription was financed by their own funds and not financed, directly or indirectly, by any connected person of our Company. None of the

Financial Investors is required to take instructions from a connected person of our Company, in relation to the acquisition, voting or disposition of securities of our Company registered in its name or otherwise held by it. The Financial Investors will be regarded as public Shareholders of our Company. The Financial Investors have undertaken to each of our Company, the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors to be subject to a six-month lock-up period. For details, please refer to the sub-section entitled "Undertakings", in the "Underwriting" section of this Prospectus.

The total subscription amount of USD57,000,000, was, at the direction of Ally Giant paid to Asia Harbour as to USD34,000,000, on or about December 6, 2006 and as to USD23,000,000 on March 30, 2007. US dollars equivalent to RMB155,000,000 were used to pay the purchase price for all of the equity interests in Honghua Company purchased from the then existing shareholders of the company. US dollars equivalent to RMB53,250,000 were used to increase the registered capital of Honghua Company from RMB18,750,000 to RMB72,000,000. The balance will be used for the working capital and investments of our Group. All the subscription money has been released from the applicable escrow accounts.

The Financial Investors and Ally Giant amongst others entered into the Investors' Rights Agreement on November 29, 2006 (as supplemented by a supplemental agreement dated 30 March 2007).

Each of Carlyle Funds and COOS has the right to nominate one Director of the Company for so long as they remain a holder of any notes or any Shares converted therefrom. The Director nomination rights of Carlyle Funds and COOS will be terminated upon the Listing together with the termination of the Investors' Rights Agreement.

Within 18 days after March 30, 2007, the Financial Investors and Ample Chance may jointly appoint one Independent Director for the Company, and jointly remove or replace the said Independent Director.

The board of directors of each of Asia Harbour and Honghua Company consist of the same persons as the board of directors of Ally Giant. The board of directors of each of Youxin Company, Honghua International and Hongtian Company each consists of five directors, and the Financial Investors have the right to appoint one out of the five on each board.

Ally Giant and its subsidiaries may not engage in certain actions or transactions without the prior written consent of the Financial Investors holding 60% of the principal amount of the Notes then outstanding, such as a change in core business, sale or issue of equity, or transfer of interest in subsidiaries. The Financial Investors also enjoy (a) pre-emptive rights in the new issue of shares (except for those issued under the Pre-IPO Share Option Scheme); (b) the right of first refusal for disposition of Shares by selling shareholder(s); (c) tag-along rights to sell together with the Existing Shareholders; and (d) rights to receive business information from, budgets for and financial statements of the Group and to have access to assets, properties, books and records of the Group.

The Investors' Rights Agreement will terminate upon Listing, and all rights and obligations thereunder shall cease immediately upon such termination.

Strategic Investor

Nabors Industries is a company listed on the New York Stock Exchange. Nabors Industries, through various operating subsidiaries, conducts oil, gas and geothermal land drilling operations in the United States, Canada, Central and South America, the Middle East, the Far East and Africa, and provides various ancillary products and services.

Our relationship with Nabors Group can be traced back to early 2005, when we started exploring business opportunities in the U.S. At that time, Nabors Group came to China in search of manufacturers that could provide

Nabors Group with a stable supply of quality rigs and related parts and components, at competitive prices, to suit its business needs. Following several meetings between representatives of Nabors Group and Honghua Company in both the PRC and the U.S., both parties agreed to establish a strategic business relationship. A series of agreements were entered into between Honghua Company and Nabors Group. These agreements included a Confidentiality Agreement, dated April 24, 2005, a Memorandum of Agreement dated April 24, 2005, a Master Sales Agreement dated May 18, 2005, Heads of Agreement dated August 9, 2005, a Representative Agreement dated November 7, 2005, and several purchase orders as well as other ancillary documents and correspondence (collectively, the "Previous Agreements"). For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, Nabors Group was our largest customer, accounting for approximately 0%, 17.9%, 64.0% and 32.3% of our revenue, respectively, and was one of our five largest customers who together accounted for approximately 84.3%, 72.8%, 80.2% and 65.2%, of our revenue, during those periods.

Several disputes arose between Honghua Company and Nabors Group, concerning the performance of, understandings reached in and discussions relating to the Previous Agreements and the transactions contemplated therein. In June, 2007, an arbitration (the "Arbitration") was initiated between Nabors International and Honghua Company, before the International Court of Arbitration of the International Chamber of Commerce in which both parties made claims and counterclaims against each other. For details of the dispute, please refer to the subsection headed "Dispute with Nabors" under the section entitled "Legal Proceedings" of the Prospectus. Having considered the demand for stable supply of rigs, parts and components by Nabors Group and the closer business relationship between our Group and Nabors Group after Nabors Group's investment as a Substantial Shareholder of our Company, Nabors International agreed to accept the transfer of 18% of the issued share capital of the Company by Ally Giant, instead of the previously tabled up to 50% of the interest in Honghua Company. The 18% agreed between Honghua Company and Nabors Group was the result of several rounds of discussions and negotiations between the parties based on the proposals between September 2006 and November 2006, namely that Nabors would invest partially in kind in the form of a technology license and partially in cash of approximately US$6.864 million for an approximately 25% equity interest in Honghua Company. However, Honghua Company and Nabors Group failed to reach a final agreement on Nabors Group's proposed investment primarily (from the Group's point of view) due to lack of agreement on the technology to be licensed by Nabors Group. After the parties resumed their discussions, both Honghua Company and Nabors Group agreed that no investment in cash by Nabors Group was required and following further extensive negotiations, and the eventual conclusion of an agreement, between the parties on the technology licensing, the figure of 18% of the issued share capital of the Company was settled upon. The Company also agreed to accept a technology license granted by Nabors Global in return as an overall settlement package. For the purposes of settling their disputes amicably and moving forward to continue to build a strategic business relationship, Nabors International and Honghua Company entered into a Settlement Agreement, on October 17, 2007, concurrently with the execution of the Share Transfer Agreement, the Technology License Agreement and the Mutual Release. The amount of outstanding receivables and payables from Nabors Group immediately prior to the date of the Settlement Agreement, i.e. October 17, 2007 was approximately US$56.7 million (equivalent to approximately RMB425.5 million) and US$8.2 million (equivalent to approximately RMB61.8 million). The US$8.2 million represented the purchase money payable by Honghua Company to Nabors Group for the purchase of spare parts and components by Honghua Company from Nabors Group. The Company confirmed that all the aforesaid outstanding receivable amounts have been fully collected from Nabors Group. All these Settlement Documents were completed on October 17, 2007.

Principal terms of the Settlement Agreement are set out below.

Nabors International and Honghua Company agreed, and Honghua Company agreed to procure Ally Giant as transferor, to enter into the Share Transfer Agreement with Nabors International as transferee and the Company as warrantor on October 17, 2007.

Nabors International would remit to Honghua Company or the appropriate Honghua Company affiliate the sum of US$56,726,745.15 and Honghua Company would remit to Nabors International the sum of US$8,239,255.77, which sums together (the "Agreed Amounts") represent the total agreed amounts due and owing between the parties as of October 17, 2007, whether pursuant to the Previous Agreements or otherwise. Honghua Company and Nabors International agreed that payment of the Agreed Amounts would be in full and final settlement of all claims of any nature whatsoever which either party and/or its affiliates and/or assignees had or might have against the other party in connection with or arising out of all invoices issued and amounts owed or claimed to be owed under the Previous Agreements. Pursuant to the Settlement Agreement, and on December 7, 2007, the parties acknowledged settlement of the Agreed Amounts on December 7, 2007.

The parties further agreed that the Previous Agreements would be terminated as of October 17, 2007. The Previous Agreements would thereafter be null and void and the parties would be released and discharged absolutely from their respective obligations and liabilities under the Previous Agreements.

Upon signing of the Settlement Agreement on October 17, 2007, the parties executed the Mutual Release, under which, and on the same date, Nabors Global and the Company executed the Technology License Agreement and caused their respective legal counsel to inform the International Court of Arbitration to discontinue and withdraw their respective claims and counterclaims asserted in the Arbitration. The International Court of Arbitration notified the parties in writing of acknowledgement receipt of their request for the withdrawal of the claims on October 22, 2007.

Principal terms of the Mutual Release are set out below.

Each of Nabors International and Honghua Company, for and on behalf of itself and its respective parent, subsidiary and affiliated companies, released and discharged the other and their respective parent, subsidiary and affiliated companies, from any and all causes of action, suits, claims, demands, liabilities and obligations arising out of or related to their commercial relationship and arising prior to the date of the Mutual Release. Such release includes but is not limited to claims arising out of the Previous Agreements and claims asserted by Nabors International and Honghua Company in the Arbitration.

The parties represented, agreed and undertook that they would endeavor in good faith to develop a framework for a strategic business relationship. As a result, Nabors Group through Nabors Industries and the Group through the Company entered into the Strategic Cooperation Agreement on November 3, 2007 to set out a framework for future cooperation, details of which are set out on pages 124 to 125 of this Prospectus.

Principal terms of the Share Transfer Agreement are set out below.

Ally Giant transferred 18% of the issued and outstanding share capital in our Company on a fully diluted basis, exclusive of any options granted or shares issued pursuant to the approved share option scheme or shares to be issued pursuant to the Listing, to Nabors International in consideration for a license of the technology granted by Nabors Global to the Company pursuant to the Technology License Agreement entered into between Nabors Global and the Company on October 17, 2007 and the premises and promises, covenants and agreements contained in the Share Transfer Agreement. The "premises, covenants and agreements" contained in the Share Transfer Agreement referred to an overall settlement package between Nabors Group and the Group whereby the parties agreed that upon the transfer of 18% of the issued share capital of the Company by Ally Giant to Nabors International, Nabors Global would grant a technology license to the Company. The share transfer was completed on October 17, 2007.

The consideration of the above share transfer was determined based on (i) the proposal exchanged between the parties on the valuation of the Group between September 2006 and November 2006; (ii) the valuation of the Group agreed with Financial Investors in November 2006 and March 2007; and (iii) such factors

including the license of the technology and the promotion of our product image by Nabors Group and the inclination of Nabors Group to give more business opportunities to our Group after becoming a substantial Shareholder of our Company.

Nabors International is entitled to appoint an observer to the Board of Directors of our Company to attend all meetings of the Board in a non-voting capacity for so long as it remains a holder of any Shares of our Company, and our Company shall provide to such Board observer, concurrently with the Directors and in the same manner, notice of such meetings and copies of all materials provided to the Directors. This right will be terminated upon Listing. Nabors International has not appointed any observer to the Board of the Company. Neither the Company nor any of its subsidiaries has the present intention to appoint any additional directors to be nominated by Nabors Group, and there will be no change in the current management or strategic direction in any member of the Group in the foreseeable future.

Nabors International enjoys the same rights as the Financial Investors under the Investors' Rights Agreement : (a) pre-emptive rights in the new issue of shares (except for those issued under the Pre-IPO Share Option Scheme); (b) the right of first refusal for disposition of Shares; (c) tag-along rights to sell together with the Existing Shareholders pro rata their interest in the Company at the same price and on terms offered to the Existing Shareholders by the proposed purchaser; and (d) rights to receive business information from, budget for and financial statements of the Group and to have access to books and records of the Group. All these rights will be terminated upon Listing.

Nabors International is not allowed to transfer any Shares in our Company prior to the Listing. Following the Listing, any transfer of our Shares shall comply with applicable laws and regulatory requirements.

Nabors International and Ally Giant agreed that if the Listing is not completed by August 31, 2008, Nabors International shall be free to transfer its Shares at any time, provided that such transfer meets applicable legal requirements; and further provided that, for a period of two years after October 17, 2007, and if the Listing has not yet occurred, Nabors International shall not transfer its Shares to any person, other than one of its affiliates, without first offering, to Ally Giant the opportunity to purchase such shares on the same terms and conditions as the intended transfer and that Nabors International shall not sell all or any portion of its Shares at any time prior to the Listing to certain competitors of the Group.

Nabors International has the right to sell up to 5% of the Shares in our Company, without any lock-up, subject to the requirements of the Stock Exchange. Nabors International has confirmed that it will not exercise such right. With respect to the remaining Shares held by Nabors International, Nabors International has undertaken to our Company to be subject to a six-month lock-up period. In the event that the Stock Exchange requires a lock-up period in excess of six months, Nabors International will have preferential rights to sell its Shares during such longer lock-up period vis-a-vis any Controlling Shareholder. In such event, no Controlling Shareholder shall be permitted to sell its Shares without first offering to Nabors International the opportunity to sell all or any portion of its Shares.

Nabors International will be viewed as a group with Ally Giant after the Listing. The 18% equity (450,000,000 Shares) held by Nabors International will be subject to the lock-up requirement under Rule 10.07 of the Listing Rules.

Please refer to the "Undertakings" section under the "Underwriting" section of the Prospectus for details of the lock-up arrangements.

Nabors International has agreed that for so long as it owns more than 5% of the total issued and outstanding Shares of our Company, on a fully-diluted basis, neither Nabors International nor any of its affiliates shall own an equity interest of more than 5% of the total equity in certain competitors of the Group.

In consideration of the Ally Giant agreeing to transfer to Nabors International 18% of the issued share capital of the Company and the premises, promises and consideration contained therein, Nabors Global and the Company entered into the Technology License Agreement on October 17, 2007.

Nabors Global is a wholly-owned subsidiary of Nabors Industries and owns or has the right to use certain technology, rights, trade secrets, and confidential information pertaining to apparatii and methods for oil drilling and gas wells.

Principal terms of the Technology License Agreement are set out as follows:

Nabors Global grants to the Company, subject to the terms and conditions set forth therein, a personal, indivisible, nontransferable, nonexclusive, royalty-free license to use whatever conceptual drawings, module drawings, drilling position drawings, assembly drawings, specifications, written descriptions, manufacturing techniques, method of operations, know how, and engineering data information Nabors Global has or has the right to use with respect to the products, namely 2,000 HP API Offshore Platform Rig, 3,000 HP Land Drilling Rig, 1,500 meter Hybrid Coiled Tubing Rigs with Drill Pipe Capability using integrated Top Drive, MWD System, Workover Rig, jack-up rig, Barge Rig - 3000 HP and MASER 2000 HP platform rig (collectively, the "Technology") for the Group's own internal purposes in fabricating and producing equipment for sale to its customers and, except as provided in the Technology License Agreement, the grant of the licenses shall be on a worldwide basis.

The Company may not sublicense, lease or lend the Technology to others, save and except to any members of the Group.

The Company may not transfer, sell, pledge, or mortgage all or any portion of the Technology or subject matter claimed or embodied therein to others.

Nabors Global also grants an implied license to the Company's customers to use the Technology and the intellectual property rights of Nabors Global solely to the extent they are incorporated in the licensed products sold by the Group to its customers for their intended purpose.

Nabors Global represents, warrants and undertakes to the Company that to the extent provided in the Technology License Agreement, (a) it has full rights to license the Technology to the Company; (b) the use of the Technology for the purposes previously used by Nabors Global will not infringe the rights of any third party worldwide; (c) all documents and information provided pursuant to the Technology License Agreement in relation to the Technology supplied and to be supplied to the Company are true, accurate and complete copies of the documents in Nabors Global's possession and control and represent all documents and information Nabors Global has in its possession and control in respect of the Technology; and (d) the Technology has been used and applied by Nabors Global in the manner or manners at closing or within ten days of closing.

Except as expressly provided in the Technology License Agreement, Nabors Global makes no representations or warranties with respect to the Technology and expressly disclaims any and all warranties, express or implied, including without limitation any implied warranties of merchantability or fitness for purpose.

All improvements, enhancements and modifications of the Technology made or to be made by the Company during the term of the Technology License Agreement shall belong to the Company, and if made or to be made by Nabors Global shall belong to Nabors Global.

In return for the consideration described in the Settlement Agreement (together with the Share Transfer Agreement, the Technology License Agreement and other ancillary agreements, the "Previous Agreements") dated October 17, 2007 between Nabors International and Honghua Company, each of the parties, for and on

behalf of itself and its respective parent, subsidiary and affiliated companies, executed the Mutual Release on October 17, 2007 to release and discharge the other and their respective parent, subsidiary and affiliated companies, and the officers, agents, attorneys, directors, heirs, assigns, and employees of each, from any and all causes of action, suits, claims, demands, liabilities and obligations arising out of or related to their commercial relationship and arising prior to the date of the Mutual Release, including but not limited to claims arising out of the Previous Agreements; these claims also include, but are not limited to claims asserted, or which could have been asserted, by the parties in the Arbitration, whether such causes of action, suits, claims, demands, liabilities and obligations arise in law or in equity and whether known or unknown as of the date of either the Settlement Agreement or the Mutual Release. The parties have irrevocably agreed that they will not have any further demands or claims of any nature whatsoever against each other in respect of the Previous Agreements.

There are no special rights not generally available to all public Shareholders.

As a result of the above share transfer, Nabors International became one of our Shareholders, holding an aggregate of 18% of the issued and outstanding share capital of our Company before completion of the Global Offering and approximately 13.5% of the issued share capital of our Company upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. As Nabors International will hold more than 10% of the issued share capital of the Company immediately after the Global Offering, Nabors International will be a substantial Shareholder of our Company and thus, a connected person of our Company under the Listing Rules. Nabors International will not, therefore, be regarded a public Shareholder of our Company.

The parties have settled the dispute and Arbitration with, inter alia, the payment of the Agreed Amounts. As confirmed by the Company, no sales to Nabors Group have been written off or partially waived and all the outstanding receivable amounts due from Nabors Group had been fully collected from Nabors Group. As a result of the disputes and Arbitration since December 2005, apart from the purchase orders that had already been received, the Group received no purchase orders relating to rigs from Nabors Group. In 2006, a total of 45 rigs were sold and delivered to Nabors Group under the purchase orders placed by Nabors Group before 2006 and the total sales value thereunder was approximately RMB1,467,400. Despite the Group and Nabors Group reaching a settlement and entering into the Strategic Cooperation Agreement in November 2007, it may take some time for the parties to perform the terms therein.

Our Group has replenished the loss of Nabors Group's order by selling our drilling rigs to the Russian, Pakistan, Indonesian and Brazil markets in 2007. The number of drilling rigs sold to these markets has exceeded that sold to Nabors Group. For the period between 2006 and 2007, the Company has increasingly developed its international market with new customers. In 2006, the Company contracted with new customers for 22 rigs in the international market. From January to November 2007, the Company also contracted to sell 52 rigs in the international market, amongst which 46 rigs are sold under contracts with new customers.

At the same time, we have been successful in exploring new markets for the following reasons:-

(a) we have established production, sales and after-sales services operations base or have developed agency or partnership relationships in North America, the Middle East, Russia and Southeast Asia;

(b) our products are internationally competitive in terms of quality and price;

(c) our drilling rigs currently in operation globally have won us brand recognition;

(d) our Group can further develop and/or expand internationally without any restrictions after entering into the Settlement Agreement; in particular, the restrictions imposed on our Group to sell in the North America market were released.

Meanwhile, the Group has successfully developed other new markets since 2006, such as Russia, to capture the rising demand for rigs. For example, in the eight months ended August 31, 2007, we sold six rigs and rig parts and components amounting to RMB92,212,000 in the Russian market through Izhdrill-Honghua. In Egypt, we formed a joint venture, HH Egyptian Company with three Egyptian enterprises who are all Independent Third Parties. As of the Latest Practicable Date, Honghua Company has contracted with HH Egyptian Company to sell three rigs in 2007 and has entered into a memorandum of understanding to sell seven rigs to HH Egyptian Company in 2008. As a major base for the Company's manufacturing, selling and testing of rigs as well as after sale services in North Africa and adjacent regions, HH Egyptian Company is important to the market development of the Group. We received advance payments from HH Egyptian Company during the first eight months of 2007 in the sum of approximately RMB119,151,000 in respect of orders for digitally-controlled VFD rigs. Please refer to the "Formation of HH Egyptian Company" section in this Prospectus for details. The Directors have reviewed and confirmed that there is no material impact on the profit estimate for the year ended December 31, 2007 as a result of the disputes, Arbitration and settlement.

On November 3, 2007, to further strengthen the strategic business relationship, and to establish the framework for future cooperation, Nabors Group, through Nabors Industries, and our Group, through the Company, entered into a Strategic Cooperation Agreement.

Principal terms of the Strategic Cooperation Agreement are as follows:

(a) Our Group will be a preferred supplier of drilling rigs to Nabors Group and 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. Nabors Group will enter into discussions with our Group to manufacture one 3000 HP land rig, to be built in accordance with Nabors Group' specifications for its Middle East operation.

(b) Nabors Group grants our Group the status of a preferred supplier in its supply chain of spare and replacement parts and components, and supports our Group's desire to become a globally-competitive provider of spare and replacement parts and components for drilling rigs. Whenever there is a demand for parts and components, Nabors Group will first negotiate with the Group and will give preference to the Group provided that the products offered by the Group meet Nabors' requirements in terms of price, quality, terms and delivery and subject to the Group's production capacity.

(c) Nabors Group, as a strategic partner, agrees to discuss with Honghua Company, in good faith, the right to a leading role in the manufacture of the next new jack-up rig or platform rig that Nabors Group commissions.

(d) Our Group, as Nabors Group's strategic partner, to the extent possible, will provide Nabors Group with priority in production allocation, to meet Nabors Group's demand in drilling rigs.

(e) Nabors Group will enjoy our Group's favourable prices (provided that the pricing and other terms meet the requirements of the Stock Exchange and/or other applicable rules and regulations) for rig manufacture, after-sales services, and technical support. The "favourable price for rig manufacture and after-sale services and technical support" to be enjoyed by Nabors Group will be the same as that for other key customers. The Group will offer discounts to customers whose total purchases meet certain criteria prescribed by the Group.

(f) Each party will leverage its global customer network to promote the other's equipment and services, for both onshore and offshore operations.

(g) The parties will arrange for their own subsidiaries or affiliates to fulfill the Strategic Cooperation Agreement, in order that the parties can exploit the current fast growth in the petroleum industry, improve their competitive advantages, and benefit both parties' shareholders.

(h) Any transactions entered into by the parties will be subject to disclosure and approval requirements prescribed by the Listing Rules, and/or other applicable rules and regulations.

(i) The Strategic Cooperation Agreement will remain valid until it is terminated by either party with or without cause upon 60 days advance written notice provided to the other party.

The Strategic Cooperation Agreement is only an agreement setting out the parties' business relationship or arrangements in principle. There is no right, obligation or responsibility granted to the respective parties by our Group's status as the preferred supplier of Nabors Group. Notwithstanding this, provided that our Group can meet the technical standards and specifications required by Nabors Group and can offer satisfactory delivery, quality, warranty terms and prices desirable to Nabors Group, Nabors Group shall give priority to products from our Group and will consider purchasing from our Group at least 25% of Nabors Group's actual annual demand for the Group's products.

Upon Listing, the pricing policy will be determined in accordance with (i) the price set by the relevant governmental departments (if applicable); (ii) market price; (iii) independent valuation; and (iv) through negotiation. The Group will comply with Chapter 14A of the Listing Rules and other factors to be taken into account including whether (i) the transaction is in the ordinary course of business of the Group; (ii) the transaction is on normal commercial terms; and (iii) the terms are fair and reasonable and in the interests of the Shareholders as a whole.

As the oil and gas-related industry is highly volatile, the demand for rigs, parts and components and the price are subject to fluctuations. As at the Latest Practicable Date, the parties have not reached a definitive legally binding master agreement or agreement in similar nature and there is no agreed minimum annual purchase amount by Nabors Group or the anticipated portion of the Group's productivity capacity that will be allocated to Nabors Group's orders pursuant to the Strategic Cooperation Agreement. Nabors Group has verbally indicated that whenever Nabors Group places purchase orders for rigs, parts and components, it will first enquire of the Group concerning price, quality, delivery and production capacity. If the Group can meet Nabors Group's requirements, Nabors Group will purchase the rigs, parts and components from the Group.

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. The purchase of the Group's products by Nabors Group is in fact an indication of confidence of the Group's ability to manufacture rigs, parts and components of satisfactory quality to be accepted by a leading player in this industry. Nabors Group does not significantly participate in the business of manufacturing and sale of rigs, or spare parts, and is in fact the end-user of the Group's products. To the best knowledge, information and belief of the Directors and having made all reasonable enquires, the Group is not in any potential competition with Nabors Group and there is no non-competition restriction after settlement with Nabors Group. On the other hand, as our Substantial Shareholder and strategic partner, we believe Nabors Group will bring us the technology that we currently do not have and promote our product image. In addition, the equity investment aligned Nabors Group's interests with our interests, thus ensuring Nabors Group, the largest land drilling contractor in the world, will be more inclined to give business opportunities to our Group.

The Group and Nabors Group are working on a detailed business plan and a post-settlement business arrangement. Following the Listing, any transaction to be entered into between the Group and Nabors Group will constitute a connected transaction of the Company under the Listing Rules. Upon execution of a definitive legally binding master agreement or agreement in similar nature between the parties, the Company will take actions as appropriate in compliance with all requirements under Chapter 14A of the Listing Rules.

Management Continuity

Listing Rules

Pursuant to Rule 8.05(1) of the Listing Rules, to meet a profit test, a new applicant must have an adequate trading record under substantially the same management and ownership. Rule 8.05(1)(c) of the Listing Rules provides that the new applicant or its group must, among other criteria, satisfy 'management continuity for at least the three preceding financial years'.

Honghua Company

Honghua Company was established in the PRC on December 31, 1997, and conducts the principal activities of manufacturing petroleum equipment. Since Honghua Company was the first company in the Group, all the decisions for purchases, production, sales and marketing, research and development and finance are made in Honghua Company, while other subsidiaries, namely, Youxin Company, Honghua International, Hongtian Company, Honghua America, Lucky Wish, Golden Coast Company and HH Egyptian Company, follow the decisions and directions of Honghua Company.

Below is a summary of the management continuity of Honghua Company during the Track Record Period.

As of January 1, 2004	As of August 17, 2006	As of March 9, 2007	As of November 30, 2007	As of the Latest Practicable Date
Zhang Mi (Chairman)	Zhang Mi (Chairman)	Zhang Mi (Chairman)	Zhang Mi (Chairman)	Zhang Mi (Chairman)
Ren Jie	Ren Jie	Ren Jie	Ren Jie	Ren Jie
Zhang Xu	Zhang Xu	Zhang Xu	Zhang Xu	Zhang Xu
Wang Yaoxin	Wang Yaoxin	Wang Yaoxin	Wang Yaoxin	Wang Yaoxin
Deng Meng	Liu Zhi	He Sean Xing	He Sean Xing	He Sean Xing
Song Shuqing	Zheng Yong	Wang Qi	Xiang Qingsheng	Xiang Qingsheng
Zhi Rongmu				
Shi Shuming				

As of January 1, 2004, the commencement of the Track Record Period, the board of directors of Honghua Company consisted of eight members, Zhang Mi, Ren Jie, Zhang Xu, Wang Yaoxin, Deng Meng, Song Shuqing, Zhi Rongmu and Shi Shuming. Among them, only Zhang Mi, Ren Jie and Zhang Xu, who are members of the Concert Group, and executive directors of Honghua Company; while the other directors, Wang Yaoxin, Deng Meng, Song Shuqing, Zhi Rongmu and Shi Shuming, were non-executive directors and did not participate in the overall business, strategy, operational management and decision-making of Honghua Company during the Track Record Period.

On August 17, 2006, shareholders' resolutions were passed to approve the resignation of Deng Meng, Song Shuqing, Zhi Rongmo and Shi Shuming as non-executive directors of Honghua Company and the appointment of Liu Zhi and Zheng Yong as executive directors of Honghua Company, all with effect from the date thereof. The board of directors of Honghua Company then consisted of six members, namely Zhang Mi, Ren Jie, Zhang Xu, Liu Zhi and Zheng Yong, as executive directors and Wang Yaoxin, as non-executive director.

On March 9, 2007, Asia Harbour, as the sole shareholder of Honghua Company, approved the resignation of Liu Zhi and Zheng Yong as executive directors of Honghua Company and appointed He Sean Xing and Wang

Qi, nominees of the Financial Investors, (Carlyle Funds and DPF respectively), as non-executive directors. Upon such appointments, the board of directors of Honghua Company consisted of six members, namely, Zhang Mi, Ren Jie and Zhang Xu, as executive directors and Wang Yaoxin, He Sean Xing and Wang Qi, as non-executive directors. None of the non-executive directors of Honghua Company have participated in the daily operations and management of Honghua Company.

On November 30, 2007, Asia Harbour approved the resignation of Wang Qi as non-executive director of Honghua Company and appointed Xiang Qingsheng as non-executive director of Honghua Company with effect from that date. The board of directors of Honghua Company then comprised six members, namely Zhang Mi, Ren Jie and Zhang Xu, as executive directors and Wang Yaoxin, He Sean Xing and Xiang Qingsheng, as non-executive directors.

Honghua Company has been the principal operating subsidiary of the Group and the main profit contributor to the Group, during the Track Record Period. At all times during the Track Record Period, Zhang Mi, Ren Jie and Zhang Xu have been executive directors of Honghua Company and have actively participated in the daily operations and management.

Youxin Company

Youxin Company was established in the PRC on August 7, 1998, and has conducted the principal activity of manufacturing parts for drilling rigs.

Below is a summary of the management continuity of Youxin Company during the Track Record Period.

As of August 23, 2006	As of December 8, 2006	As of the Latest Practicable Date
Zhao Ping (Chairman)	Zhao Ping (Chairman)	Zhao Ping (Chairman)
Dai Huayin	Ren Jie	Ren Jie
Liu Hongbin	Zhang Changlun	Zhang Changlun

As of August 23, 2006, the date of completion of the acquisition of a 80% equity interest of Youxin Company by Honghua Company, the board of directors of Youxin Company consisted of three members, namely, Zhao Ping, Dai Huayin and Liu Hongbin, all executive directors.

On December 8, 2006, shareholders' resolutions were passed to approve the resignation of Dai Huayin and Liu Hongbin as executive directors of Youxin Company, and the appointment of Ren Jie as non-executive director and Zhang Changlun as executive director of Youxin Company with immediate effect. The board of directors of Youxin Company then consisted of Zhao Ping and Zhang Changlun, as executive directors, and Ren Jie, as a non-executive director.

Youxin Company has, to date, followed the directions and decisions of Honghua Company in operating, managing and running its business. Honghua Company has not, therefore, as yet, nominated further representatives to the board of Youxin Company but reserves the right to do so at a later date should it consider that further control of Youxin Company is required.

Honghua International

Honghua International was established in the PRC on January 13, 2004, and has conducted the principal activity of trading in drilling rigs and related parts.

Below is a summary of the management continuity of Honghua International during the Track Record Period.

As of January 13, 2004 (being the first directors)	As of the Latest Practicable Date
Zhang Mi (Chairman)	Zhang Mi (Chairman)
Ren Jie	Ren Jie
Liu Zhi	Liu Zhi
Zuo Huixian	Zuo Huixian
Liu Xuetian (who passed away on January 23, 2008)	Liu Xuetian (who passed away on January 23, 2008)
Di Xiaohong	Di Xiaohong
Luo Qiping	Luo Qiping

Since its establishment on January 13, 2004, Zhang Mi, Ren Jie, Liu Zhi, Zuo Huixian, Liu Xuetian (deceased), Di Xiaohong and Luo Qiping have been members of the board of directors of Honghua International.

Hongtian Company

Hongtian Company was established in the PRC on June 6, 2001, and has conducted the principal activities of manufacturing and sales of drilling rigs.

Below is a summary of the management continuity of Hongtian Company during the Track Record Period.

As of August 22, 2006	As of December 8, 2006	As of the Latest Practicable Date
Zhang Cong (Chairman)	Zhang Cong (Chairman)	Zhang Cong (Chairman)
Zeng Xianglong	Liu Zhi	Liu Zhi
Qu Xiaolan	Wang Jiangyang	Wang Jiangyang

As of August 22, 2006, the date of completion of the acquisition of 80% equity interest of Hongtian Company by Honghua Company, the board of directors of Hongtian Company consisted of Zhang Cong, Zeng Xianglong and Qu Xiaolan, all executive directors.

On December 8, 2006, shareholders' resolutions were passed to approve the resignation of Zeng Xianglong and Qu Xiaolan as executive directors of Hongtian Company, the appointment of Liu Zhi as non-executive director and Wang Jiangyang as executive director. The board of directors of Hongtian Company then consisted of Zhang Cong, and Wang Jiangyang, as executive directors, and Liu Zhi, as non-executive director.

Although Honghua Company did not appoint more directors to control the board of Hongtian Company after the acquisition, we believe that Honghua Company will have sufficient control over Hongtian Company, since the board of directors of Hongtian Company has, in fact, followed the directions and decisions of Honghua Company in operating, managing and running its business.

Honghua America

Honghua America was established in the State of Texas, US, as a limited partnership on October 11, 2004 and converted into a limited liability company on December 19, 2006. It has conducted the principal activities of assembling and selling drilling rigs and various parts and components.

Below is a summary of the management continuity of Honghua America during the Track Record Period.

As of October 11, 2004 (being the first director)	**As of the Latest Practicable Date**
Zhang Mi (Chairman)	Zhang Mi (Chairman)

Since its establishment on October 11, 2004, Zhang Mi has been the sole director of Honghua America.

Lucky Wish

Lucky Wish was incorporated in the BVI with limited liability on February 2, 2005, and has conducted the principal activity of selling drilling rig parts.

Below is a summary of the management continuity of Lucky Wish during the Track Record Period.

As of December 5, 2005 (being the first director)	**As of the Latest Practicable Date**
Liu Zhi	Liu Zhi

Liu Zhi, a Substantial Shareholder and member of the Concert Group, has been the sole Director of Lucky Wish, since the acquisition of the entire issued share capital of Lucky Wish, on December 5, 2005.

Golden Coast Company

Golden Coast Company was incorporated in the United Arab Emirates with limited liability on November 28, 2006 and has conducted the principal activity of selling drilling rigs and related parts.

There is no board of directors of Golden Coast Company. Pursuant to a board resolution of Honghua International dated March 26, 2006, Ma Limin was appointed general manager of Golden Coast Company, effective from its incorporation on November 28, 2006.

HH Egyptian Company

HH Egyptian Company was incorporated in Egypt with limited liability on April 24, 2007 and has conducted the principal activities of manufacturing and sales of drilling rigs.

Below is a summary of the management continuity of HH Egyptian Company during the Track Record Period.

As of April 26, 2007 (being the first directors)	As of the Latest Practicable Date
Zhang Mi	Zhang Mi
Xu Chuan	Xu Chuan
Liu Zhi	Liu Zhi
Liu Chi	Liu Chi
Mohamed Hamed Abd Alla El Gohary	Mohamed Hamed Abd Alla El Gohary
Akram Hatem Abdalla Mohamed	Akram Hatem Abdalla Mohamed
Ramadan Mahmoud Abdalla Bakry	Ramadan Mahmoud Abdalla Bakry

On April 26, 2007, shareholders' resolutions were passed to approve the appointment of Zhang Mi, Xu Chuan, Liu Zhi, Liu Chi, Mohamed Hamed Abd Alla El Gohary, Akram Hatem Abdalla Mohamed and Ramadan Mahmoud Abdalla Bakry, directors of HH Egyptian Company with immediate effect.

Based on the above facts and circumstances, we believe that the requirement of management continuity, under Listing Rule 8.05(1)(b), has been satisfied. Throughout the Track Record Period and up to the time of the Listing, the same management team, led by the executive directors, being the management team who have had the greatest impact on the trading record results of the Group, have continued to serve on the board of Honghua Company and its key operating subsidiaries.

Ownership Continuity and Control

Listing Rules

Pursuant to Rule 8.05(1) of the Listing Rules, a new applicant must have an adequate trading record under substantially the same management and ownership. Rule 8.05(1)(c) of the Listing Rules requires a new applicant or its group to have "ownership continuity and control for at least the most recent audited financial year".

Honghua Company

Concert Group

On June 19, 2003, for the purpose of better management and operation and stable development of Honghua Company, Zhang Mi, the chairman of Honghua Company (who has been a shareholder of Honghua Company since its establishment) and 22 other individual shareholders, namely, Ren Jie, Liu Zhi, Zheng Yong, Zuo Huixian, Zhang Xu, Wang Jiangyang, Chen Jun, Fan Bing, Zhang Yanyong, Ao Pei, Tian Diyong, Shen Dingjian, Liu Xuetian (deceased), Zhou Bing, Lu Lan, Tian Yu, Li Hanqiang, Liu Yingguo, Liu Lulu, He Guangfu, Zhang Zongyou and Chen Zongliang, being core members of the operational, management or technical personnel of Honghua Company entered into an oral agreement (the "Oral Agreement"), pursuant to which they formed the Concert Group, with the intention of consolidating the control of Honghua Company. Pursuant to the Oral Agreement, the Concert Group agreed to act in concert to control or exercise their voting rights in managing and operating Honghua Company. The Directors have confirmed that all senior members of operational, management or technical personnel who held equity interests in Honghua Company at that time joined as parties to the Oral Agreement. According to King & Wood, our PRC legal advisors, the Oral Agreement was legal, valid and legally enforceable against the members of the Concert Group. The Concert Group in total held an approximately 35.438% equity interest in Honghua Company on June 19, 2003.

With the growth in size and sophistication of Honghua Company, members of the Concert Group recognised the need for the Oral Agreement to be reduced to writing. On October 9, 2005, all members of the Concert Group entered into a written agreement (the "Written Undertaking") (the Oral Agreement and Writing Undertaking, collectively, the "Acting in Concert Arrangement"), to expressly define the fundamental principles and purposes of the Concert Group, to delineate the consensus building and voting mechanisms of the Concert Group, and to enhance their control of Honghua Company. The Written Undertaking provided that:

(a) each member of the Concert Group shall use his/her best endeavors to coordinate and consolidate their opinions on the proposed resolutions at shareholders' meetings and Board meetings:

    (i) for voting at Board meetings, Zhang Mi, together with two designated directors, namely, Ren Jie and Zhang Xu (the three together being the "Board Representatives") (who have all been shareholders of Honghua Company since its establishment), shall use their best endeavours to coordinate and formulate the views and opinions of members of the Concert Group, to come up with a unanimous voting decision; and

    (ii) for voting at shareholders' meetings, the Board Representatives shall first coordinate and come up with a conclusion on voting among themselves, and when a conclusion is reached, other members of the Concert Group shall use their best endeavours to coordinate and follow the voting decision proposed by the Board Representatives; and

(b) each member of the Concert Group is entitled to express his/her views or opinions concerning the proposed resolutions, and if (i) approval of the other members of the Concert Group has been obtained, and (ii) the eventual voting result is not adversely affected, then such member of the Concert Group may vote at his/her own discretion.

On May 16, 2007, each of the Board Representatives signed a confirmation letter affirming that they had always complied with the Acting In Concert Arrangement.

In the said confirmation letters, each of Zhang Mi, Ren Jie and Zhang Xu confirmed that:

(i) pursuant to the Acting In Concert Arrangement, the three Board Representatives would coordinate, consolidate and formulate a consensus conclusion and a voting decision, before submitting any proposed resolution to the shareholders' meetings of Honghua Company.

(ii) due to the long-term, close, collaborative relationship of the Board Representatives, they have coordinated and come up with a conclusion on voting on every proposed resolution during the shareholders' meetings of Honghua Company for the benefit of Honghua Company; and

(iii) to the best knowledge, information and belief of each of the Board Representatives, each member of the Concert Group has never deviated, or attempted to deviate, from the consensus building and voting mechanism, in a way that would contradict or breach the Acting In Concert Arrangement.

The members of the Concert Group also signed confirmation letters dated May 16, 2007 stating that, since the formation of the Concert Group on June 19, 2003, the Board Representatives have always succeeded in reaching a conclusion on voting on every proposed resolution in the shareholders' meetings of Honghua Company. To the best knowledge, information and belief of each member of the Concert Group, the Concert Group has never failed to reach a conclusion. In addition, no resolution would be proposed at a shareholders' meeting, without a conclusion first being reached among the Board Representatives. Once a consensus conclusion was reached and presented to members of the Concert Group, each member of the Concert Group was

obliged to follow the voting decision. A Concert Group member was allowed to express his/her views on proposed resolutions specifically concerning his/her personal interest and vote at his/her own discretion only in cases where he/she satisfies the pre-conditions referred to in (b) above.

All members of the Concert Group have attended regular shareholders' meetings, and the members have reached consensus on key decisions and exercised a unanimous voting pattern on all of the proposed resolutions at the shareholders' meetings of Honghua Company, since the formation of the Concert Group, except for the following two instances.

(a) on April 1, 2005, Zhang Xu voted on three proposed resolutions concerning (i) a profit distribution proposal for the year 2003 and profit distribution proposal for the year 2004, (ii) an operational plan and investment proposal for the year 2005, and (iii) a financial budget for the year 2005, by signing his name in both "For" and "Against" fields and writing his comments in the "Against" field. Zhang Xu confirmed in his letters dated April 11, 2007, and May 16, 2007 that he had no intention to deviate from the voting direction of the Concert Group. Having first coordinated with the other Board Representatives and reached a consensus voting decision, and then having obtained concurrence of other members of the Concert Group, and knowing that the eventual voting result would not be adversely affected, he wanted to express his personal view on the said proposed resolutions, and he voted in accordance with the Acting In Concert Arrangement;

(b) on January 7, 2006, recognising that the eventual voting decision proposed by the Board Representatives would not be adversely affected, and having obtained concurrence of other members of the Concert Group, three members of the Concert Group, namely Zuo Huixian, Liu Xuetian (deceased) and Zhou Bing, voted against the proposed resolution concerning an equity repurchase. Zhou Bing and Zuo Huixian in their confirmation letters both dated April 9, 2007 and Liu Xuetian (deceased) in his confirmation letter dated April 11, 2007, confirmed that none of them had any intention to deviate from the voting direction of the Concert Group, and having obtained concurrence of the other members of the Concert Group and knowing that the eventual voting result would not be adversely affected, wanted to express a personal view on the purchase price and voted in accordance with the Acting In Concert Arrangement.

In the above two instances, all the individuals concerned strictly complied with the spirit and the letter of the rules of the Concert Group. Specifically, in each instance:

(i) there was a consultation and consensus building process before voting;

(ii) the individuals had obtained the approval of other members of the Concert Group, before expressing their personal views on the proposed resolutions; and

(iii) it was established in advance that their votes would not adversely affect the eventual voting results.

The voting pattern of shareholders' meetings of Honghua Company since the formation of the Concert Group, indicates that members of the Concert Group have, in fact, always exercised their voting rights in Honghua Company in an agreed and coordinated manner.

The members of the Concert Group confirmed in their letters dated May 16, 2007, that no member had ever deviated or attempted to deviate from the consensus or voting mechanism in a way that would go against or breach the agreement in the Acting In Concert Arrangement. This held true even in the above two instances where members of the Concert Group did not vote in exactly the same way as other members. Such voting still fell within the agreement of the Acting In Concert Arrangement.

Zhang Xu, Zuo Huixin, Liu Xuetian (deceased) and Zhou Bing each confirmed in their respective confirmation letters that whilst they did not vote in exactly the same way as the other members of the Concert Group in these above two instances, they did satisfy the above conditions of the Acting In Concert Arrangement,

and did not attempt to act against the Acting In Concert Arrangement. No member of the Concert Group has ever acted independently without seeking the prior concurrence of the other members of the Concert Group or acted in any way that was detrimental to the consensus building and voting mechanism under the Acting In Concert Arrangement. All members of the Concert Group voted in the same manner on all resolutions proposed at the shareholders' meetings subsequent to January 7, 2006.

The rules of the Concert Group, for the consensus building and voting mechanism set out above, effectively provide an outlet for the public expression by its members of their personal opinions specifically concerning their personal interest, without calling into question the authority or integrity of the Concert Group as a whole. The above two instances are merely instances when members of the Concert Group took advantage of the opportunity provided under this mechanism, to express their personal opinions specifically concerning their personal interest without questioning the legitimacy or purpose of the Concert Group and without jeopardising the general inclination and direction of the Concert Group. In any event, except for these two instances, all other decisions have been made with unanimous consent of all members of the Concert Group and no member of the Concert Group has ever attempted to exercise his or her voting rights independently. Pursuant to the Acting in Concert Arrangement, members of the Concert Group have actively cooperated to obtain and will continue to actively cooperate to consolidate control of Honghua Company through their combined voting rights.

Members of the Concert Group have developed long-term mutual trust and bonding among themselves. Eleven of the twelve founding individual shareholders of Honghua Company belong to the Concert Group, holding an approximately 29.28% equity interest in Honghua Company upon its establishment in December 1997.

Most members of the Concert Group have been core members of the operational, management, or technical personnel of the Group and have built up close and long-term relationships with each other and with the Group companies. Details of the members of the Concert Group, their date of joining the Group and their respective positions within the Group are set out as follows:

Honghua Company

Name	Date of joining the Group	Current position in Honghua Company
Zhang Mi	December 31, 1997	Chairman and General Manager
Ren Jie	December 31, 1997	Director and Deputy General Manager
Zhang Xu	December 31, 1997	Director and Director of Finance (財務部主任)
Fan Bing	December 31, 1997	Director of Asset and Property Department (資產物業部主任)
Liu Xuetian (deceased)	December 31, 1997	Manager of Engineering Services Department (工程服務公司經理) before he passed away on January 23, 2008
Chen Jun	December 31, 1997	Director of Technical Centre of Research and Development, Chengdu (技術中心成都研發部主任)
Liu Yingguo	December 31, 1997	Senior Technician of Engineering Services (工程服務公司高級技師)
Lu Lan	December 31, 1997	Assistant Director of Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所主任助理)
Liu Lulu	December 31, 1997	Assistant Director of Technical Centre (技術中心辦公室主任助理)
Shen Dingjian	October, 1998	Assistant Director of Storage and Transport (儲運部主任助理)
Zheng Yong	November 1, 1998	Director of Plant No. 2 (二分廠主任)
Tian Diyong	November 1, 1998	Director of Technical Centre of Research of Drilling Equipment (技術中心鑽采裝備研究所主任)
Li Hanqiang	November 1, 1998	Chief Engineer of Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所主任工程師)
Tian Yu	October 31, 1999	Vice head of department in the Technical Centre of Research of Drilling Equipment (技術中心鑽採裝備研究所副所長)
Liu Zhi	November 16, 2000	Deputy General Manager

Youxin Company

Name	Date of joining the Group	Current position in Youxin Company
Ren Jie	December 31, 1997	Director

Honghua International

Name	Date of joining the Group	Current position in Honghua International
Zhang Mi	December 31, 1997	Chairman
Liu Zhi	November 16, 2000	Director and General Manager
Ren Jie	December 31, 1997	Director
Zuo Huixian	December 31, 1997	Director and Chief Financial Officer (財務負責人)
Liu Xuetian (deceased)	December 31, 1997	Director before he passed away on January 23, 2008
Zhou Bing	October, 1998	Deputy General Manager

Hongtian Company

Name	Date of joining the Group	Current position in Hongtian Company
Liu Zhi	November 16, 2000	Director
Wang Jiangyang	October 1, 1998	Director and Deputy General Manager
Zuo Huixian	December 31, 1997	Director of Finance Department (財務部主任)

Honghua America

Name	Date of joining the Group	Current position in Honghua America
Zhang Mi	December 31, 1997	Chairman and Director
Zhang Yanyong	December 31, 1997	President
Ao Pei	November 1, 1998	Treasurer

HH Egyptian Company

Name	Date of joining the Group	Current position in HH Egyptian Company
Zhang Mi	December 31, 1997	Director
Liu Zhi	November 16, 2000	Director

Subsequent to the signing of the Written Undertaking on October 9, 2005, there were three transfers of equity interest in Honghua Company, within the members of the Concert Group.

Zhang Zongyou and Chen Zongliang entered into an equity transfer agreement with Zhang Mi, the Chairman, Executive Director and a core member of the Concert Group, for the transfer of 3.136% and 2.262% equity in Honghua Company, respectively, for a consideration of RMB3,861,739.31 and RMB2,786,135.71. He Guangfu, the mother-in-law of Zheng Yong, entered into an equity transfer agreement with Zheng Yong, for the transfer of a 3.734% equity interest in Honghua Company, for a consideration of RMB784,480.

These equity transfers were completed on February 17, 2006, when Zhang Zongyou, Chen Zongliang and He Guangfu ceased to be shareholders of Honghua Company. Their decision to sell their interests in Honghua

Company was occasioned by their retirement from Honghua Company. As they were no longer employed by Honghua Company, they no longer had any interest in participating in the Concert Group, and therefore, they wished to liquidate their investment. They did so by the sale of their equity interest in Honghua Company to other existing members of the Concert Group.

Notwithstanding the transfer of equity interest within the members of the Concert Group, the overall percentage of equity interest in Honghua Company held by the members of the Concert Group remained unchanged and the transfers in fact resulted in a consolidation of the equity interest in Honghua Company to the core members of the Concert Group. This in turn strengthened the Concert Group's overall control of Honghua Company.

The eight founding members of the Concert Group retained their equity interest in Honghua Company and other than Liu Xuetian who passed away on January 23, 2008, remained its core members. These actions served to emphasize the loyalty of the members of the Concert Group and the close and long-term relationship developed among them for the ten years during which they jointly invested in and developed Honghua Company.

The Board Representatives formed part of the core members of the Concert Group. Given their close bond and long-term relationship, the Board Representatives were able to coordinate, resolve and formulate consensus conclusions and voting decisions in the best interests of Honghua Company.

The summary below shows the shareholding changes in Honghua Company since January 1, 2006, which was the beginning of the most recent audited full financial year of the Company (details of these changes are provided above).

Date	Shareholder	Approximate equity interest
January 1, 2006 (the beginning of the most recent audited full financial year of the Company)	Huasheng Oil Company	16.336%
	Concert Group	38.139%
	14 other shareholders	45.524%, ranging from approximately 0.270% to approximately 5.811%
	Total:	100%
April 26, 2006 (capital reduction and equity repurchases)	Huasheng Oil Company	24.615%
	Concert Group	57.469%
	3 other shareholders	17.917%, ranging from approximately 0.407% to approximately 8.755%
	Total:	100%
June 28, 2006 (capital reduction and equity repurchases)	Concert Group	99.297%
	1 other shareholder	0.703%
	Total :	100%
August 17, 2006 (capital increase)	Concert Group	82.419%
	14 other shareholders	17.581%
	Total:	100%
December 12, 2006 (Upon completion of equity transfers and capital increase)	Asia Harbour	100%

Asia Harbour was incorporated in Hong Kong with limited liability on July 8, 2006. At the time Asia Harbour acquired 100% of the equity interest in Honghua Company from its 34 shareholders (including the Concert Group) in August, 2006, Asia Harbour was wholly-owned by Ally Giant, which in turn was wholly-owned by Ample Chance, which in turn was owned by Ally Smooth, Charm Moral, Beauty Clear, Believe

Power, Benefit Way and Birdview, all BVI-incorporated companies as to approximately 36%, 19.09%, 18.51%, 12.71%, 10.50% and 3.19%, respectively. The ultimate owners of Ally Smooth, Charm Moral, Beauty Clear, Believe Power, Benefit Way and Birdview were the same 34 shareholders as those of Honghua Company. The shareholdings of these 34 shareholders in Ally Giant, through those BVI companies, are in proportion to their equity interests in Honghua Company.

Ally Smooth was wholly-owned by Zhang Mi. Charm Moral was owned by three individuals, Ren Jie, Liu Zhi and Zheng Yong, as to approximately 41.34%, 29.33% and 29.33%, respectively. Beauty Clear was owned by seven individuals, Zhang Cong, Zuo Huixian, Zhang Xu, Zhao Ping, Wang Jiangyang, Chen Jun and Ma Limin, as to approximately 24.58%, 23.63%, 22.77%, 13.43%, 5.76%, 5.10% and 4.73%, respectively. Believe Power was owned by nine individuals, Fan Bing, Zhang Yanyong, Luo Qiping, Liu Gangqiang, Chen Zhen, Ao Pei, Tian Diyong, Shen Dingjian and Tian Daoyun, as to approximately 32.72%, 29.16%, 12.59%, 7.55%, 5.66%, 5.53%, 2.85%, 2.24% and 1.68%, respectively. Benefit Way was owned by thirteen individuals, Liu Xuetian (deceased), Zhou Bing, Di Xiahong, Xu Chuan, Lu Lan, Liu Yonghong, Tian Yu, Li Hanqiang, Tang Ying, Liu Yingguo, Li Ping, Di Baiwei and Liu Lulu, as to approximately 35.57%, 19.36%, 8.74%, 7.27%, 6.49%, 6.35%, 3.91%, 3.50%, 3.03%, 1.52%, 1.52%, 1.52% and 1.22%, respectively. Birdview was wholly-owned by Yang Hong.

Among these named Shareholders, twenty are members of the Concert Group, namely, Zhang Mi, Ren Jie, Liu Zhi, Zheng Yong, Zuo Huixian, Zhang Xu, Wang Jiangyang, Chen Jun, Fan Bing, Zhang Yanyong, Ao Pei, Tian Diyong, Shen Dingjian, Liu Xuetian (deceased), Zhou Bing, Lu Lan, Tian Yu, Li Hanqiang, Liu Yingguo and Liu Lulu.

On October 29, 2007, 12 individual shareholders transferred their entire interests in certain BVI holding companies, to other BVI companies, which in turn are wholly held by the Equity Trustee, as trustee of the family trusts established by the ultimate owners of the BVI companies for their family members. Details are provided in the sub-section entitled "Formation of Asia Harbour as an investment holding company" in this section of the Prospectus. This trust arrangement also means that Liu Xuetian's death does not affect ownership continuity.

Details of the shareholdings in each of the above BVI companies, and their effective ownership interests in the Company, immediately before the Global Offering, are as follows:

Ally Smooth

Shareholder	Approximate shareholding in Ally Smooth	Approximate effective interest in the Company immediately before Global Offering
Wealth Afflux Limited	100.00%	36.00%
Total:	**100.00%**	**36.00%**

Charm Moral

Shareholder	Approximate shareholding in Charm Moral	Approximate effective interest in the Company immediately before Global Offering
Mowbray Worldwide Limited	41.34%	7.89%
Ecotech Enterprises Corporation	29.33%	5.60%
Zheng Yong	29.33%	5.60%
Total:	**100.00%**	**19.09%**

Beauty Clear

Shareholder	Approximate shareholding in Beauty Clear	Approximate effective interest in the Company immediately before Global Offering
Cavendish Global Corporation	22.77%	4.21%
Vast & Fast Corporation	23.63%	4.37%
Wang Jiangyang	5.76%	1.07%
Chen Jun	5.10%	0.94%
Otama Company Limited	24.58%	4.55%
Airtech Investments Limited	13.43%	2.49%
Ma Limin	4.73%	0.87%
Sub-total:	*42.74%*	*7.91%*
Total:	**100.00%**	**18.51%**

Believe Power

Shareholder	Approximate shareholding in Believe Power	Approximate effective interest in the Company immediately before Global Offering
Brondesbury Enterprises Limited	32.72%	4.16%
Zhang Yanyong	29.16%	3.71%
Ao Pei	5.53%	0.70%
Tian Diyong	2.85%	0.36%
Shen Dingjian	2.24%	0.29%
Oriental Starz Limited	12.59%	1.60%
Tech Express Enterprises Inc.	7.55%	0.96%
Chen Zhen	5.66%	0.72%
Tian Daoyun	1.68%	0.21%
Total	**100.00%**	**12.71%**

Benefit Way

Shareholder	Approximate shareholding in Benefit Way	Approximate effective interest in the Company immediately before Global Offering
Dobson Global Inc.	35.57%	3.73%
Darius Enterprises Limited	19.36%	2.03%
Lu Lan	6.49%	0.68%
Tian Yu	3.91%	0.41%
Li Hanqiang	3.50%	0.37%
Liu Yingguo	1.52%	0.16%
Liu Lulu	1.22%	0.13%
Di Xiaohong	8.74%	0.92%
Xu Chuan	7.27%	0.76%
Liu Yonghong	6.35%	0.67%
Tang Ying	3.03%	0.32%
Li Ping	1.52%	0.16%
Di Baiwei	1.52%	0.16%
Total	**100.00%**	**10.50%**

Birdview

Shareholder	Approximate shareholding in Birdview	Approximate effective interest in the Company immediately before Global Offering
Yang Hong	100.00%	3.19%
Total	**100.00%**	**3.19%**

Except for Birdview, which is wholly-owned by Yang Hong, who in turn owns a minority interest of approximately 3.19% in the Company, members of the Concert Group own or control a majority shareholding in each of the BVI companies (whether held personally, or indirectly through the BVI companies, by Equity Trustee, as trustee of their family trusts). These are 100% in Ally Smooth, 100% in Charm Moral, approximately 57.26% in Beauty Clear, approximately 72.50% in Believe Power, and approximately 71.57% in Benefit Way. There shareholdings consolidate the control of an aggregate of approximately 53.32% shareholding in the Company before completion of the Global Offering. Members of the Concert Group can control the Company, by their control of the BVI companies and the Acting in Concert Arrangement.

Members of the Concert Group entered into the Oral Agreement and the Written Undertaking, on June 19, 2003, and October 9, 2005, respectively to establish the consensus building and voting mechanisms. Pursuant to the Acting in Concert Arrangement, the Concert Group held regular meetings, reached consensus on key decisions, had consistent voting patterns, and acted as a unit in the management and control of Honghua Company, since June 19, 2003.

Except for the Chairman, who has held a 36% equity interest in Honghua Company since August 17, 2006, neither Huasheng Oil Company, nor any individual shareholder of Honghua Company, has held a controlling interest in Honghua Company at any time during the most recent audited full financial year (2006). Huasheng Oil Company has never held a majority shareholding in Honghua Company in 2006. The Directors, having made all reasonable enquiries, save and except for the Concert Group, no group of shareholders in Honghua Company has been formed (formally or otherwise) to control or exercise their voting rights on any proposed resolution in any agreed manner. The Concert Group has been the Controlling Shareholder of Honghua Company at all times since its formation.

As confirmed by the Chairman, Zhang Mi, in his confirmation letter dated May 16, 2007, to his knowledge and belief, since the formation of the Concert Group on June 19, 2003, there has never been (a) a single largest shareholder or single largest group of shareholders (except for the Concert Group) in Honghua Company; (b) the Acting In Concert Arrangement has continued to be operative after he became the single largest shareholder of Honghua Company on June 28, 2006, and the Controlling Shareholder on August 17, 2006; and (c) the Acting In Concert Arrangement will remain in effect after the Reorganization and the Listing. Zhang Mi has further confirmed in the said confirmation letter that he has not exercised or attempted to exercise his voting rights independently, without the concurrence of other members of the Concert Group, since the formation of the Concert Group on June 19, 2003, and has no intention of doing so in the foreseeable future. The Directors have confirmed that the Concert Group has been the controlling shareholder of Honghua Company at all times since its formation.

Pursuant to the Takeovers Code, persons acting in concert comprise persons, who pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control of a company through the acquisition by any of them of voting rights of the company and unless the context otherwise requires, control shall be deemed to mean a holding, or aggregate holdings, of 30% or more of the voting rights of a company, irrespective of whether that holding or holdings gives de facto control.

Based on the above analysis, we are of the view that the Concert Group would be regarded as acting in concert for the purpose of the Takeovers Code.

Share transfer to Nabors International

On October 17, 2007, pursuant to the Share Transfer Agreement, Ally Giant transferred 18% of the issued share capital in our Company on a fully diluted basis, exclusive of any options granted or shares issued pursuant to the approved share option scheme or shares to be issued pursuant to the Listing to Nabors International in consideration of license of the technology granted by Nabors Global to the Company pursuant to the terms and conditions of the Technology License Agreement dated October 17, 2007 made between Nabors Global and the Company and the premises and promises, covenants and agreements contained in the Share Transfer Agreement. The share transfer was completed on October 17, 2007.

As a result of the above share transfer, Nabors International became one of our Shareholders holding an aggregate of 18% of the issued share capital of our Company up to immediately before completion of the Global Offering and approximately 13.5% issued shares of our Company immediately upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Ally Giant remained a Shareholder holding approximately 64.7% of our issued share capital up to immediately before completion of the Global Offering and approximately 49% of the issued share capital of our Company immediately upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The transfer of 18% shareholding in our Company will not adversely affect our ownership continuity or the control requirements under Rule 8.05(1)(c) of the Listing Rules. In relation to the lock-up requirement under Rule 10.07 of the Listing Rules, we are of the view that Nabors International would be viewed as a group with Ally Giant after the Listing.

For details of our relationship with Nabors International, please refer to the section entitled "Strategic Investor".

Overview

We are a manufacturer of land drilling rigs and rig parts and components. In addition, we offer drilling-related training as well as after-sales support services to our customers. For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, our revenue amounted to RMB539.3 million, RMB501.6 million, RMB2,335.9 million and RMB1,518.6 million, while our profit attributable to equity shareholders of the Company amounted to RMB32.2 million, RMB18.5 million, RMB412.8 million and RMB201.1 million, respectively.

We were the second largest land rig manufacturer in the world and the largest in China in terms of revenue and production volume in 2006, according to the Independent Technical Report contained in Appendix V of this Prospectus. We design, manufacture and sell drilling rigs for use in the exploration and production of oil and gas, by drilling down to oil and gas reservoirs located in a variety of geological formations and at considerable depths.

In addition to drilling rigs, we manufacture rig parts and components for our own use in the production of our own rigs, as well as for external sales. Our external rig parts and components sales consist primarily of mud pumps. Mud pumps are used to circulate drilling fluid through a rig's circulation system. We also produce and sell, among other things, masts, substructures, drawworks, VFD drive systems and solids control systems. For a detailed description of this equipment, please refer to the section entitled "Glossary of Technical Terms" of this Prospectus. We also produce and sell rig parts and components in the form of offshore drilling modules for offshore platforms. Sales of rig parts and components accounted for approximately 13.1%, 13.5%, 12.8% and 17.5% of our revenue for the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, respectively.

We procure raw materials (e.g., steel) and certain rig parts and components which we do not produce (e.g., diesel engines and AC variable-frequency motors) from external suppliers. We currently source almost all the raw and processed steel we need from five domestic suppliers based in Chongqing and Chengdu. We typically source rig parts and components that we do not produce ourselves through local distributors from manufacturers located in the United States, Finland, and Germany.

A substantial portion of our revenue is generated from exports. We are one of the largest land rig exporters in China in terms of revenue and sales volume. Our leading exported rigs are digitally-controlled land rigs, which are priced higher than our conventional land rigs. Our main customers in the overseas market are major multinational oil and gas drilling companies and contractors such as Nabors Group. For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, revenue from exports amounted to approximately RMB15.0 million, RMB158.1 million, RMB1,949.8 million and RMB829.9 million, accounting for approximately 2.8%, 31.5%, 83.5% and 54.6%, respectively, of our total revenue.

We have established a diversified global marketing network, with sales offices in North America, the Middle East and Africa, and have developed partnerships with local distributors in Russia and other regions such as Asia. There has been growing international demand for our rigs from the emerging markets in Russia, the Middle East, Africa and Latin America. In an effort to meet demand from these markets, we have begun to assemble rigs in the USA and Egypt, and plan to manufacture certain rig parts and components in Egypt.

The Chinese market has been an important and stable source of demand for our rigs over the past three years. Most of our customers in China are drilling companies owned by large Chinese oil and gas companies with whom we have established long-term and stable relationships. Some notable examples of these customers are the following, all of which are subsidiaries of CNPC or Sinopec: Material and Equipment Department of China

Petroleum & Chemical Corporation, Changqing Petroleum Administration Bureau, Material Co. of Sichuan Petroleum Administration Bureau, and China Petroleum Technology & Development Corporation. For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, we sold 31, 28, 32 and 31 rigs, respectively, in the Chinese market.

Company Background

We began our business as a privately-owned land rig manufacturer in 1998. As part of our Reorganization, we incorporated a company in the Cayman Islands, Honghua Group Limited, on June 15, 2007, which became the holding company of our various operating subsidiaries based in China and other countries. As of the date of this Prospectus, our major shareholders include our own top management and key technical personnel, as well as our strategic and Financial Investors, such as COOS and Carlyle Funds.

For details of our Reorganization, please refer to the section entitled "Company History and Reorganization" in this Prospectus.

Competitive Strengths

We offer a large and diversified range of drilling equipment, together with support services.

We offer our customers a comprehensive supply of customized drilling rigs, rig parts and components, and training as well as follow-up support services. Our diverse line of drilling rig products ranges from heavy 9,000-meter depth drilling rigs to light 1,000-meter depth drilling rigs and offshore drilling modules. We also realize earnings from the sale of rig parts and components, which are either used for replacement or refurbishment purposes in the existing drilling rig market, or sold to other drilling rig manufacturers. Our customer services include training at our main production facility in China and after-sales technical support administered at our customers' drilling sites by a team of experienced engineers.

We are a low-cost manufacturer of high-performance, quality land rigs.

We believe that we provide high-performance, quality drilling rigs at a lower cost than our international competitors, allowing for increased price competitiveness and greater profit margins. We are able to maintain a low cost structure due to our integrated approach to the manufacturing of rigs and rig parts and components, our proximity to a supply network of parts and components and raw materials, and our large scale of production.

We produce rigs utilizing many of the world's leading rig technologies, such as those used in our digitally-controlled VFD rigs. We have implemented the ISO 9001 system and the API quality standard to ensure effective quality control of our products. We believe that our integrated approach to the manufacturing of select parts and components and the manufacturing of rigs ensures a high level of quality and guarantees reliable delivery of rig orders, thus encouraging repeat business from existing customers.

We have an established global marketing network.

We have a diverse global marketing network that includes our overseas affiliates in Houston, Texas (USA), Cairo (Egypt) and Dubai (UAE), as well as our local distributor networks in other key drilling rig markets, such as Russia and Indonesia. Our subsidiary in Houston assembles and sells our drilling rigs and rig parts and components to drilling contractors based in North America and Latin America. We believe that this provides a sound base for further expansion in the North American and Latin American markets. In Egypt, we have formed a joint venture with three enterprises to increase our market share in Africa. Our subsidiary in Dubai serves our customers across the Middle East. In Russia and Indonesia, our close relationships with local distributors have helped us enhance our presence in the oil and gas drilling equipment markets within these countries.

We have advanced technological and engineering expertise and a track record of developing successful new technologies.

We are one of the leading developers of land rig technologies in China, and we have created a wide range of patented technologies and proprietary designs which enhance the function and performance of our rigs. We are strongly committed to strengthening the global competitiveness of our rigs and rig parts and components. We have focused on research and development, assembling a team headed by leading Chinese experts in the oil and gas equipment industry. As a result of our dedication to technological innovation, we have successfully developed globally-competitive products such as our digitally-controlled VFD rigs which, since being developed in 2001, have become our best selling rigs. More recently, we have developed low-temperature tolerant rigs (高寒鑽機) for the Russian market, semi-trailer drilling rigs for the markets in the USA, the Middle East and India, and digitally-controlled offshore drilling modules for the offshore drilling market.

We have an experienced and dedicated management team.

We are able to quickly adapt to changing trends in the regional and global drilling markets because our top management and key technical personnel are major shareholders, who are involved in the everyday operations and have first-hand knowledge of the latest market developments through direct customer contact. All of these individuals have extensive experience in the drilling equipment industry; Chairman Zhang, in particular, has over 20 years of experience in the industry. Our strategic shareholder, COOS through its parent Company, CNOOC, actively supports and participates in our Company's marketing and product development for offshore drilling products. CNOOC, founded in 1982, is one of the largest state-owned oil companies in China, as well as China's largest offshore oil and gas producer. It is authorized to cooperate with foreign partners for oil and gas exploitation in China's offshore areas. We have an established record of rapid growth, from a relatively-small land rig manufacturer in China to the second largest in the world and the largest in China in terms of revenue and production volume in 2006, within a period of 10 years.

Business Strategies

Increase our production capacity

We plan to raise our annual rig production capacity, from 86 rigs in 2006, to 150 rigs by 2008. We also intend to increase our annual mud pump production capacity, from 410 pumps in 2006, to 500 pumps by 2008. Upon completion of these expansions, we expect that our site in Sichuan will become the world's largest single manufacturing base for land rigs, by production capacity, making our company more competitive by virtue of economies of scale. In order to improve market penetration and reduce transportation costs, we plan to utilize our international joint ventures to manufacture rigs locally in selected emerging markets, such as Egypt.

Expand our global marketing platform to increase sales

We plan to take advantage of the global demand for rig upgrades, refurbishments and replacements, as well as the demand for new rigs in emerging markets. We aim to strengthen and expand our presence in several key international markets, including North America, Russia, the Middle East and Africa. Our goal is to accelerate the development of our overseas affiliates in these markets by making them regional hubs, capable of assuming responsibility for: marketing, direct sales and managing logistics, assembling integrated rigs and providing training, technical services, repairs and replacements. To increase our sales in emerging markets, we plan to establish ten or more additional distribution and service networks within the major oil and gas producing regions of Latin America (particularly Brazil), India and Southeast Asia.

Further improve the technology and innovation of our product lines

We are committed to developing new product technologies that increase sales and margins, provide a broader range of products and expand our market share in key target markets. The development of our top drive units and 12,000-meter depth offshore drilling rig module are in progress. We plan to complete the development of our top drive units for the Russian and Chinese markets by the end of September 2008. We also expect to develop semi-trailer-rig units for the Russian and Canadian markets, as well as rigs capable of withstanding extreme arctic temperatures (極地鑽機) for the Russian market and desert temperatures for the Middle Eastern market.

Enter into the offshore drilling rig manufacturing market

We plan to increase our sales of offshore drilling modules for 4,000-meter depth offshore drilling rigs, used on offshore drilling platforms. We sold two 4,000-meter depth offshore drilling modules to CNOOC in 2006 and 2007. We expect to produce offshore drilling modules for 7,000 to 12,000-meter depth offshore drilling rigs, including modules for newly built or refurbished jack-up rigs, semi-submersible rigs and drill ship rigs. We expect that further development of our offshore drilling modules will pave the way for our future entry into the manufacturing of offshore drilling platforms and jack-up rigs. We are in the process of planning the construction of a new offshore equipment manufacturing base in China, to produce jack-up rigs and fixed rigs. We believe that this will allow us to extend our existing rig manufacturing capability into the high-demand offshore drilling rig market.

Expand our business through acquisitions, joint ventures or business alliances

We will consider suitable opportunities to enter into strategic alliances, joint ventures or acquisitions that provide synergies or otherwise strengthen our current market-leading position. We believe that our relationships with many industry participants and our knowledge of the oilfield service equipment industry allows us to understand industry trends, technological developments and applications of oil equipment technologies, which will assist us in making decisions regarding such alliances, ventures or acquisitions. While we currently do not have any firm plans for strategic alliances, joint ventures or acquisitions, we will seek and exploit opportunities to expand into manufacturing of other parts and components or other oilfield service equipment segments which are related to the oil and gas drilling process.

Our products have been sold to Nabors Group since 2005, and we have chosen to participate in the global supply chain of Nabors Group since then. The currency of sales to Nabors Group is USD. For the years ended December 31, 2005, December 31, 2006 and August 31, 2007, our sales to Nabors Group amounted to RMB89.6 million, RMB1,493.9 million and RMB490.5 million, respectively. With a view to strengthening our relationship with Nabors Group, and as part of our future plans to increase our production volume of rigs and rig equipment, it is our intention to explore ways to cooperate with Nabors Group in the development, manufacturing and sale of, among other things, offshore platform rigs, land drilling rigs, tubing rigs, workover rigs, jack-up rigs and barge rigs. On October 17, 2007, Nabors Group and the Company entered into a "the Technology License Agreement". Pursuant to the Technology License Agreement, the parties agreed to cooperate in the development and production of drilling rig equipment, to be manufactured and sold by us to customers in the PRC and overseas.

We believe that the technical know-how used with respect to the 2000HP offshore platform rig (which meets the API standards), 3000HP land drilling rig, coiled tubing rig, MWD system, workover rig, jack-up rig, barge rig and MASE platform rig granted under the Technology License Agreement can contribute to the Group's financial position by improving our profit margins and enhance our product diversification in the following manners:

(1) enhance our research and development capability by increasing our knowledge base;

(2) shorten our research and development time line required to launch new products;

(3) broaden our land drilling rig product types; and

(4) accelerate our expansion into the offshore drilling rig markets.

Products

We design, manufacture and sell drilling rigs and related parts and components, for use in the exploration and production of oil and gas. The following table reflects the percentage of our total revenue contributed by each product type for the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2006, and 2007.

	Year ended December 31,						Eight months ended August 31,			
	2004		2005		2006		2006		2007	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	(unaudited) RMB'000	% of revenue	(unaudited) RMB'000	% of revenue
Sale of drilling rigs	468,783	86.9%	433,976	86.5%	2,037,272	87.2%	718,432	85.2%	1,253,349	82.5%
Sale of parts and components	70,482	13.1%	67,594	13.5%	298,676	12.8%	124,398	14.8%	265,298	17.5%
	539,265		501,570		2,335,948		842,830		1,518,647	

For definitions of technical terms, please refer to the section entitled "Glossary of Technical Terms" in this Prospectus.

Drilling rigs

Drilling rigs can generally be divided into two categories: land rigs and offshore rigs. Although our focus has historically been on manufacturing land rigs, we also manufacture drilling modules for offshore platforms and are currently in the early phases of developing our offshore rig manufacturing capabilities. Both land and offshore drilling rigs have similar rig systems, though their sizes and capabilities vary.

Drilling rigs are designed to drill down to oil and gas reservoirs in a variety of geological formations and at considerable depths. During drilling, rigs suspend a long and heavy drill string, consisting of a line of connected drill pipes and a drill bit, down into the well hole. The drill string is turned by a rotating system, which consists of a rotary table in the drill floor that spins the drill pipe, and the swivel, which connects the drill pipe to the mud circulation system. Drilling mud is a man-made fluid, which is pumped at high pressure down the drill pipe during drilling, in order to lubricate the drill bit, remove cuttings and circulate them to the surface, and maintain down-hole pressure to keep the well bore stable. Mud is pumped by this method down into the hole by large, high-powered mud pumps, which act as the heart of the circulation system. The solids control unit is also an important part of this system, as it removes the cuttings and solid materials from the drilling mud, so that the mud can be recycled and sent back into the circulation system.

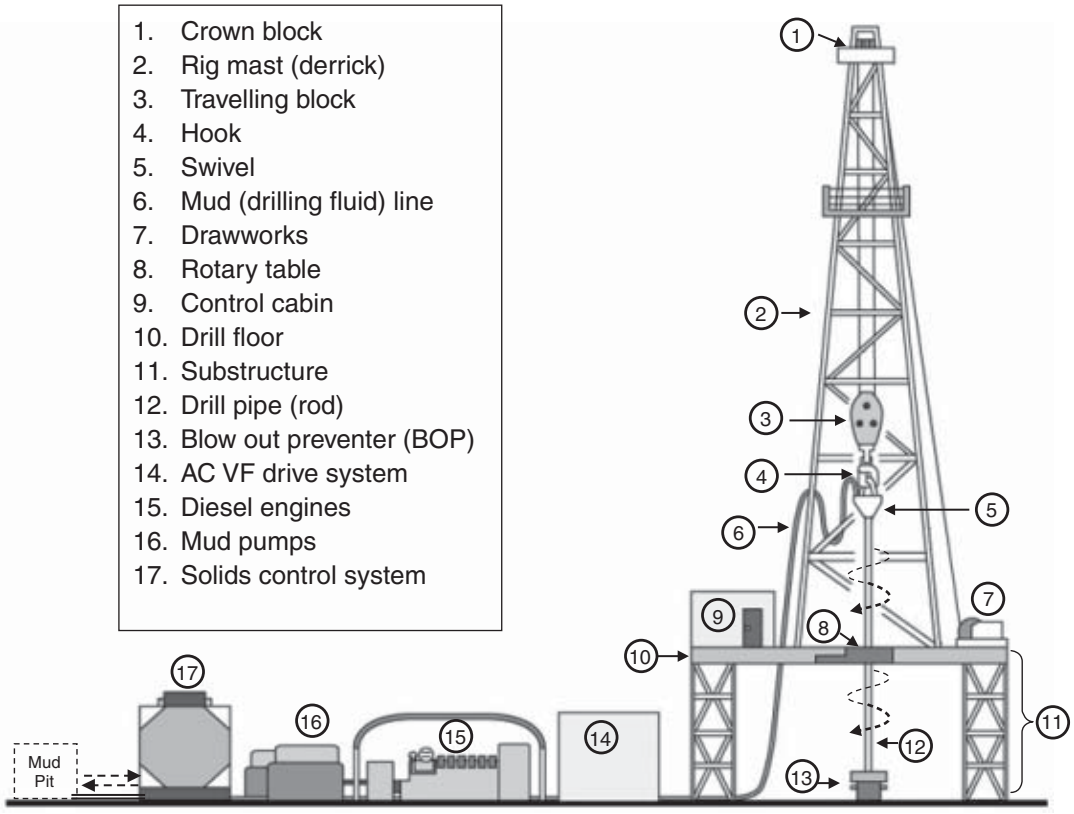
In order to hold and move the heavy drill string, a strong hoisting system is necessary. This consists of drawworks, which act as a large winch to lower and raise cable lines that run to the fixed pulley block on top of the rig mast (or crown block), and down to the suspended travelling block. The travelling block acts as a pulley-block and is attached to the hook, which holds the swivel and drill string.

A rig must be equipped with a large rig mast (or "derrick") to support the weight of the long drill string required in deep drilling as well as to allow for vertical piling and insertion of a drill pipe. The lifting capacity of the drawworks is measured in horsepower and is often used, in addition to drilling depth, in categorizing land rigs. In general, as the depth of a drilling rig's design increases, the rig bearing load becomes heavier, the horsepower increases, and the rig equipment becomes heavier.

Large power systems are needed to drive the rotary table, drawworks, and mud pump. Traditionally, rigs used mechanical or diesel engines to power all three such units by a direct mechanical connection. In the 1970's, DC-powered (diesel to AC to DC) electric engines, commonly known as "SCR" rigs, were developed and became quite common. Though these are still widely used, in recent years, the safer and more dynamic AC VFD-powered (diesel to AC) electric engines have become popular as the more advanced drive system. Electrical-powered rigs are more expensive, but have many operational and safety benefits over their mechanical predecessors. Some drilling rigs have a single power system to drive the rotary table, drawworks and mud pump; others, called electromechanical rigs, use mechanical diesel power to run the mud pump and an electric engine to run the rotary table and drawworks. The most advanced land rigs today use a single AC VFD system to run all three units.

Most offshore rigs and some land rigs have a top drive system installed on the rig, which serves as the primary rotating system of the drill string. The system is essentially a rotary motor, which is held up by the hoist system on top of the drill string, in the position where the swivel and travelling block sit on a traditional rig. The top drive system is more advanced than the rotary table and allows for greater ability of directional drilling and an ability to continue turning the drill string while tripping, or pulling in and out of the hole. This allows for greater efficiency in the drilling process, as well as an extra level of safety while tripping.

The following diagram summarizes the key components of an electromechanical rig, which utilizes a diesel engine to run the mud pump and an AC VFD electrical system to drive the rotary table and drawworks.



Note: This diagram is for illustrative purposes only; it is neither complete nor to scale.

We manufacture a wide range of land rigs, from heavy rigs capable of deep drilling (5,000 to 9,000 meters), to medium-sized rigs for moderate drilling depths (3,000 to 4,000 meters), to lighter rigs, economically-designed for shallower drilling (1,000 to 2,000 meters). Demand for our rigs is primarily focused on our medium to heavy rigs, in the 3,000 to 7,000-meter drilling-depth range, which is indicative of the global drilling market requirements for deep rig drilling capacity. Rig types are typically classified according to horsepower in the international market and according to depth in the PRC market. Based on depth ranges and horsepower, we have sold or received orders for the following rigs since 2004.

Rig Sales By Depth and Horsepower ("hp")

Drilling Depth (m)	Drawworks (hp)	For the three years ended December 31, 2004	2005	2006	Rigs contracted to be delivered before December 31, 2007[1]	Rigs contracted to be delivered after December 31, 2007
1,000	<500	—	—	1	—	—
2,000	500	—	—	1	5	—
3,000	600-800	2	2	23	17	—
4,000	900-1300	5	5	8	12	6
5,000	1400-1900	12	18	39	23	31
7,000	2000-2600	13	7	10	32	11
9,000	4,000					1
Total		**32**	**32**	**82**	**89**	**49**

Note: (1) includes orders delivered in 2007 and orders to be delivered in 2007.

Our Drilling Rig Classes

Since our establishment in 1998, we have focused on developing and manufacturing land drilling rigs and rig parts and components. We currently manufacture two general classes of drilling rigs:

- Digitally-controlled land rigs, or rigs that utilize real-time digital feedback, instrumentation and control during the drilling process, all of which are technologies we developed in 2001; and
- Conventional land rigs, or rigs that utilize traditional, standard-technology instrumentation and control during the drilling process.

Digitally-Controlled Land Rigs

Our digitally-controlled land rigs are our most sophisticated and popular rigs. This class of rig integrates digital measurement, automatic feedback and control through a computer, which allows the technician to operate the rig from a centralized digital control system. It utilizes our own patented digitally-controlled weight-on-bit (WOB) auto-bit-feedback device, which allows a high degree of precision in measuring and controlling the WOB during the drilling process. The digitally-controlled land rig has several advantages over its conventional counterparts, including automated feedback of down-hole drilling data while drilling, directional drilling capabilities, more accurate and systematic control over the drilling process, a lower risk of drilling accidents which commonly occur under manual operation, lower maintenance requirements and greater energy efficiency during operations. This class includes two primary model types:

- The digitally-controlled VFD rig (DBS), which utilizes a single alternating current variable frequency electric motor for its drive systems; and
- The trailer drilling rig (DT/DBST), which is a variation of the digitally-controlled VFD rig, which can be disassembled onto a semi-trailer for ease of transportation.

The digitally-controlled land rig is popular with drilling companies that operate in complex geological conditions or require superior control and time efficiency during the drilling process. It is our leading rig class for export, but it has also become popular with our domestic buyers. Our revenue from digitally-controlled land rig sales amounted to RMB206.2 million, RMB193.6 million, RMB1,536.9 million, and RMB1,015.7 million, and accounted for 44.0%, 44.6%, 75.4% and 81.0% of our total annual rig sales, respectively, for the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007.

Digitally-Controlled VFD Rigs (DBS)

Our digitally-controlled VFD rig (DBS) was launched in 2001 and has since become our most popular rig in terms of revenue. A single alternating current variable frequency motor-drive powers the drawworks, rotary table and mud pump, is capable of gearless speed regulation, and has better control than mechanical drives. This rig provides better working conditions for rig operators, including an independent control cabin, which can be hydraulically lifted and is not attached to the drill floor. It can be equipped with a rig-moving device, which allows it to move quickly between wells and is thus suitable for cluster well drilling. We offer the digitally-controlled VFD rig in a full range of light to heavy rig designs, from a drilling depth of 2,000 meters (500 horsepower) to 9,000 meters (4,000 horsepower). The main customers for this rig type are international drilling companies and Chinese drilling companies operating abroad, that require high-tech rigs for a variety of drilling operations. We estimate that this rig class accounts for approximately 50% of the current global market demand for land rigs.

We also sell an electromechanical compound drive rig (DBS-L(J)), which is a variation of the digitally-controlled VFD rig. It utilizes an alternating current variable frequency motor-drive for gearless speed regulation of the drawworks and rotary table, but utilizes a less expensive mechanical drive for the mud pump. The main customers for this type of rig are Chinese drilling companies that conduct drilling operations within China.

Trailer Drilling Rig (DT/DBST)

Our digitally-controlled trailer drilling rig (DT/DBST) is the most sophisticated and expensive of our rigs. It has all the functions of a digitally-controlled VFD rig, including the use of a single alternating current variable frequency motor-drive as a drive system, but is also mobile and can be disassembled onto a semi-trailer for ease of transportation. The mast telescopes and the substructure, are lifted hydraulically, allowing for easy rig assembly and disassembly within one day, compared to the four to five days required by our other rig types, thus saving drilling companies time and costs. This makes the trailer drilling rig suitable for low to medium depth drilling, which requires a relatively short drilling time. We offer this rig in a medium-size rig design, from a drilling depth of 4,000 meters (1,300 horsepower) to 5,000 meters (1,600 horsepower). The main customers for this type of rig are Chinese drilling companies or international drilling contractors, that have drilling operations in the Middle East.

Conventional Land Rigs

Our conventional land drilling rigs utilize more traditional technology in their instrumentation and control systems and are less expensive than our digitally-controlled rigs. These rigs are popular among drilling providers who generally operate in less challenging geological conditions or work in a low-cost drilling service market. We offer three types of drilling rigs in this rig class, which are grouped according to their motor drive systems:

- The mechanical rig with independent electrical drive rotary table (LDB), which uses an alternating current variable frequency electrical drive for the rotary table and a mechanical drive for its other works;

- The DC rig (D), which uses a single direct current electrical drive system for the drawworks, rotary table and mud pump; and

- The mechanical rig (L), which uses a strictly diesel-powered drive system for the drawworks, rotary table and mud pump and is the least expensive of the rigs we produce.

Our revenue from conventional land rigs amounted to RMB262.6 million, RMB240.4 million, RMB500.4 million and RMB237.7 million, and accounted for 56.0%, 55.4%, 24.6% and 19.0% of our total annual rig sales, respectively, for the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007.

Mechanical Rig with Independent Electrical Drive Rotary Table (LDB)

Our mechanical rig with independent electrical drive rotary table (LDB) utilizes an alternating current variable frequency motor drive for gearless speed regulation of the rotary table and a mechanical drive for the drawworks and mud pump. As a result, it is approximately 40% less expensive than the digitally-controlled VFD rig and is regarded by many of our clients as having the best performance-to-price ratio among the land rigs we manufacture. This particular rig is not suitable for cluster well drilling, as the mechanical drive for the drawworks and mud pump make it difficult to move freely between the well pads. We offer this rig in a light-to-heavy rig design, from a drilling depth of 3,000 meters (750 horsepower) to 7,000 meters (2,000 horsepower).

The main customers for our mechanical rig are Chinese drilling companies that conduct drilling operations within China. This rig type was our second-best-selling rig in 2005 and in 2006, in terms of sales volume.

DC Rig (D)

The DC Rig (D) is equipped with a single DC-powered motor drive and is capable of gearless speed regulation of the rotary table, drawworks and mud pump. It is approximately 10% to 15% less expensive than the digitally-controlled VFD rig, but lacks the drilling precision, power and control of a DBS rig. This rig type, commonly known in the market as an "SCR" rig, first entered the drilling rig market in the 1970's and remains popular among those customers who are familiar with and prefer more traditional rig designs. We offer this rig in a medium-to-heavy rig design, from a drilling depth of 5,000 meters (1,500 horsepower) to 7,000 meters (2,000 horsepower). The main customers for the DC rig are Chinese oil and gas field service companies that conduct drilling operations within China.

Mechanical Rig (L)

The least expensive of our rigs, the mechanical rig (L), employs various diesel drive modes for the drawworks, rotary table and mud pump. It is normally used for drilling production wells in more mature oil basins, as such wells require drilling rigs with only basic functions and less accuracy, compared to what is needed for exploration wells or more advanced production wells. We offer this rig in a light-to-heavy rig design, from a drilling depth of 3,000 meters (750 horsepower) to 7,000 meters (2,000 horsepower). The main customers for this type of rig are Chinese drilling companies that provide services in China. Our mechanical rig was our third best selling rig in 2005 and in 2006, in terms of sales volume.

Our digitally and conventionally-controlled land rig lines and their design and performance specifications are summarized below.

Summary of Land Rig Specifications

		Drilling Depth (m)	Drawworks (hp)	Maximum load (tons)	Mud Pumps (hp)	Drive Mode			Production lead time (months)
						Rotary table	Drawworks	Mud pump	
Digitally-controlled VFD Rigs									
DBS	ZJ20DBS	2000	500	135	1x 800	AC	AC	AC	4.5
	ZJ30DBS	3000	750	170	2x1000	AC	AC	AC	5
	ZJ40DBS	4000	1300	225	2x1300	AC	AC	AC	5
	ZJ50DBS	5000	1600	315	2x1600	AC	AC	AC	5.5
	ZJ70DBS	7000	2600	450	3x1600	AC	AC	AC	5.5
	ZJ90DBS	9000	4000	675	2x2200 / 3x1600	AC	AC	AC	6
DBS-L(J)	ZJ40DBS-L(J)	4000	1300	225	2x1300	AC	AC	Chain(belt)	5
	ZJ50DBS-L(J)	5000	1600	315	2x1300	AC	AC	Chain(belt)	5
DT/DBST	ZJ40DBST	4000	1300	225	2x1300	AC	AC	AC	5.5
	ZJ50DBST	5000	1600	315	2x1600	AC	AC	DC (SCR)	6
Conventionally-controlled Land Rigs									
LDB	ZJ30LDB/ZPD	3000	750	170	1x1300	AC	Chain Chain AC	Chain Chain AC	4
	ZJ50LDB/ZPD	5000	1500	315	2x1300	AC	Chain Chain AC	Chain Chain AC	4.5
	ZJ70LDB/ZPD	7000	2000	450	2x1600	AC	Chain Chain AC	Chain Chain AC	5
D	ZJ50D	5000	1500	315	2x1300	DC(SCR)	DC(SCR)	DC(SCR)	5.5
	ZJ70D	7000	2000	450	2x1600	DC(SCR)	DC(SCR)	DC(SCR)	5.5
L	ZJ30L	3000	750	170	2x1000	Chain	Chain	Chain	4
	ZJ40L	4000	1000	225	2x1300	Chain	Chain	Chain	4
	ZJ50L	5000	1500	315	2x1300 / 2x1600	Chain	Chain	Chain	4.5
	ZJ70L/LC	7000	2000	450	2x1600	Chain	Chain	Chain	4.5

Breakdown of land rig sales

The following table summarizes our land rig sales, according to rig class and type, during the three years ended December 31, 2004, 2005 and 2006, as well as the number of orders received and sales booked as of August 31, 2007.

Sales by Rig Type

	For the three years ended December 31,			Rigs delivered before December 31, 2007[1]	Rigs contracted to be delivered after December 31, 2007
	2004	2005	2006		
Digitally-controlled VFD Rigs					
Digitally-controlled VFD (DBS)	11	4	48	46	34
Trailer (DT/DBST)	—	2	2	6	—
Subtotal	11	6	50	52	34
Conventionally-controlled Land Rigs					
Mechanical with Rotary Table (LDB)	11	7	16	16	—
DC (D)	—	2	3	5	8
Mechanical (L)	10	17	13	16	6
Subtotal	21	26	32	37	14
Total	**32**	**32**	**82**	**89**	**48**

Note: (1) includes orders from Nabors for 15 DBS rigs that were delivered by the end of May, 2007.

The following table summarizes the basic specifications and numbers sold of our five best-selling rigs, for the three years ended December 31, 2004, 2005 and 2006, as well as the number of rigs contracted to be delivered before December 31, 2007, and contracted to be delivered after December 31, 2007.

Top Five Rigs Sold or Contracted to be Delivered

Rigs		Drilling depth (m)	Drawworks (hP)	2004	2005	2006	Rigs delivered before December 31, 2007	Rigs contracted to be delivered after December 31, 2007
1	ZJ50DBS (Digitally-Controlled VFD)	5,000	1,600	2	4	32	18	30
4	ZJ30DBS (Trailer)	3,000	750	1	0	15	16	—
2	ZJ70LDB (Mechanical/Electrical)	7,000	2,600	5	6	7	16	—
3	ZJ50L (Mechanical)	5,000	1,500	4	9	4	5	—
5	ZL40L (Mechanical)	4,000	1,000	2	5	8	9	4
	Total			**14**	**24**	**66**	**64**	**34**

The following table summarizes the price range of domestic sales and exports of our rigs during the Track Record Period. The differences between the prices of domestic sales and exports exist as a result of:

(1). certain international customers required more complete sets of drill rig systems, which included more expensive top drives or drilling bits than those required by domestic customers;

(2). certain international customers required more expensive brands of parts and components for their rig systems than domestic customers; and

(3). prices for international orders included higher transportation costs than domestic orders.

Price Range of Rig Sales

Rig Type	Price range of domestic sales in the Track Record Period	Price range of exports in the Track Record Period
	(RMB'000)	(USD'000)
Digitally-controlled VFD Rigs		
ZJ30DBS	5,580	2,270-2,700
ZJ40DBS	9,770-15,280	—
ZJ50DBS	10,640-40,230	3,300-7,520
ZJ70DBS	20,750-41,520	7,950-18,600
ZJ40DBST		2,700-5,580
ZJ50DBST	31,030	—
Conventionally-controlled Land Rigs		
ZJ30LDB/ZPD	8,250	—
ZJ50LDB/ZPD	6,310-19,760	—
ZJ70LDB/ZPD	7,140-23,110	3,650
ZJ40D		
ZJ50D	6,390-12,380	—
ZJ70D		7,380-8,780
ZJ30L	4,770-6,940	—
ZJ40L	4,030-12,350	—
ZJ50L	5,710-12,010	2,460
ZJ70L	7,050-9,590	1,330

Rig parts and components

We manufacture rig parts and components, for internal use in the assembly of our integrated rigs and for external sales. Our main rig parts and components, in terms of revenue generated, are mud pumps, masts, substructures, drawworks, VFD drive systems and solids control systems.

While different types of rigs require different parts and components, almost all rigs contain the following four major systems:

- a hoisting system, which is used to raise, lower and suspend equipment in the well. This system consists mainly of a crown block, traveling block, hook, drawworks and mast, all of which are components that we manufacture and sell.

- a rotating system, which is used to cut the initial hole of the well. This system consists mainly of a swivel and rotary table, both of which are components that we manufacture and sell.

- a circulating system, which pumps drilling mud in and out of the well. This system consists mainly of the mud pump, drilling fluid manifold and solids control system, all of which we manufacture and sell.

- a power system, which supplies power to the rig. This system consists mainly of the engine, which we source from external suppliers, and associated control equipment, such as VFD drive systems, SCR and MCC, all of which we manufacture and sell.

Mud pumps accounted for 5.0%, 45.1% and 48.4% of our revenue from the rig parts and components segment in the three years ended December 31, 2004, 2005, 2006, respectively.

The following table contains sales figures for mud pumps.

	Year ended December 31,			Mud pumps delivered before
	2004	2005	2006	December 31, 2007
Production volume (units)	6	47	410	n/a
External sales (units)	6	32	191	106

The following table shows the types of parts and components that we produce. It is categorized according to the four major systems of a rig, and other parts and components.

Hoisting system	Crown block, Travelling block, Hook, Mast, Drawworks
Rotating system	Swivel, Rotary table
Circulating system	Mud pump, Drilling fluid manifold, Solids control systems
Power system	VFD, SCR, MCC, Diesel-engine generator set control system, Drilling site standard electricity supply control system, Electrical drive system
Other parts and components	Substructure, Driller control cabin of DBS drilling rig, Electromagnetic eddy current brake, Automatic pipe transport system, Low-temperature tolerant drilling rig heating system, Drilling house

Mud pumps

Mud pumps are essentially large reciprocating pumps, used to circulate drilling fluid (or drilling "mud") through a rig's circulation system. The circulation system is one of the crucial systems in an oil drilling operation, and mud pumps are the heart of that system. The circulation system distributes the mud, to lubricate and cool the equipment, control pressures in the well, and remove cuttings from the drilling surface.

Mud pumps are either duplex or triplex in design. Duplex pumps use two double-acting pistons in cylinders that drive the mud on both forward and backward strokes. A triplex pump uses three single-acting pistons in cylinders that drive the mud only during forward strokes. We manufacture a wide range of triplex pumps that use three single-acting pistons. The power output of our mud pumps ranges from 500 hp to 1,600 hp.

We use advanced machinery, including digitally-controlled floor milling and boring machines, digitally-controlled lathes and UK-made herringbone gear generators, to produce mud pumps. This machinery enables us to achieve a high degree of precision when processing key components of our mud pumps, such as the gears. As a result of our advanced production process, we believe that we are able to provide customers with mud pumps that work better, last longer and produce less noise than those offered by our domestic competitors.

Of the 410 mud pumps we manufactured in 2006, 191 were sold directly to customers as stand-alone pieces of equipment.

The following table shows the number of mud pumps sold externally, for the three years ended December 31, 2004, 2005 and 2006.

External Mud Pump Sales

Mud Pump Design	Power (hp)	Year ended December 31, 2004	2005	2006	Delivered before December 31, 2007	Contracted to be delivered after December 31, 2007
500F	500	—	—	—	—	—
800F	800	—	1	—	4	—
1000F	1,000	—	26	132	20	—
1300F	1,300	4	2	2	10	—
1600F	1,600	2	3	57	72	—
Total		**6**	**32**	**191**	**106**	**0**

Components sourced from external suppliers

We reserve our internal manufacturing capacity for the production of our core products. We usually source parts and components with the following characteristics from external suppliers: (a) those that are low value-adding; (b) those that are non-critical; or (c) those that are critical, but due to quality and cost-effectiveness considerations, are sourced from external suppliers who specialize in manufacturing certain parts and components (e.g., engines). In some cases, we also source components from external suppliers upon special request by our customers.

Offshore drilling modules

In addition to land rigs, we also manufacture and sell offshore drilling modules to offshore drilling, engineering, exploration, and production companies. Offshore drilling rig modules consist of certain major parts and components of land rigs, such as rig masts, drawworks and mud pumps, which are modified for use on offshore production platforms.

Since 2002, we have been selling rig modules and components for 4,000-meter depth offshore drilling rigs to offshore oil and gas companies, including CNOOC Engineering, CNOOC Limited, and China Ocean Oilfields Services (Hong Kong) Limited ("COOS"). We have sold four rig modules which included masts in 2004, and two such rig modules in 2006. Our revenue from offshore drilling modules amounted to RMB4,811,965 and RMB22,011,399, for the years ended December 31, 2004, and 2006 respectively. We plan to expand our offshore drilling module sales by developing and selling our 7,000-meter and 12,000-meter offshore rig modules to large offshore rig units, such as semi-submersible rigs and drill ships.

One of the Company's Financial Investors, COOS, is a subsidiary of CNOOC. See the sub-section entitled "Financial Investors" in the "Company History and Reorganization" section of the Prospectus for details of our relationship with CNOOC.

Training and after-sales services

In order to ensure that our customers know how to use our products effectively, we administer training with a 1,000-meter depth digitally-controlled VFD training rig, at our main production facility in China, for a period of five to ten days before or after the delivery of our products.

Our training course covers the following topics:

(1) turning the training rig on and off;

(2) setting the screen of the training rig;

(3) use and maintenance of equipment on the training rig;

(4) operating the training rig;

(5) set-up and adjustment of the parameters of the training rig;

(6) how to deal with breakdowns of the training rig; and

(7) practice on the training rig by trainees.

During training, customers are taught how to use and control drilling rigs, so that they may use the rigs more efficiently. Overseas customers normally send their staff to the Company's site in Guanghan for training. Depending on the terms of the contract between the Company and our customers, such training can be provided either free of charge or for a fee.

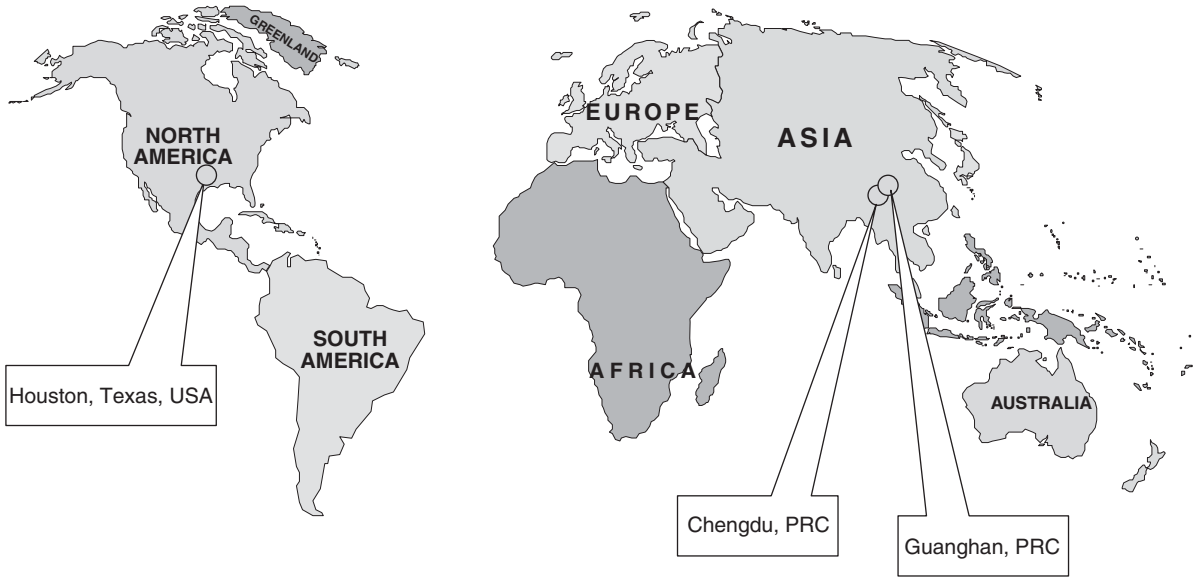
In addition, we have a team of experienced engineers who, upon request, provide short-term, onsite technical support at our customers' oil and gas fields.

In response to the increasing demand for drilling technicians, we intend to offer the services of our drilling technicians on a contract basis to assist customers in the operation of their drilling rigs. We expect that this proposed service will generate additional revenue for us in the future.

Manufacturing

Production facilities

We have three manufacturing facilities, located in Guanghan, Chengdu and Houston, with an aggregate gross land area of approximately 391,142 sq.m. The map below shows the location of each of our manufacturing facilities.



The table below sets out the details of our manufacturing facilities.

Manufacturing facilities	Location	Gross land area (sq.m.)	Main operations	Planned production capacity	Current utilization rate	Production equipment employed	Year of commencement of production
Honghua Company	Guanghan	222,733	Manufacturing of rigs as well as rig parts and components, such as mud pump, crown block, travelling block, hook and mast	100 drilling rigs; 500 units of mud pumps	99%	Lathe, boring machine, milling machine, horizontal gear-generator, CNC spiral/bevel gear generator, and crane	1998
Youxin Company	Guanghan	38,943	Manufacturing of rig parts and components, such as cargo hoist, drilling fluid manifold and rig solid control system	70 sets of solid control systems; 80 sets of drilling fluid manifolds	83%	Travelling crane, truck crane, plane shears, sandblasting machine, automatic submerged arc welding machine, and lathe	2000
Hongtian Company	Chengdu	48,529	Manufacturing of rig parts and components, such as VFD, SCR, MCC and driller control cabin	100 sets of VFD drive systems and driller control cabins	70%	Travelling crane and forklift	2001
Honghua America	Houston, Texas, USA	80,937	Assembling rigs	Assembling and renewing 20-30 drilling rigs	20%	CAT C6000 forklift, IW110D punching and cutting machine, TE-450M forklift, Miller CP-302 gas-shielding welding machine, and 20T travelling crane	2006

Honghua Company, Youxin Company and Hongtian Company have obtained all the land use right certificates and all the building ownership certificates for their current manufacturing facilities.

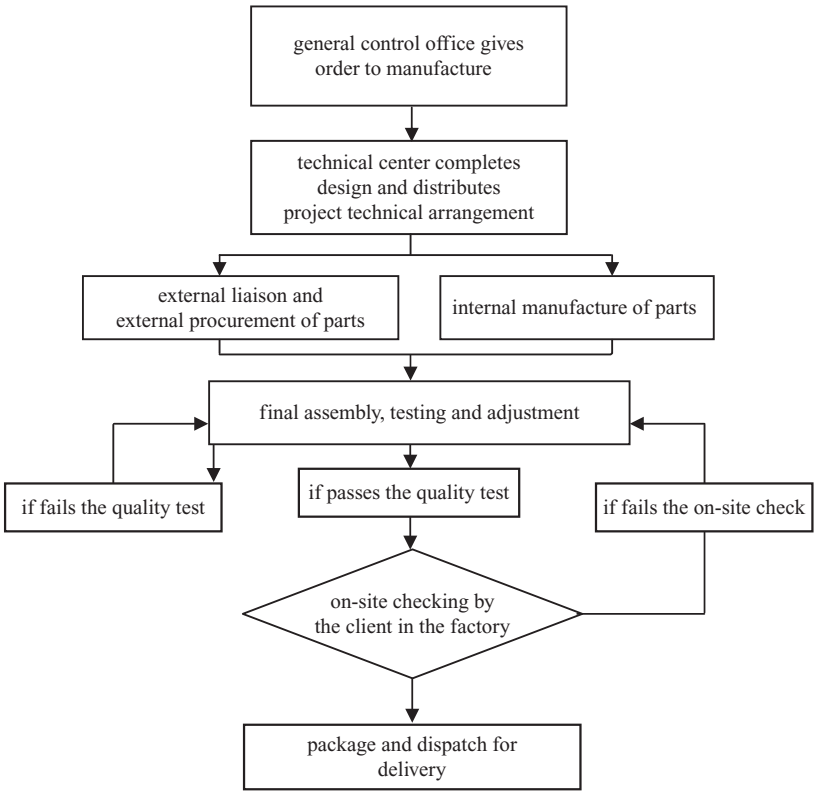
Honghua America has obtained the legal rights over the property used by its manufacturing facilities, including title guarantees and construction rights.

In order to expand our product and service lines, we intend to establish a production site in China that will specialize in producing offshore rigs and related products.

Production process

Our production process is designed to accommodate a wide range of customer specifications, while still meeting our high quality standards in the most cost-effective manner.

The following diagram illustrates the major production processes of our principal products.



Repair and Maintenance

We utilize regular repair and maintenance programs to ensure production efficiency, stability and safety. Our facilities are periodically shut down for overhauls and repairs, according to preset maintenance schedules, which can vary among our different production sites. Overhauls and repairs may also be conducted outside of these maintenance schedules as circumstances require. We regularly upgrade our facilities and quality control systems to ensure that we meet the stringent requirements of our customers. We experienced no major interruptions of production caused by equipment defects during the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007.

Quality Control

We have adopted a comprehensive quality control system. We administer preventive and corrective measures that optimize final product quality, by conducting a wide range of quality control tests at different stages of our production process. As of August 31, 2007, there have been no recalls of any of our products.

Our quality assurance program is divided into three stages:

(a) Raw materials quality control

All incoming raw materials used in our production processes are subject to inspection at the point of receipt, before being warehoused. We conduct sample inspections and tests on our raw materials and related accessory items when they are delivered to our manufacturing facilities, to ensure that they are in accordance with our standards. We document all quality control checks on all raw materials and conduct regular reviews of the quality of our suppliers. Raw materials that fail to meet our standards are returned to our suppliers for corrective measures or for replacement at the supplier's own cost.

(b) Production quality control

Our quality control personnel continuously monitor our production processes to ensure consistency in the quality of our products. Work-in-progress products are checked by the designated quality control personnel before being passed on to the subsequent stage of production. The quality control personnel at the next stage of production re-examine the work-in-progress products received, to ensure there are no defects before the products are further processed.

(c) Product quality assurance

At the end of the production process, we conduct physical analyses of our products on a selective basis to verify that their mechanical and dimensional properties and strength meet quality standards and specifications before delivery to our customers.

We employ the API Monogram and the ISO 9001 quality system to ensure our products meet high quality standards. We obtained an API Monogram license on July 6, 2005, and an ISO 9001 registration on November 1, 2000.

Research and Product Development

We believe that successful technological development is critical to our ability to stay competitive in the industry in which we operate. To this end, we have established research and development centers in Chengdu and Guanghan. As of August 31, 2007, we have a total of 222 research and development personnel working in these research and development centers. Teams are headed by leading Chinese experts in the oil and gas equipment industry. Our own research and development team has successfully developed 21 patents (including 14 patents pending before the State Intellectual Property Office in China). See the section below entitled "Our Business — Intellectual Property" for details of our patents.

In addition, we have entered into a cooperation agreement with Tsinghua University, in Beijing, for the design of digitally-controlled rig products. We have also devoted significant effort and resources to researching and developing new types of products for a variety of uses. We plan to offer the following new products in the next two years:

(1) top drive units;

(2) rigs capable of withstanding extreme temperatures in arctic and desert environments;

(3) land rigs with a depth range of 12,000 meters;

(4) offshore drilling modules for 7,000 to 12,000-meter depth offshore drilling rigs;

(5) semi-trailer rigs; and

(6) helicopter-mounted drilling rigs.

For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, our expenditure on research and development amounted to approximately RMB1,172,000, RMB5,233,000, RMB16,208,000 and RMB14,069,141, representing approximately 0.2%, 1.0%, 0.7% and 0.9% of our total revenue, respectively.

The Company's focus on research and development is demonstrated by the following.

(1) The Company has established an office in Chengdu, exclusively for research and development staff. To promote progress in research and development, the Company remunerates researchers according to the success of their projects.

(2) To achieve the highest cost-effectiveness, the Company is establishing a digital design system. The ultimate goal of the system is virtual machine manufacturing.

(3) To keep the Company's products on the leading edge, the Company has two experienced engineers who are constantly up to date on the latest information technology research. In addition, the Company has established technology teams in the United States, Egypt, Dubai and Russia, who keep the Company up to date on information and research.

(4) The Company is cooperating with several universities for research and development. The Company researched and developed its "Coiled Tubing Drilling" with Southwest Petroleum University, and its "Remote Transfer and Professional System" with the University of Electronic Science and Technology of China.

(5) The Company strives to enhance the academic level of its research staff and has proposed sponsoring a post-graduate class within the Company with Southwest Jiao Tong University. The Company is currently discussing with Southwest Petroleum University the possibility of sponsoring a multi-discipline post-doctoral program.

Technology Cooperation

The Group and Nabors Group will cooperate in connection with the production and development of, among other things, offshore platform rigs, land drilling rigs, tubing rigs, workover rigs, jack-up rigs and barge rigs. Technology controlled by Nabors Group will be licensed to the Group under the Technology License Agreement, and Nabors Group will provide to the Group's employees consulting services for such technology as necessary. The Group's employees, upon reasonable notice to Nabors Group, shall have the right to inspect any facilities used in relation to cooperative work.

We believe that the technical know-how used with respect to the 2000HP API offshore platform rig, 3000HP land drilling rig, coiled tubing rig, MWD system, workover rig, jack-up rig, barge rig and MASE platform rig, granted under the Technology License Agreement, can contribute to the Group's financial position by improving our profit margins and can enhance our product diversification in the following manners:

(1) enhance our research and development capability by increasing our knowledge base;

(2) shorten our research and development time line required to launch new products;

(3) broaden our land drilling rig product types; and

(4) accelerate our expansion into the offshore drilling rig markets.

Intellectual Property

As of the Latest Practical Date, we held 7 patents for oil equipment manufacturing technologies, and had 14 more patents pending before the State Intellectual Property Office of China. We have also registered our trademarks in Hong Kong and the PRC. We have not granted and do not intend to grant any licenses to other parties for the use of our patents and trademarks.

Our most important patents include a patent for AC VFD-controlled rig drawworks, a digitally-controlled WOB auto-bit-feed device, a hydraulic device for transporting land rigs horizontally, and belt-attached drawworks wheelwork. Some of our more important, patented, leading edge technology includes AC VFD-controlled rig drawworks and digitally-controlled WOB auto-bit-feed devices.

For details of these patents and trademarks, see the section entitled "B. Further Information About Our Business — 2. Intellectual property rights" in Appendix VII, "Statutory and General Information," to this Prospectus.

Procurement and Suppliers

We select our raw materials and components suppliers based on product quality, service and delivery time. We conduct inspections on all raw materials and components that we receive on a sampling basis, utilizing physical and chemical tests to ensure that they meet the specifications of our products as well as any relevant international standards.

Our major suppliers provide us with our basic raw material inputs, including steel and steel-based products, as well as with components and parts that we do not produce ourselves. We currently source almost all of our basic steel inputs domestically from five suppliers operating primarily in Chongqing and Chengdu, while our externally supplied parts and components that we do not produce ourselves, such as diesel engines, hydraulics and AC variable-frequency motors, are typically manufactured in the United States, Finland, or Germany and sourced through local distributors.

Generally, we make payment upon the receipt of goods. Occasionally, we are given 1-3 month credit terms. Under the sales contracts with our AC variable-frequency motor suppliers, we can retain 10% of the purchase price, which we release after 12 months' use of their products without encountering major problems. We have established long-term relationships, as far back as 1999, with some of our suppliers.

We have long-standing relationships with our major suppliers, and we have not experienced any significant difficulties in sourcing raw materials and components during the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007. Except for export contracts, which are denominated in US$ and settled by letters of credit, all of our purchase agreements are denominated in RMB. For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, we incurred costs of approximately RMB409 million, RMB344 million, RMB1,420 million and RMB943 million, respectively, for purchases of raw materials and components from suppliers.

For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, our single largest supplier accounted for approximately 27.95%, 12.06%, 15.09% and 12.42%, respectively, of our total purchases, and our five largest suppliers together accounted for 44.63%, 27.99%, 29.84% and 27.41%, respectively, of our total purchases in terms of cost.

None of the Directors or their Associates, or any shareholders of our Company, who, (to the knowledge of our Directors) beneficially own more than 5% of our issued share capital, had any interest in any of our five largest suppliers for the three years ended December 31, 2004, 2005 and 2006, or the eight months ended August 31, 2007.

Most supplies procured within the PRC have a delivery lead time of 1-2 months. Certain components and parts procured from National Oil Well Varco LP in the USA, and from Caterpillar SARL in Singapore, can have delivery lead times of 6-9 months, due to recent shortages in the supply of related products.

Inventory Management

We monitor and control the inventory levels of our raw materials, work-in-progress products and finished products to optimize our operations. We have in place an inventory management system, that monitors the planning and allocation of warehouse space and our stock of raw materials and finished products, in order to better coordinate our delivery requirements and schedules.

Due to the varying specifications and customizable features of many of our rigs and rig parts and components, we typically manufacture our products according to customer requirements. We make inventory and purchase plans for the common and standard raw materials and only purchase raw materials which are specific for each product after we have received an order. Our inventory of raw materials consists mainly of steel and steel products, parts and components. With regard to rig production, our policy is to reserve raw materials required for at least one and a half months of production, and parts and components for manufacturing two rigs.

Our inventory of finished products consists mainly of those awaiting delivery. As most of our finished products are large in size (i.e., rigs and mud pumps), we often enter into short-term leases for storage purposes. The duration of such short-term leases varies, depending on the delivery and transportation arrangements for the finished products, but usually such duration would not be longer than six months. Since the ownership of the products awaiting delivery remains with the seller, in the event that there is any damage to the finished products before delivery, we will bear the loss. We have employees to guard and look after finished products while they are awaiting delivery.

Sales and Marketing

Summary and strategy

We sell our products primarily to drilling companies owned by large Chinese oil and gas companies, as well as major multinational oil and gas drilling contractors in North America, Russia, the Middle East, Africa, Asia and other oil and gas producing regions.

During the year of 2006, the top ten customers of the Company by revenue were: (i) Nabors Group (US); (ii) ETA Star Holding LLC (Middle East); (iii) SOM Engineer Service Co. (Middle East); (iv) MH-Myramud Inc (US); (v) Changqing Petroleum Administration Bureau (PRC); (vi) Tu-ha Petroleum Exploration & Development Co. (PRC); (vii) Huabei Petroleum Administration Bureau (PRC); (viii) Red Maple International Inc. (Canada); (ix) Material Co. of Sichuan Petroleum Administration Bureau (PRC); and (x) Great Wall Drilling Rig Co., Ltd. (PRC).

The top ten customers of the Company by revenue during the period from January 1, 2007 to November 30, 2007 were: (i) Nabors Group (US); (ii) the Material and Equipment Department of China Petroleum & Chemical Corporation (PRC); (iii) Changqing Petroleum Administration Bureau (PRC); (iv) Material Co. of Sichuan Petroleum Administration Bureau (PRC); (v) Petrovietnam Drilling and Well Service Joint Stock Company (Vietnam); (vi) China Petroleum Technology & Development Corporation (PRC); (vii) Izhdrill-Honghua (Russia); (viii) Jiangsu Huashi Science Industry and Trade Co., Ltd. (PRC); (ix) ETA Star Holding LLC (Middle East); and (x) Eriell Corporation S.R.O (Czech).

During 2006, five of the top ten customers of the Company by revenue (namely, Changqing Petroleum Administration Bureau, Tu-ha Petroleum Exploration & Development Co., Huabei Petroleum Administration Bureau, Material Co. of Sichuan Petroleum Administration Bureau, and Great Wall Drilling Rig Co., Ltd.) were subsidiaries of CNPC or Sinopec, both of which are large, state-owned Chinese oil and gas companies. From January 1, 2007, to November 30, 2007, four of the top ten customers of the Company by revenue (namely, the

Material and Equipment Department of China Petroleum & Chemical Corporation, Changqing Petroleum Administration Bureau, Material Co. of Sichuan Petroleum Administration Bureau, and China Petroleum Technology & Development Corporation) were subsidiaries of CNPC or Sinopec.

Apart from Nabors Group, none of the above customers are pre-IPO investors of the Company.

We have established sales offices and subsidiaries in China and abroad, in order to provide onsite services (such as technical advice and support) at major oil and gas fields where our customers operate. Our sales and marketing department has expanded over the past few years. As of August 31, 2007, our sales and marketing team consisted of 237 employees.

The following table contains a geographical breakdown of our rig sales and our total rig sales, for the periods indicated.

	For the three years ended December 31,			For the eight months ended August 31,	Rigs delivered before December 31, 2007		Rigs contracted to be delivered after December 31, 2007		For the three years ended December 31,						For the eight months ended August 31,	
	2004	2005	2006	2007					2004		2005		2006		2007	
Regions	Number of rigs sold	Number of rigs sold	Number of rigs sold	Number of rigs sold	Numbers of rigs	% of total rig	Number of rigs	% of total rig	Revenue generated	% of total rig sales	Revenue generated	% of total rig sales	Revenue generated	% of total rig sales	Revenue generated	% of total rig sales
									RMB'000		RMB'000		RMB'000		RMB'000	
China	31	28	32	31	48	53.9%	10	20.4%	455,617	97.2%	306,472	70.6%	321,978	15.8%	638,756	51.0%
North America	—	3	45	15	16	18.0%	0	0.0%		—	120,699	27.8%	1,467,363	72.0%	312,137	24.9%
Russia	—	1	1	6	16	18.0%	28	57.1%		—	6,805	1.6%	6,466	0.3%	90,170	7.2%
Middle East	—	—	3	—	2	2.2%	4	8.2%		—		—	228,253	11.2%		—
Others	1	—	1	3	7	7.9%	7	14.3%	13,166	2.8%		—	13,212	0.7%	212,286	16.9%
Total	**32**	**32**	**82**	**55**	**89**	**100%**	**49**	**100%**	**468,783**	**100%**	**433,976**	**100%**	**2,037,272**	**100%**	**1,253,349**	**100%**

For the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, our single largest customer, Nabors Group, accounted for approximately 0.0%, 17.9%, 64.0% and 32.3%, and our five largest customers together accounted for approximately 84.3%, 72.8%, 80.2% and 65.2%, respectively, of our revenue.

We have established credit control and cash management procedures. We assess the creditworthiness of potential customers and determine the price and credit limits to be granted, after taking into account other factors, such as the market condition and sales scale. We usually require installment payments, according to our procurement and production process. After the sales agreement is signed, our salespeople will follow-up with the clients and monitor their payments. If there is a delay in payment, we will assess the client's creditworthiness and adjust our credit policy as necessary.

None of our Directors or their respective Associates, or any shareholders of our Company, who (to the knowledge of our Directors) beneficially own more than 5% of our issued share capital, have had any interest in any of our five largest customers for the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007.

Domestic Sales and Marketing

For the year ended December 31, 2006, approximately 16.5% of our products were sold in the domestic market. Of these, about 47% were sold in Eastern China, and about 53% were sold in Western China. Our domestic sales and marketing channels include direct sales, open and invited tenders, industry conferences and vendors' network websites. Our domestic sales department is divided into two teams, with one responsible for Eastern China and the other responsible for Western China.

Domestic Market Coverage

The triangle the location of the Group's headquarters as well as the location of Honghua International, Youxin Company and Hongtian Company.

The circles show the location of the customers who purchase the Group's products.

International Sales and Marketing, and Key Regions

We have established sales operations in North America, the Middle East and Africa, and we have formed an international distributors' network to cover Russia and Asia (excluding China). Our sales and marketing strategies vary from country to country. We use our own sales force in the USA, UAE and Egypt, while we rely on local agents in other countries e.g., Bangladesh and Vietnam. The agency fees range from 2% to 10% of the sale price. We attend open or invited tenders, and we participate in international trade fairs outside of China. For international markets, our sales department is divided into the following teams: Middle East/Africa, North America, Southeast Asia, and Russia.

North American market

We have established a USA subsidiary, Honghua America, in Houston, Texas. It acts as our major sales agent in the United States and Canada. Its primary business involves the assembly and sale of our drilling rigs and various parts and components. In addition, Red Maple International is our exclusive sales agent for mud pumps in Canada. Our agency contract with Red Maple International is renewable on an annual basis. Red Maple International is responsible for arranging the transportation of our products and providing after-sales services. Our major products sold in the USA and Canadian markets are semi-trailer drilling rigs and digitally-controlled VFD rigs. We have complied with all relevant laws and regulations in the USA.

Latin American market

The Company attaches great importance to the Latin American market and is in the process of engaging an exclusive sales agent for this market. Although this market is new, the Company has already contracted to sell two rigs in Brazil in 2008.

Russian market

We have two distributors in Russia: Izhdrill-Honghua; and Honghua-Ural. A National Standard Certification System certificate issued by local certification authorities in Russia is required for our products exported to Russia. Our distributor in Russia, Izhdrill-Honghua Co., Ltd, has obtained the National Standard Certification System certificates from Izhevsk Standard Institution for the export of our rigs and components to Russia. These certificates will not expire until May, 2009. The marketing strength and geographical advantages that these distributors have to offer have enabled us to expand our presence in the Russian oil drilling equipment market. Our most popular products sold in this region are digitally-controlled VFD rigs capable of withstanding low temperatures. In the eight months ended August 31, 2007, we sold six rigs and certain rig parts and components amounting to RMB92,212,000 in the Russian market through Izhdrill-Honghua. In 2006, we sold rig parts and components amounting to RMB667,000 in the Russian market through Honghua-Ural. We made no sales to Izhdrill-Honghua or Honghua-Ural in 2004 and 2005. We have complied with all relevant laws and regulations in Russia.

Rigs parts and components are sold to end users through Izhdrill-Honghua, a company located in Moscow, and rig parts and components are sold to end users through Honghua-Ural, a company located in Siberia.

Middle Eastern market

Our subsidiary located in the Jebel Ali Free Zone, Dubai, UAE, is responsible for our sales in the Middle Eastern market. We have also signed an agency agreement with Dhahran Global Co., which has become our leading sales agent in Saudi Arabia. Major drilling rigs in demand in this market are small to mid-sized and mobile; this is especially true for those rigs with drilling depths of 3,000 to 5,000 meters. We believe that our trailer drilling rig, which is mobile, digitally-controlled and possesses a drilling depth capacity of up to 5,000 meters, is well positioned in the Middle Eastern market. Our subsidiary in Dubai has complied with all relevant laws and regulations in the UAE.

African market

We have entered into a joint venture agreement with Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company and Tharwa Petroleum Company, to establish a Sino-Egyptian drilling rig manufacturing joint venture in Cairo, Egypt. Products we intend to manufacture and sell there include digitally-controlled VFD rigs. We believe that this joint venture will be the

only company in Africa that specializes in drilling rig manufacturing. We have complied with all the relevant laws and regulations in Egypt.

The joint venture is an Egyptian Joint Stock Company, established on April 24, 2007, and it commenced operation upon signing the rig drilling purchase contract with Honghua Company, on May 22, 2007. It has USD30,000,000 authorised capital. Our expected total investment is USD 12,000,000, all of which has already been made. The joint venture occupies 84,109 sq.m. of land. The duration of the joint venture company is 20 years, renewable upon mutual agreement of the investors and approval by the local authorities in Cairo. The objective of the joint venture is to construct and operate a plant in Egypt, for the manufacturing, assembly and after-sales service of land rigs and offshore drilling rigs, and to act as the sole agent selling our products in Egypt. According to the joint venture financial model, the factory will produce 20 sets of drilling rigs annually. There are a total of 134 persons employed by the joint venture, 40 of which are management level. The working capital of the joint venture was financed through bank loans and funds from the shareholders.

According to the joint venture agreement, we were responsible for contributing 50% of the capital of the joint venture, and the three Egyptian investors were responsible for contributing the remaining 50% of the capital. Capital contribution from parties to the joint venture was made in cash. Each of the parties to the joint venture appointed a representative to handle the establishment of the joint venture. The shareholders will share the profits and losses of the joint venture based on their respective contribution to the joint venture's capital (i.e., 50:50). The financial results of the joint venture are accounted for using the equity method, and are initially recorded at cost and adjusted thereafter for any change in the Group's share of the joint venture's net assets. The Group shares the post-tax results of the joint venture.

Before entering into the joint venture agreement, we had not had any previous dealings with Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company and Tharwa Petroleum Company.

Sales to OFAC Countries

We are subject to the laws and regulations of the various countries in which we do business, in addition to the laws of the PRC. Certain countries in which we do business, or in which our products have been resold, including Iran and Sudan, are subject to sanctions administered by the United States Treasury Department's Office of Foreign Assets Control ("OFAC"). We have not engaged in any investment activities in Iran relating to the development of the petroleum industry there. No persons from the U.S. are involved in the supply of our products and services in countries subject to OFAC sanctions, and we are not involved in the re-exportation of goods originating in the U.S. to countries subject to such sanctions. We believe that the revenue generated by our transactions in the countries subject to OFAC sanctions is insignificant in the context of our total revenue. None of the proceeds of the Global Offering will be used to fund transactions or activities which would, if undertaken by a U.S. person as defined in U.S. economic sanctions, be prohibited by U.S. economic sanctions. See "Future Plans and Use of Proceeds—Use of Proceeds".

Contracts, Sales Process and Pricing Policy

We are typically required by our major customers to use their own standard forms as the basis for sales negotiations. Thus, our rig sales contracts tend to vary from customer to customer. The majority of these contracts provide that warranties for each rig and/or equipment expire on the earlier of (i) 12 months after the rig commences drilling operations, or (ii) 18 months after the rig is delivered to the customer.

Though time frames may vary according to each customer's specifications, it usually takes six months from the time an order is placed for us to manufacture and deliver a finished rig. We generally deliver finished rigs to our customers on an FOB or CIF basis. We fully assemble and test the ordered rigs in our factory, and

then disassemble them into smaller units before delivery, for easy transportation to their destination. The disassembled units will be delivered by truck or train to destinations within the PRC, and will be delivered by truck combined with train or ship to destinations outside of the PRC. For PRC customers, the transportation cost is normally borne by the customers. For overseas customers, either we or the customers will bear the transportation cost, depending on the terms of the sales contract.

Since we typically source business through direct customer interfacing, open or invited tenders and customer referrals, pricing for many of our products is determined either through a bidding process or individual negotiations with our customers. Factors that we take into consideration in determining our tender prices and negotiated contract prices include our costs, the prevailing market price of the product and individual customer specifications.

Because we generally procure raw materials and parts and components for production only after we have secured a sales contract for a product, the costs of our raw materials and parts and components may not always be reflected in our contract prices. This is especially important since steel, a significant material used in constructing our rigs, parts and components as well as the parts and components we source from third parties, is subject to frequent price fluctuations. In order to minimize any adverse impact on our operations caused by fluctuations in the prices of raw materials, we have entered into strategic cooperation agreements with some suppliers, allowing us to purchase raw materials at a favorable price that is lower than the market price. According to such strategic cooperation agreements, we can enjoy favorable pricing, priority in after-sales services and a stable supply of raw materials from these suppliers, thus enabling us to manage our exposure to supply fluctuation of some key raw materials. The Company will not alter the prices of drilling rigs under signed contracts, unless the customers request a change in design or configuration. However, the Company may consider altering sale prices under contracts not yet signed, according to the fluctuating cost of raw materials. The Company bears the risk associated with the cost fluctuations of raw materials during a contract period.

We maintain different billing policies for different customers. From domestic customers, we usually receive 30% of the total price at the time the contract is made, and another 60% of the sales price when the rig is delivered to the customer's field and starts operation. The remaining 10% of the sales price is retained by the customer and is paid to us within one year of the delivery, if our products do not have any major quality problems in that year. For international customers, our billing policies vary, depending on the negotiated terms with each of the customers. The common practice with our international customers is that part of the purchase price is paid by wire transfer or a letter of credit upon signing the contract, part of the purchase price is paid upon delivering the shipping documents, and the remaining part of the purchase price will be paid after delivery of the products; the exact percentage of each part of payment varies from contract to contract.

Competition

We operate in a highly competitive environment. We principally compete with domestic and overseas oil drilling equipment companies on price, quality, advanced technology, reliability of supply and after-sales service. Our primary domestic competitors are: BOMCO; Lanzhou LS-National Oilwell Petroleum Engineering Co., Ltd.; Shanghai Sangao; and Nanyang. Our primary overseas competitors are National Oilwell Varco and Bentec.

In the rig manufacturing industry, we believe that the principal barriers to entry include: the ability to source a regular and sustainable supply of key components; the capital expenditure required to develop the infrastructure to manufacture, assemble and test large-size products; and the ability to meet industry quality standards, such as those of the API Monogram.

We believe that we are well-positioned to compete in both domestic and international markets, and that our strengths and strategies will differentiate us from our competitors. See the section entitled "Our Business – Competitive Strengths" in this Prospectus for a discussion of our competitive strengths.

Environmental Protection

Our operations are subject to various PRC laws and regulations concerning environmental protection. We have adopted various measures to abide by these environmental protection laws. Our policy is to develop and manage operations in a manner that effectively controls and minimizes pollution and strives to protect the environment. Various environmental standards are developed for each stage of our business, and we implement systems to identify, assess and manage environmental risks.

We enforce health, safety and environmental protection rules in our production process, so as to minimize the waste we produce. We require our employees to comply with these rules. As our inventories contain flammable goods such as paint, we also have emergency policies and procedures in place aimed at reducing damage in the event of a fire.

Our operations may produce various types of waste, including waste water, dust and solid waste. We have installed a ditch around our production site, which will collect the waste water produced during our production process. We regularly clean the waste water from the ditch, in order to collect and recycle the oil mixed into the waste water. We have six sand-painting rooms, where a dust-absorbing system is installed. This system absorbs the dust created during the sand-painting process and is cleaned regularly, thus preventing pollution to the air. The waste oil from machines used in each of our factories is collected in special oil tanks, and is subsequently gathered in our warehouse and delivered to a special unit designated by the Guanghan Environmental Bureau for processing. We are planning to install a new anti-erosion workshop. At this stage, we have finished the preliminary research and development and have produced a feasibility study report. The cost to the Company of environmental protection measures for the three years ended December 31, 2004, 2005 and 2006, and the 8 months ended August 31, 2007, were RMB14,802.10, RMB61,592.93, RMB126,521.40 and RMB25,715.50, respectively. The projected future costs for environmental protection measures will be less than RMB500,000 per year.

We had no breaches of any applicable environmental law or regulation during the Track Record Period. As of August 31, 2007, we are not subject to any material environmental claims, lawsuits, penalties or disciplinary actions.

Health and Safety

We regard the health and safety of our employees as one of our most important social responsibilities, and we have implemented a number of measures to ensure compliance with applicable Chinese health and safety requirements.

We have in place a detailed set of internal health and safety policies. Our quality control department is responsible for training staff as to such policies, reviewing our internal safety procedures, carrying out safety site inspections on a monthly basis and continuously monitoring the implementation of our safety policies. We have adopted an internal handbook on safety procedures that is utilized throughout our Group, and every employee is required to attend compulsory courses on our safety policies and procedures. Our handbook sets out certain guidelines on occupational safety, such as how to operate machinery safely and emergency plans.

Since we began operations in 1998, only one fatal accident has occurred at our facilities. That accident occurred on February 4, 2007, when one of our employees, due to his own negligence, was knocked down by a falling mast while undertaking painting work. According to PRC law, most of the compensation provided in the event of a fatal accident should be paid in a lump sum, and the remainder, if any, paid in monthly instalments. We were liable for the payment of compensation for this accident, which amounted to a one-time compensation in the amount of RMB174,904.5. We reached an agreement with the relatives of the deceased, and the father signed the agreement on February 8, 2007. According to the agreement, the one-time payment of RMB 174,904.5 is in full and final settlement and was made in full on February 10, 2007.

Except for the incident described above, we have not been subject to any material production and safety claims, lawsuits, penalties or disciplinary actions. There have not been any other material non-fatal injuries or fatal accidents during the Track Record Period.

Licenses

As advised by King & Wood, our PRC legal advisor, we are not required to obtain any licenses to manufacture our products under the Regulations on the Administration of Production Permits for Industrial Products, and its Implementation Rules (《中華人民共和國工業產品生產許可證管理條例》 及其 《實施辦法》), promulgated by the State Quality Inspection Bureau in July and September of 2005, respectively.

In order for us to sell our products to the subsidiaries or branch oilfields of CNPC and Sinopec, we must be a member of the China Petroleum Exploration and Development Equipment Supply Network (中石油勘探開發設備供應網絡), which is organized and authorized by the China Petroleum Material & Equipment Corporation (中國石油物資裝備(集團)總公司), and the List of Sinopec Suppliers. We have been a member of the China Petroleum Exploration and Development Equipment Supply Network since 2001, and a member of the List of Sinopec Suppliers since 2003.

In order to become a member of the China Petroleum Exploration and Development Equipment Supply Network, a supplier must submit an application form, its ISO9001 certificate, and recommendations from the material and equipment department of at least three subsidiaries of China Petroleum Group Company Limited (中國石油天然氣集團公司). Once admitted as a member, a supplier needs to pay RMB 5,000 as a membership fee. There will be continuous evaluation of the member's performance, focusing on the quality and price of products, delivery and after-sales service. Our current membership in the China Petroleum Exploration and Development Equipment Supply Network will expire in October, 2009.

In order to be a member of the List of Sinopec Suppliers, a supplier must submit an application form and then pass initial and final reviews by the relevant departments of Sinopec. There is no application or management fee for membership. There will be continuous evaluation after a membership is awarded, focusing on the quality and price of the products, delivery and after-sales service. The membership may be suspended in a number of circumstances, such as delay in delivery that affects the operation of Sinopec, failure to provide after-sales service, failure to solve problems related to the quality of the products, involvement in lawsuits with Sinopec or having a weak financial position. The membership may be terminated if a supplier provides false information to Sinopec, or refuses to perform a contract without good reasons.

Our sales to the subsidiaries or branch oilfields of CNPC and Sinopec accounted for approximately 93.8%, 62.3%, 14.5%, and 36.3% of our revenue, for the three years ended December 31, 2004, 2005 and 2006, and the eight months ended August 31, 2007, respectively.

The following table contains a list of some of the required documents for the Group to operate its business in certain countries other than the PRC, where the Group has or previously had a subsidiary or affiliate, as well as the status of obtaining such documents by the Group.

Country	Required license/ permit/other	Whether the Group has obtained such license/permit/other
USA	a. Certificate of Filing	Yes
	b. Tax ID Number	Yes
	c. Environmental Health Approval	Yes
	d. General Liability Insurance Policy	Yes
	e. Umbrella Liability Insurance Policy	Yes
Russia	a. Legal Person Registration certificate	Yes
	b. Legal Person Tax Registration certificate	Yes
	c. National Standard Certification System certificate	Yes
UAE	a. Trading License	Yes
	b. Share Certificate	Yes
Egypt	a. Approval for Establishing of EPHH Project (Decree No. 542)	Yes
	b. License for Commencing Activity (Decree No. 882)	Yes
	c. License for Establishing Industrial Project	Yes

Management Information Systems and Information Technology

Some of the management information systems that we currently utilize include a U8 System, which is used to plan production activities and raw material procurement and utilization, as well as to manage the level of stock and receivables and an office automation system, which is used to manage day-to-day administrative and office operations. We believe that our information systems have been effective in improving the efficiency and control of our operations, especially in the areas of production planning, manufacturing, inventory procurement and management, and sales and finance.

Employees

As of August 31, 2007, we had a total of 2,828 employees. These employees can be categorized according to their role, as follows:

Type of employee	Number of employees
Management	281
Production	1,671
Production Control	25
Quality Control	102
Research and Development	222
Marketing	109
Training	9
Services	137
Information Management	23
Internal Support	108
Logistics	82
Temporary Workers	59
Total	2,828

For the three years ended December 31, 2004, 2005 and 2006, and for the eight months ended August 31, 2007, the total numbers of our domestic employees were 863, 1469, 2562 and 2,816, and the number of overseas

employees was 0, 0, 11 and 12, respectively. For the three years ended December 31, 2004, 2005 and 2006, and for the eight months ended August 31, 2007, the total number of our employees has increased by 29.77%, 70.22%, 75.15% and 10.62%, respectively, compared to the preceding year.

In 2005, we hired more factory workers to support manufacturing capacity expansion, enlarged our sales and after-sales service teams, and hired more engineers with design expertise.

In 2006, we employed more procurement and warehouse personnel, and further expanded our sales and after-sales service teams and our engineer teams, in order to support continuous sales growth.

The Company is optimistic about its operations in the emerging markets, particularly Russia and the Middle East, and we expect to increase the number of employees to assist with strategic development in those areas.

The majority of our domestic employees belong to a trade union which is a member of the All China General Trade Union. During the Track Record Period, we did not encounter any significant difficulties in recruiting employees, nor did we have any material labor disputes. We consider our relationship with our employees to be good.

Employee training

We understand that continuous training is critical in maintaining and improving our operations and product quality. As a result, we have sponsored some of our senior management to undertake further study in management courses, such as MBA programs. In addition, we have worked with Southwest Jiao Tong University to organize a master's degree program in engineering. We have also organized various classes for our employees, in order to keep them updated on the latest technological developments in our industry.

Employee benefits

For the years ended December 31, 2004, 2005, 2006, and for the eight months ended August 31, 2007, the wages of our employees have consistently increased, by 32.17%, 45.38%, 107.68% and 84%, respectively, compared to the preceding year. For the majority of our employees, we make contributions to mandatory social security funds, that provide retirement, medical, work-related injury, maternity and unemployment benefits. We contribute on a monthly basis to a housing fund organized by the Chinese government. Also, we make contributions to supplementary social security funds for certain employees for retirement and medical benefits, and we maintain various types of insurance, including accidental injury insurance, for a number of our employees.

We pay termination benefits when an employee's employment is terminated involuntarily before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for the benefits.

For each of the three years ended December 31, 2004, 2005, 2006, and for the eight months ended August 31, 2007, our contributions to mandatory social security funds were approximately RMB707,742, RMB1,485,399, RMB3,158,560 and RMB5,306,192, respectively, and our contributions to housing fund plans were approximately RMB43,504, RMB60,087, RMB81,658 and RMB60,019.

Real Properties

As of December 31, 2007, we held 23 parcels of land with a total site area of approximately 495,787 sq.m. We have obtained land use right certificates for 20 of the parcels of land; for the remaining three parcels of land, the land use right certificates have not been obtained.

In 2005 we acquired a parcel of land, having a site area of approximately 12,232 sq.m. (18.3 mu), located on Zhong Shan Da Dao Nan Duan, Guanghan City, which is currently utilized by Honghua Company. As of the Latest Practicable Date, we have not yet obtained a land use certificate for this property. We commenced use of this land on February 5, 2006.

In 2006, we acquired a parcel of land, having a site area of approximately 43,333 sq.m. (65 mu), located on San Ya Road Yi Duan, Guanghan City, which has not been utilized by Youxin Company. As of the Latest Practicable Date, we have not yet obtained a land use certificate for this property. We have not yet used this land.

In 2006, we acquired a parcel of land, having a site area of approximately 126,667 sq.m. (190 mu), located on Zhong Shan Da Dao Nan Duan, Guanghan City, which has not been utilized by Honghua Company. As of the Latest Practicable Date, we have obtained a land use certificate for approximately 82,692 sq.m. (124 mu) of this land but we have not yet obtained a land use certificate for 43,975 sq.m. (66 mu) of this land.

The local government in the areas in which we occupy land support our business and have issued written confirmations, assuring us that they will not impose a penalty on us or force us to relocate from the land for which we have not yet obtained land use certificates. We are making our best efforts to obtain land use right certificates for the three parcels of land as soon as possible. As a result, our expansion plans will not be affected by the lack of such certificates.

Land for which the land use right certificates have not been obtained:

Land area	Is it critical to the Company's operation during the Track Record Period?	Is it significant in terms of profit contribution during the Track Record Period?	Is it significant in terms of turnover during the Track Record Period?	Could the Company obtain the certificate before Listing?	Status of the application for certificate
12,232 sq.m. (18.3 *mu*)	No, only used for warehouse purposes	No, only used for warehouse purposes	No, only used for warehouse purposes	No, but the right to use the land is assured by the local government's written confirmation.	All land fees have been paid.
43,333 sq.m. (65 *mu*)	No, not yet in use	No, not yet in use	No, not yet in use	No, but the right to use the land is assured by local government's written confirmation.	All land fees have been paid.
43,975 sq.m. (66 *mu*)	No, not yet in use	No, not yet in use	No, not yet in use	No, but the right to use the land is assured by local government's written confirmation.	All land fees have been paid.

As of December 31, 2007, we held and occupied 29 buildings and 59 units, with an aggregate gross floor area of approximately 105,735.55 sq.m. We have obtained building ownership certificates for all of the buildings.

As of December 31, 2007, we rented and occupied four buildings, having an aggregate gross floor area of approximately 5,198.11 sq.m.. The leases for all of these buildings have been registered with the relevant authorities in China. There are no manufacturing facilities on these four leased premises, and no revenue is generated from such premises. As advised by King & Wood, our PRC legal advisor, the lessor of these four rented premises has valid title to the premises, and each of the leases is legal, valid and enforceable.

Details of our property valuations, together with the summary of valuation and valuation certificates from Sallmanns (Far East) Limited, are in Appendix IV to this Prospectus.

Insurance

We maintain different types of insurance policies, including property all risks insurance, transportation vehicle insurance, cargo transportation insurance, and mandatory social security insurance for our employees.

Legal Proceedings

Dispute with Nabors

We were involved in an arbitration proceeding with Nabors International on behalf of itself and its affiliates and assignees, arising from a Master Sales Agreement, dated May 18, 2005 (the "MSA"), the Heads of Agreement, dated August 9, 2005 (the "HOA"), and other related documents between Nabors Group and us. Honghua Company entered into the MSA to establish a mutually advantageous cooperation with Nabors Group for supply and procurement of drilling rigs and rig parts and components. Under the MSA, Nabors International purchased five drilling rigs, with an option to buy two additional drilling rigs at a predetermined price. Under the MSA, Nabors International may also place more orders for drilling rigs and rig parts and components with us from time to time at a price that is no higher than the price we offer to other non-Chinese customers. Nabors International was also granted a 15-day period to exercise a right of first refusal when we sell any drilling rigs to any non-Chinese or non-former Soviet Union drilling contractors, except for 14 companies specifically listed in the MSA. We agreed not to, directly or indirectly, market or sell drilling rigs or rig components to 24 companies worldwide specifically listed in the MSA, for a specified exclusivity period. Nabors International agreed to use us as its preferred supplier of drilling rigs in the PRC and allowed us to match other PRC manufacturers' commercial terms and conditions for sale of drilling rigs, during the specified exclusivity period we granted to Nabors International, unless we breached or failed to fully comply with the MSA.

The parties further entered into the HOA after the MSA to explore the opportunity to further develop a mutually advantageous commercial relationship. After signing of the MSA, there were some misunderstandings between the parties. Such misunderstandings arose from the different interpretations of the terms of the MSA by Honghua Company and Nabors International, such as (a) Honghua Company's obligation to afford Nabors International certain rights of priority and rights of first refusal, (b) deadlines for delivery of the drilling rigs by Honghua Company, (c) quality and conformity with Nabors International's specifications for drilling rigs and certain equipment supplied to Nabors International; (d) reimbursement to Nabors International of tax paid by Nabors International on account of Honghua Company; (e) condition for provision of technical assistance to Nabors International by Honghua Company; and (f) restrictions to Honghua Company concerning selling drilling rigs to certain competitors of Nabors International. These misunderstandings formed the basis of claims of Nabors International as set out in a request for arbitration to the International Court of Arbitration by Nabors International, described in the next paragraph below. Under the HOA, the parties agreed to use their best efforts to enable Nabors Group to acquire up to 50% of the total equity interest in Honghua Company on terms and conditions to be set forth in a definitive, legally binding, written agreement. However, the parties did not reach an agreement on the commercial terms for such equity investment. According to King & Wood, our PRC legal advisers, pursuant to relevant PRC rules and regulations, if the parties had successfully reached a definitive, legally binding, written agreement to allow Nabors Group to acquire 50% of the total equity interest in Honghua Company, such an agreement would have had to be approved by the PRC authorities.

Nabors International submitted a request for arbitration to the International Court of Arbitration in June 2007, claiming that we breached the MSA in the following respects: (a) we breached our obligation to afford Nabors International a right of priority in the allocation of our manufacturing capacity and a right of first refusal to purchase any drilling rigs manufactured by us for customers outside of China or the former Soviet Union; (b) we failed to meet delivery deadlines for the drilling rigs manufactured for Nabors International; (c) the drilling rigs and certain of the equipment we supplied to Nabors International had defects; (d) we did not reimburse Nabors International a portion of the value-added tax refunds we received from the Chinese government relating

to the drilling rigs and spare parts supplied to Nabors International; (e) we failed to provide 30-day start-up technical assistance at initial field operating sites, as required under the MSA; and (f) we breached our obligations not to sell drilling rigs to any non-Chinese third parties at prices lower than those paid by Nabors International and not to sell drilling rigs to certain named competitors of Nabors International. Nabors International claimed damages of at least US$72 million, plus interest, relating to these alleged breaches.

In the same arbitration request, Nabors International also alleged that we breached our obligations under the HOA and related documents in relation to Nabors International's contemplated direct investment in up to 50% of the total equity interests in our company. Nabors International requested specific performance of our purported obligations or, in the alternative, an award of damages of at least US$100 million.

Prior to our receipt of the request for arbitration from Nabors International, we had sent a written demand letter to Nabors International, demanding that Nabors International promptly pay us US$51.7 million, which is the sum of all the payments that Nabors International owed us, as of June 15, 2007, for the drilling rigs and other related equipment and materials we provided to Nabors International and expenses we incurred in accordance with the MSA.

At all relevant times, Zhang Mi, the Chairman, actively participated in the negotiations and the discussions relating to the building up of the strategic business relationship with Nabors Group, particularly the MSA and the HOA. Since our Group believed (i) Nabors Group would bring us technology and promote our product image; and (ii) the equity investment aligned Nabors Group's interests with our interests, thus ensuring Nabors Group, the largest land drilling contractor in the world, would be more inclined to give more business opportunities to our Group, Honghua Company entered into the HOA with Nabors Group on August 9, 2005 in order to set out a framework for discussion on the proposed investment in Honghua Company by Nabors Group. The HOA was not intended to be legally binding at the initial stages of negotiation. Upon finalization of the material terms of the proposed acquisition, the parties would then enter into a definitive legally binding agreement to reflect their agreement. The Chairman made his best efforts to arrange and initiate various meetings and visits for discussions and negotiations in good faith for the best interests of Honghua Company with Nabors Group so as to finalize terms for the definitive agreement to effect the spirit under the HOA. However, despite having had such meetings, discussions and efforts involving intensive negotiations, the parties failed to reach agreement on the material terms of the proposed investment such as consideration, valuation mechanism and shareholding percentage.

Meanwhile, the Group was approached by some financial investors and strategic investors, including Carlyle Funds and DPF concerning proposed investment in the Group. The Group and the Financial Investors later reached consensus in mid-September, 2006, and executed, among other documents, the Investment Agreement in November, 2006, and March, 2007.

According to the Chairman, time was of the essence for the purpose of the Reorganization and the Listing. Honghua Company was required to complete the whole restructuring process to convert into a wholly foreign-owned enterprise with fully-paid up registered capital by mid-December, 2006, so as to fulfill the new requirements under the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, promulgated by the PRC regulatory authorities on August 8, 2006, which took effect on September 8, 2006. At all relevant times, Mr. Zhang had made his best efforts to negotiate and finalize the terms of the proposed investments with Nabors Group, the Financial Investors and other potential financial investors and strategic investors, in order to maximize the shareholders' value of the Group.

Although the Group admitted no liability to the alleged claims initiated by Nabors International, it considered that the Arbitration would constitute a legal proceeding of material importance and might have an impact on the proposed Listing. Through amicable negotiations, we and Nabors International settled the above contractual disputes in October, 2007, and Nabors Group agreed to transfer certain of its know-how and

technology to our Group (which was not previously agreed to be transferred to our Group) as a part of the settlement and building of a strategic business relationship package. In view of the numerous discussions that Honghua Company had with Nabors Group as well as Honghua Company's shareholders, and the amount of time that Mr. Zhang had spent in meetings and correspondence concerning the proposed transaction with Nabors Group, Nabors Group acknowledged that Mr. Zhang had indeed exercised "best endeavors" and was in ''good faith" during Honghua Company's negotiation with Nabors Group. For details, see the section entitled "Company History and Reorganization — Strategic Investor," in this Prospectus.

Dispute with 64 natural persons

We are engaged in a dispute with 64 natural persons claiming to be shareholders of Honghua Company. Upon the establishment of Honghua Company on December 31, 1997, Oil Drilling Plant was a shareholder, holding approximately 11.075% of Honghua Company. As an employee benefit offered by Oil Drilling Plant, the employees of Oil Drilling Plant were offered, through the trade union of Oil Drilling Plant, the opportunity to invest in Honghua Company. 841 employees of Oil Drilling Plant, collectively, invested an aggregate of RMB300,000 in Honghua Company when Honghua Company was established in 1997. Fu Chonglin represented these 841 employees and was registered as a shareholder with the Administration of Industry and Commerce of Honghua Company, holding an approximately 37.5% equity interest in Honghua Company.

To the best knowledge, information and belief of the Directors, having made all reasonable inquiries, in June, 2000, the labour union of Oil Drilling Plant (鑽採設備制造廠工會) organized an election, for the employees to elect individuals to represent them as shareholders in Honghua Company. The labour union of Oil Drilling Plant notified Honghua Company of the election results in a letter, dated June 9, 2000. The letter indicated that 11 representatives were elected by the employees of Oil Drilling Plant as their representatives in Honghua Company, and Honghua Company was requested to follow-up and do the appropriate filing. On September 16, 2000, Fu Chonglin transferred all of his equity interest in Honghua Company to these 11 representatives. The equity transfers to the said 11 representatives were filed with the Administration of Industry and Commerce, and the said 11 representatives were registered as shareholders of Honghua Company. The management of Honghua Company was responsible for the registration of the shares of these 11 representatives with the proper governmental authority.

As advised by our PRC legal advisor, King & Wood, the identity of the shareholders of a PRC company must be recorded in the register of members and filed with the competent Administration of Industry and Commerce.

Over the course of the period between 1997 and 2005, through various transfers and acquisitions, the number of investing employees decreased while the aggregate value of their investments increased. As of December 31, 2005, 728 employees of Oil Drilling Plant had invested an aggregate of RMB7,066,615 in Honghua Company as held by the 11 representatives registered as shareholders. Each of the 728 employees was issued with an "investment certificate" (出資証明) from Honghua Company to evidence his or her investment. The 728 people (excluding the 11 representatives) were not registered as shareholders of Honghua Company with the competent Administration of Industry and Commerce. However, according to King & Wood, the so-called "investment certificate" does not confer the rights of a shareholder on the holder of such certificate. In order to enjoy the rights of a shareholder, the person in question must be registered as the shareholder of the company with the competent Administration of Industry and Commerce.

After various shareholding changes and capital increases (as set out in the section entitled "Company History and Reorganization" of this Prospectus), as of December 31, 2005, 11 representatives of the said 728 employees, namely, Xing Manrong, Wang Yaoxin, Liu Chuanjun, Shi Shuming, Li Yan, Zhi Rongmu, Zhou Tao, Ni Xiurong, Yang Xuefeng, Yang Yuanchun and Yu Zhenghua, were registered as shareholders of Honghua

Company, as filed with the competent Administration of Industry and Commerce, holding approximately 33.632% of the equity interest of Honghua Company. As these 11 representatives were registered shareholders of Honghua Company, only they (and not the 728 employees other than the said 11 representatives) were entitled to enjoy the rights and obligations of shareholders of Honghua Company. The reason the 11 representatives were elected to represent these 728 employees of Oil Drilling Plant was to enable these employees, as investors of Honghua Company, to comply with the requirements of the PRC Company Law, which restricts the number of shareholders of a limited company to no more than 50. None of the 728 employees (other than the 11 representatives) ever attended shareholders meetings of Honghua Company. On January 7, 2006, Honghua Company passed a shareholders resolution, to reduce its registered capital and to repurchase all of the equity interest in Honghua Company held by these 11 registered shareholders. Honghua Company entered into an equity purchase agreement with such 11 registered shareholders on January 12, 2006, under which, with the written consent of such 11 registered shareholders, Honghua Company paid the equity repurchase price directly to the 728 employees. Honghua completed the capital reduction process with the competent Administration of Industry and Commerce on April 26, 2006. King & Wood, has advised us that as these 11 representatives were registered shareholders of Honghua Company, they were entitled to enter into and sign the said equity repurchase agreement with Honghua Company. Accordingly, the equity repurchase agreement was legally binding and enforceable against the 11 representatives who were parties to the equity repurchase agreements. No consent or authority from the 728 employees was required for entering into the equity repurchase agreement.

In relation to the proposed investment in Honghua Company by Nabors Group in August 2005, information regarding negotiations between Honghua Company and Nabors Group was not released to either the 11 representatives or the 728 employees of Oil Drilling Plant, because of the confidentiality provision contained in the HOA between Honghua Company and Nabors Group, and because the HOA only set out a framework for negotiations between Nabors Group and Honghua Company. The senior management of Honghua Company was of the view that there was no information in the HOA that was required to be provided to the shareholders as part of the buy-out arrangements. Furthermore, the main purpose of the buy-out was to regularize the shareholder structure of Honghua Company. The investment by Nabors Group and the buy-out of the 11 representatives were unrelated transactions.

Wang Yaoxin, who is a Non-executive Director, and Zhi Rongmu and Shi Shuming, who were Directors of Honghua Company at the time of the buy-out arrangement, all held equity interests in Honghua Company at that time. Except for Wang Yaoxin, Zhi Rongmu and Shi Shuming, the remainder of the 11 representatives are Independent Third Parties, and have no professional, business, or other relationship with any member of the Concert Group, the Directors or their Associates.

Wang Yaoxin, Zhi Rongmu and Shi Shuming disposed of all of their equity interests in Honghua Company during the buy-out arrangement. According to King & Wood, the buy-out arrangement and the capital reduction were carried out in accordance with the Articles of Association of Honghua Company and the applicable PRC laws and regulations. The Directors consider that the then directors carried out their fiduciary duty in proposing and implementing the buy-out arrangement. They are not aware of any violation of the director's duty under PRC laws as set out for them by King & Wood or the Articles of Association of Honghua Company by any of the then directors of Honghua Company.

The consideration in the equity repurchase agreement and the basis of its determination followed arm's length negotiations between the parties. The equity repurchase agreements were signed in January, 2006, when the audited accounts of Honghua Company for the year ended December 31, 2005, were not available. After arm's length negotiations, the parties agreed to use the audited net asset value of Honghua Company as of June 30, 2005, plus a premium of approximately 57.27%, as the basis for determining the consideration. The Directors believe this basis (i.e., the net asset value plus a premium) for determining the consideration is a method of valuation which is generally accepted for pre-IPO transactions in the PRC.

On November 26, 2006, 664 of the 728 original employees agreed to the buy-out arrangement and accepted payment from Honghua Company. The remaining 64 employees, who had invested an aggregate of RMB651,385 in the Company, claim that they are still shareholders and refused to accept the buy-out arrangement and payment from Honghua Company.

On December 12, 2007, the Company learned that 57 of the 64 employees initiated legal proceedings at the Intermediate Peoples' Court of Chengdu City, Sichuan Province (Action No.: (2008) Cheng Min Chu Zi No.53)) on December 11, 2007. Nothing further has been heard from the remaining seven investors. The 57 individuals joined as plaintiffs to the legal proceedings, against Honghua Company as the first defendant, Asia Harbour as the second defendant and 14 individuals as the remaining defendants, including Shi Shuming (third defendant), Huang Dequan (fourth defendant), Li Yan (fifth defendant), Wang Yaoxin (sixth defendant), Zhou Tao (seventh defendant), Wang Wei (eighth defendant), Chen Zhenghua (ninth defendant), Yang Xuefeng (tenth defendant), Yang Yuanchun (eleventh defendant), Ni Xiurong (twelfth defendant), Yu Zhenghua (thirteenth defendant), Xing Manrong (fourteenth defendant), Zhi Rongmu (fifteenth defendant) and Liu Chuanjun (sixteenth defendant) as the third to sixteenth defendants. There are a total of 16 defendants. The third to thirteenth defendants were the 11 registered representatives at the time of the repurchase and the fourteenth to sixteenth defendants were the three former registered representatives.

The relief sought by the 57 plaintiffs of these 64 employees includes:

(1) an adjudication by the court that the 592,250 shares held by the third to sixteenth defendants (the 11 representatives and three former representatives) were actually owned by the 57 plaintiffs, and all the benefits and rights in such equity interests be restored to the 57 plaintiffs and the names of the 57 plaintiffs be entered into the register of members of Honghua Company;

(2) an adjudication by the court that Honghua Company be ordered to pay to the 57 plaintiffs a total sum of RMB296,125, being the 2003 dividends;

(3) an adjudication that the repurchase of the 592,250 shares of Honghua Company be declared null and void;

(4) an adjudication that Asia Harbour be jointly and severally liable for the abovementioned relief sought by the 57 plaintiffs and the consequential liabilities thereof, and that Asia Harbour together with Honghua Company be ordered to apply to the competent Administration of Industry and Commerce to register the 57 plaintiffs as shareholders of Honghua Company; and

(5) an adjudication that all the defendants be jointly liable for the legal costs arising from these legal proceedings.

As advised by King & Wood, the entrustment arrangement was entered into between the 728 employees and 11 registered shareholders in good faith, and the entrustment arrangement is legal and valid under PRC laws and regulations.

The 11 representatives, but not the 728 employees (including the said 64 employees), were registered as shareholders with the competent Administration of Industry and Commerce, in accordance with the PRC laws and regulations; so, the 728 employees (including the said 64 employees, but excluding the 11 representatives) were not shareholders of Honghua Company. The reason the 11 representatives were elected to represent these 728 employees of Oil Drilling Plant was to enable these employees, as investors of Honghua Company, to comply with the requirement of the PRC Company Law, which restricts the number of shareholders of a limited company to no more than 50. Except for the 11 representatives, there is no legal basis under PRC law for the 728 employees (including the said 64 employees) of Oil Drilling Plant to be regarded as shareholders of Honghua Company, as these 728 employees (including the said 64 employees) were never registered as Honghua Company's shareholders with the Administration of Industry and Commerce. Neither the Company nor Honghua Company has distributed any dividends to the employees of Oil Drilling Plant. Each of the 728 employees

(including the said 64 employees) may have received a certain sum of money from the 11 representatives based on the investment in Honghua Company made by each of the 728 employees (including the said 64 employees). Pursuant to PRC law, only shareholders, and not employees, are entitled to receive dividends. In addition, except for the distribution of dividends by Honghua Company in accordance with its shareholders' resolutions, Articles of Association and applicable PRC laws, none of Zhang Mi, Ren Jie or Zhang Xu have ever received any dividend payments from Oil Drilling Plant. According to King & Wood, our PRC legal advisers, the investors' investment and receipt of purchase money from Honghua Company as mentioned above are only evidence of sources of funds, and shall not affect the identities of the shareholders of Honghua Company. The identities of shareholders are recognized under PRC laws and regulations by reference to the register of members of the Company and filing with the competent Administration of Industry and Commerce. The Joint Sponsors' PRC legal advisers, Commerce & Finance, concur with this position.

According to King & Wood, since (i) only the 11 registered representatives, rather than the 728 employees, were recognized as the shareholders of Honghua Company pursuant to the applicable PRC laws, and (ii) the legal procedures regarding the buy-out arrangement complied with relevant PRC laws, any claim made by the 64 employees, or any employees represented by the 11 representatives, arguing that they were shareholders of Honghua Company is without legal basis under PRC laws, and no such claim would affect the existing or future shareholding structure of Honghua Company.

The Company's PRC legal advisors, King & Wood, and the Joint Sponsors' PRC legal advisor Commerce & Finance, have carried out due diligence on the history and Reorganization of the Company with the management of the Company, in particular, concerning the capital reduction process which is the subject of our dispute with the 64 natural persons. See the sub-section entitled "Risk Factors — Risks Relating to Our Business — Our dispute with 64 individuals may materially and adversely affect our business and financial condition". King & Wood advise that the capital reduction process was conducted in accordance with applicable PRC laws and regulations, and there was no violation of any minority shareholders' rights under PRC law.

Ally Giant, Ample Chance, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Ally Smooth, Charm Moral, Beauty Clear, Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises Inc, Dobson Global Inc, Darius Enterprises Limited, Believe Power, Benefit Way, Birdview, and the Existing Shareholders of the Company have executed a deed of indemnity in respect of dispute and risk, dated February 15, 2008 in favor of the Group, under which they agree to jointly and severally indemnify any members of the Group for any potential damages that the Company may suffer as a result of the legal proceedings initiated by the 57 plaintiffs or the dispute with the 64 investors. Whatever the outcome of the said legal proceedings, any loss suffered by the Company as a result of the said legal proceedings will be covered by the indemnity.

Dispute with an ex-employee

Zhang Jing signed an employment contract in March, 2007, for the position of Chief Financial Officer of our Company. This contract was to run from April 5, 2007, to April 4, 2009, and provided for a basic monthly salary of RMB11,000, monthly bonus payments of RMB37,000 and an annual bonus payment of RMB120,000.

Prior to assuming his role as Chief Financial Officer on April 5, 2007, we attempted to rescind Zhang Jing's employment contract, as he was unable to provide us with an international accounting certificate. He had never obtained such a qualification. We offered to compensate Zhang Jing for this rescission, but we could not agree with him on an amount of compensation that would resolve the issue. Zhang Jing reported for work on April 30, 2007; however, no work was assigned to him and, on May 19, 2007, we issued Zhang Jing with a formal notice of termination of his employment contract, accompanied by two months' severance pay.

Zhang Jing then initiated arbitration proceedings against us on June 13, 2007, for rescinding his contract. Although we received a favorable ruling in the arbitration proceedings, Zhang Jing has since commenced legal proceedings against us in Sichuan Guanghan People's Court, for damages totalling RMB1,766,016, consisting of Zhang Jing's salary for the entire length of the contract, plus expenses and other bonuses he might have received

during the course of the contract period. We have denied all of Zhang Jing's allegations and on December 13, 2007, Guanghan People's Court of Sichuan Province issued a judgment rejecting Zhang Jing's claim. Zhang Jing failed to appeal against the judgment within 15 days of it being delivered to him and the judgment is therefore final.

Except for that which is described above, no litigation or claim of material importance is known to the Directors to be pending or threatened by or against us that would have a material adverse effect on our results of operations or financial condition.

Non-competition Deed

Pursuant to a Non-competition Deed between the Ally Giant, Ample Chance, Ally Smooth, Charm Moral, Zhang Mi, Ren Jie, Liu Zhi, Zheng Yong, Zuo Huixian, Zhang Xu, Wang Jiangyang, Chen Jun, Fan Bing, Zhang Yanyong, Ao Pei, Tian Diyong, Shen Dingjian, Liu Xue Tian (deceased) Zhou Bing, Lu Lan, Tian Yu, Li Hanqiang, Liu Yingguo, Liu Lulu, He Guangfu, Zhang Zongyou and Chen Zongliang (the "Covenantors"), in favour of our Company, pursuant to which each of the Covenantors (collectively the "Covenantors") and our Company (the "Non-competition Deed"), each of the Covenantors has given certain non-competition undertakings to our Company (for ourselves and for the benefit of the members of our Group), to the effect that, he/it shall not, and he/it shall make his/its best efforts to procure that his/its Associates or connected persons do not and shall not, directly or indirectly, whether on his/its 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 (the ''Restricted Activity''), conducted in the PRC or overseas, which is in competition with, or is likely to be in competition with, the business carried on by any member of our Group, from time to time during the restricted period set out in the Non-competition Deed.

There shall be no restriction on a Covenantor and/or his/its Associates or his/its connected persons 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:

(a) such shares or securities are listed on a stock exchange; and

(b) the aggregate number of shares, held by him/it and/or his/its Associates or his/its connected persons or in which he is interested, does not amount to more than 5% of the issued shares of the Subject Company, and he/it or his/its connected person or Associates at no time shall have the right to appoint more than 10% of composition of the board of the Subject Company.

Each of the Covenantors has undertaken further that he/it shall first refer to our Company any investment or other commercial opportunity relating to the Restricted Activity that is identified by, or offered by a third party, to him or any company controlled by him/it (other than those companies which are controlled by any Covenantors only by virtue of his/its shareholding in our Company), in the following manner:

(a) The relevant Covenantors or his/its Associates or connected persons shall give a written offer notice to our Company of such opportunity, identifying the nature of business, investment or acquisition costs and other details reasonably necessary for our Company to consider whether to pursue the opportunity.

(b) Our Company is required to notify the relevant Covenantors within 30 Days (which, if our Company in its sole discretion decides, may be extended for another 30 Days by our Company notifying the relevant Covenantors of such extension) in writing of any decision taken to pursue or decline such opportunity. Our Company will seek approval from its Board committee, consisting of Independent Non-executive Directors who do not have a material interest in the matter, as to whether to pursue or decline such opportunity.

(c) The relevant Covenantors or his/its Associates or connected persons will be entitled to pursue such opportunity if (i) he/it has received a notice from our Company declining the opportunity, or (ii) he/it has not received any notice from our Company within 30 days (which, if our Company in its sole discretion decides, may be extended for another 30 days by our Company notifying the relevant Covenantors of such extension).

(d) If there is a material change in the nature of the opportunity pursued by the relevant Covenantors or his/its Associates or connected persons, he/it will refer the opportunity as so revised to our Company in the manner as outlined above.

Each of our Covenantors has acknowledged that our Company may be required by law, regulatory bodies or the rules and regulations of the stock exchange(s) on which our Company may be listed from time to time, to disclose information on such opportunities, including but not limited to disclosure in public announcements or in our Company's annual report, of decisions made by our Company to pursue or decline such opportunities, and they have agreed to such disclosure to the extent necessary to comply with any such requirement.

The Non-competition Deed will terminate upon the earlier of:

(a) the anniversary date when the Covenantors and his/its Associates or connected persons cease to beneficially own , directly or indirectly, any Shares; or

(b) the date when our Shares cease to be listed on the Stock Exchange.

Previous Investment in Izhdrill-Honghua

Izhdrill-Honghua is a Russian company established with limited liability on July 8, 2005, and was 50% owned by Zhou Bing. At the time of investment, Zhou Bing was in charge of the Russian market in Honghua Company and was therefore selected to hold shares of Izhdrill-Honghua.

On October 10, 2007, Zhou Bing entered into a share transfer agreement with Izhdrill-Honghua pursuant to which Zhou Bing agreed to transfer all his interests in Izhdrill-Honghua, at a consideration of RUB150,000 (being the subscription price that Zhou Bing paid to Izhdrill-Honghua for the shares). The said share transfer was completed on October 11, 2007, upon amendment of the Share Register.

Previous Investment in Honghua-Ural

Honghua-Ural is a Russian company established with limited liability on September 12, 2005, and was owned by Zhang Mi, Liu Zhi, Ren Jie and Zhou Bing as to 16%, 13%, 13% and 8%, respectively. The remaining shares were owned by two Russian shareholders. Zhou Bing became one of the shareholders of Honghua-Ural (along with Zhang Mi, Liu Zhi and Ren Jie who hold more senior positions than him in Honghua Company) because he was in charge of the Russian market in Honghua Company at the time of the investment.

On November 15, 2007, Zhang Mi, Liu Zhi, Ren Jie and Zhou Bing entered into a share transfer agreement with the Russian Shareholder Трубкин Борис Владимирович, pursuant to which Zhang Mi, Liu Zhi, Ren Jie and Zhou Bing (as transferors) agreed to transfer all their interests, in Honghua-Ural to the Russian Shareholder Трубкин Борис Владимирович (as transferee), at a total consideration of RUB150,000 (being the subscription prices of RUB48,000, RUB39,000, RUB39,000 and RUB24,000 that Zhang Mi, Liu Zhi, Ren Jie and Zhou Bing paid to Honghua-Ural for the shares, respectively). The said share transfers were completed on November 15, 2007, upon amendment of register of members of Honghua-Ural.

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:

Shareholder	Percentage ownership	Relationship with the Concert Group
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 Xuetian (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).

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

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.

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 l4A.35(l) 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.

Directors

The table below sets forth information regarding our Directors.

Name	Age	Position
Zhang Mi (張弭)	51	Chairman and Executive Director
Ren Jie (任杰)	41	Executive Director
Zhang Xu (張旭)	47	Executive Director
Wang Yaoxin (王堯鑫)	47	Non-executive Director
Xiang Qingsheng (相慶生)	60	Non-executive Director
He Sean Xing (何欣)	43	Non-executive Director
Qi Daqing (齊大慶)	43	Independent Non-executive Director
Liu Xiaofeng (劉曉峰)	45	Independent Non-executive Director
Chen Guoming (陳國明)	45	Independent Non-executive Director
Liu Yinchun (劉銀春)	61	Independent Non-executive Director
Wang Li (王礫)	37	Independent Non-executive Director
Tai Kwok Leung Alexander (戴國良)	50	Independent Non-executive Director
Wang Chunlin (王春林)	44	Independent Non-executive Director

The Board consists of thirteen Directors, including three Executive Directors, three Non-executive Directors, and seven Independent Non-executive Directors. The Directors are elected at a meeting of the Company's shareholders for a term of three years, renewable upon re-election. An Independent Non-executive Director cannot concurrently hold the position of a supervisor, manager, or financial controller of the Company. The functions and duties of the Board include convening shareholders' meetings, reporting its work at the shareholders' meetings, implementing the resolutions of the shareholders, determining the Company's business plans and investment plans, formulating the Company's annual budget and final accounts, formulating proposals for the Company's dividend and bonus distributions and for the increase or reduction of capital, and exercising other powers, functions and duties as authorized by the Articles of Association.

Executive Directors

Mr. Zhang Mi (張弭), aged 51, has been Chairman of the Company and an Executive Director since June, 2007. He is also President of the Company.

Positions held by Mr. Zhang in the Company's subsidiaries are set forth in the table below.

Subsidiary company	Position	Time
Asia Harbour	director	Since August 18, 2006
Honghua Company	chairman, executive director, and general manager	Since December 31, 1997
HH Egyptian Company	director	Since April 26, 2007
Honghua America	chairman and executive director	Since October 11, 2004
Honghua International	chairman and executive director	Since January 13, 2004

Mr. Zhang graduated from the Sichuan Petroleum Administration Vocational University in 1982, with a diploma in machinery manufacture, design and equipment. He graduated from the Party Institute of Sichuan Provincial Committee Correspondence College in 1998, with a degree in Economics and Management. In 2004 he then obtained a senior engineer qualification granted by the Committee for Evaluation of Senior Technical Positions of the China National Petroleum Corp.. He has been receiving special subsidies granted by the State Council of the PRC government (政府特殊津貼) since February 2007, for his significant contribution to the development of machinery engineering in the PRC.

Mr. Zhang is particularly involved in enhancing the company's technological innovation. Mr. Zhang is responsible for the development of the ZJ70LC drilling rig, which was one of the major ultra-deep drilling rigs used in China. He is also responsible for the development of the digitally-controlled VFD rig (DBS), the first of its kind in China. The DBS has been included in the State Critical Technological Equipment Innovation Research Project (國家重大技術裝備創新研製項目), the State Key New Products (國家重點新產品) and the National Torch Plan Project (國家級火炬計畫項目). In 2005, Mr. Zhang was awarded the Sichuan Province Prize for Outstanding Talent in Innovation (四川省第三屆傑出創新人才獎), by the Sichuan Provincial Party Committee and the Sichuan Provincial People's Government. In 2007, he was granted the May 1 Labor Medal of Sichuan Province (四川省五一勞動獎章) by the Sichuan Provincial Federation of Trade Unions in 2007.

Mr. Ren Jie (任杰), aged 41, has been an Executive Director of the Company since January 18, 2008. He is also a Vice-president of the Company. In 1990, Mr. Ren earned a Bachelor's degree in mining machinery from Southwest Petroleum University, located in Sichuan Province, specializing in petroleum and natural gas. In 1995, Mr. Ren obtained an engineering qualification, granted by the China National Petroleum Corp., Sichuan Petroleum Administration. In November 2007, he also became a member of the 5th Edition Committee of the Oil Field Equipment Journal. Mr. Ren is employed as an engineer by Honghua Company.

In the early stages of Honghua Company, Mr. Ren successfully designed a rotary table transmission unit, a drawworks bevel gear box, and universal shaft equipment for the ZJ70LC drilling rigs, which contributed greatly to the development of the Company. Mr. Ren, together with his research and development team, also successfully developed a set of digitally-controlled VFD rigs, after the development of the first digitally-controlled VFD rig (DBS).

Positions held by Mr. Ren in the Company's subsidiaries are set forth in the table below.

Subsidiary company	Position	Time
Asia Harbour	director	Since August 18, 2006
Honghua Company	director and	Since December 31, 1997
	Deputy General Manager	Since March 1, 2003
Youxin Company	director	Since December 8, 2006
Honghua International	director	Since January 13, 2004

Mr. Zhang Xu (張旭先生), aged 47, has been an Executive Director of the Company since January 18, 2008. He has been a director of Honghua Company since December 31, 1997 and a director of Asia Harbour since August, 2006. Mr. Zhang graduated from Southwest University of Finance and Economics in 1998. Mr. Zhang obtained a senior accountancy qualification in 2007, granted by the Personnel Bureau of Sichuan Province, and had over 10 years of accounting experience prior to joining Honghua Company. From January, 1986, to June, 1991, Mr. Zhang was an accounting staff member in the Chuannan Mining District Transport Team, Sichuan Petroleum Administration. From June, 1991, to January, 1995, Mr. Zhang was an accounting staff member and subsequently an accountant in Tarim Sichuan Drilling Company. From January, 1995, to January, 1996, Mr. Zhang was an accountant for Guanghan Drilling and Production Equipment Plant, Sichuan Petroleum Administration.

Positions held by Mr. Zhang in the Company's subsidiaries are set forth in the table below.

Subsidiary company	Position	Time
Asia Harbour	director	Since August 18, 2006
Honghua Company	director	Since December 31, 1997

Non-executive Directors

Mr. Wang Yaoxin (王堯鑫先生), aged 47, has been a Non-executive Director of the Company since January 18, 2008. He has been a Director of Asia Harbour since August, 2006 and a director of Sichuan Honghua Petroleum Equipment Co., Ltd., since December 31, 1997. Since April, 2005, he served as the plant manager of the Sichuan Petroleum Administration Chengdu General Machinery Plant (based in Guanghan) Thermal Processing Sub-plant. From 2004 to 2005, he was the plant manager of the Sichuan Petroleum Administration Drilling Equipment Factory Valve Sub-plant. From 1996 to 2004, he was the plant manager of the Maintenance Sub-plant of the Sichuan Petroleum Administration Drilling Equipment Factory. In 1981, Mr. Wang completed a course in machinery manufacturing at the Chengde Petroleum School. In 1990, Mr. Wang completed a course in quality management at the Chengdu Science and Technology University, Management Science and Engineering Department. In 2000, Mr. Wang completed a course in economic management at the Party Institute of Sichuan Provincial Committee Correspondence College. He obtained an engineering qualification from China National Petroleum Corp in 1995.

Mr. Xiang Qingsheng (相慶生先生), aged 61, has been a Non-executive Director of the Company since January 18, 2008. He has been a director of Asia Harbour since March, 2007. Since 2004, he has been a director and general manager of COOS, a director of China Nanshan Development (Group) Incorporation, a vice-chairman of Nanhai West Oil Oilfield Service (Shen Zhen) Co., Ltd., and a director of CNOOC Insurance Limited. Mr. Xiang completed an English course at Guangdong Huanan Normal University in 1988. He obtained a senior economist qualification from CNOOC in 1997.

Mr. He Sean Xing (何欣先生), aged 43, has been a Non-executive Director of the Company since January 18, 2008. He has been a director of Honghua Company, since March, 2007. He has been a director of Asia Harbour since December 6, 2006. He has been a director of Anshine International Group (incorporated in the Cayman Islands) since September 10, 2006. He has been a director of Informax Optical Technology Corporation since May, 2002. He has been a director of eBIS Co., Ltd., since May 28, 2003. He is also a managing director of Carlyle Funds. Mr. He graduated from Zhejiang University in 1985, with a Bachelor's degree in structural engineering, and in 1991 he received a Master's degree in engineering from Carleton University (Canada). In 1994, he earned an MBA from the Schulich School of Business, York University (Canada). In 1997, Mr. He qualified as an American Chartered Financial Analyst (CFA).

Independent Non-executive Directors

Mr. Qi Daqing (齊大慶先生), aged 43, has been an Independent Non-executive Director of the Company since January 18, 2008. Mr. Qi is a Professor of accounting and Associate Dean at Cheung Kong Graduate School of Business (CKGSB). He taught at the School of Accounting, Chinese University of Hong Kong, from 1996 to 2002. His research interests primarily focus on financial reporting and strategy execution. He has published many articles in accounting and finance journals, and he has extensive executive training and consulting experience in accounting and corporate finance.

His clients include:

Type of client	Name of client	Duration of service
Government:	Shanghai Municipal Government	2000-2001
	Ministry of Information Industries of PRC	1998-2000
Private Sector:	Huawei Technologies Co., Ltd.	2006
	Lenovo Group Limited	2004-2005
	Digital China Holdings Limited	2004
	Siemens Ltd., China	2002
	China Telecommunications Corporation	2001
	Nokia (China) Investment Co., Ltd.	1999-2001

He received his Ph.D. in accounting from Michigan State University in 1996, his MBA from the University of Hawaii at Manoa in 1992, and his Bachelor's degrees in Biophysics and International Journalism from Fudan University in 1985 and 1987, respectively. Mr. Qi is not a certified public accountant; he became a member of the American Accounting Association in 1996. With over ten years of experience as a professor of accounting, a Ph.D in accounting, an MBA and extensive executive training and consulting experience in accounting and corporate finance, Mr. Qi's experience means that he has the requisite expertise as required by the Listing Rules. Therefore, whilst Mr. Qi does not hold formal accounting professional qualifications, he meets the criteria for accounting and related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Mr. Qi is chairman of the Audit Committee of two listed companies. He is currently Chairman of the Audit Committee of Hongyuan Securities Company Limited (a PRC listed company) and is directly involved in the improvement and compliance of its audit process. He is also Chairman of the Audit Committee of Sohu (a NASDAQ listed company) and is directly involved in the formulation of accounting policies and audit processes.

Mr. Liu Xiaofeng (劉曉峰先生), aged 45, has been an Independent Non-executive Director of the Company since January 18, 2008. He is currently a Managing Director of DBS Asia Capital (wholly owned-subsidiary of DBS Bank), and an independent non-executive Director of CNPC (Hong Kong) Limited and Haier Electronics Group Co., Ltd., both of which are publicly-listed companies on the Stock Exchange. He has over 14 years of experience in corporate finance and has worked with various international financial institutions since 1993, including NM Rothschild & Sons, JP Morgan, and DBS. Mr. Liu obtained a Master's degree and a Ph.D. from University of Cambridge in 1988 and 1993 respectively, a Master of Science degree in Development Studies from the University of Bath, England, in 1987, and a Bachelor of Economics degree from Sichuan Institution of Finance and Economics now known as Southwest University of Finance and Economics, in 1983.

Mr. Chen Guoming (陳國明先生), aged 45, has been an Independent Non-executive Director of the Company since January 18, 2008. In 1982, Mr. Chen graduated from the Mechanical Department of the East China Petroleum Institute with a Bachelor's Degree, and then worked as an assistant engineer in the Lanzhou General Machinery Plant from 1982 to 1983. He earned his Master's degree in 1986, from the Beijing Graduate School of East China Petroleum Institute. He then worked as a teacher in this Institute and was promoted to Associate Professor and then Professor in 1992 and 1995, respectively. He was a visiting scholar at the University of California, Berkeley, from 1996 to 1997. He obtained his Ph.D. degree in 1999, and was promoted to Ph.D. candidate supervisor in 2000. He is currently a Professor and a Ph.D. candidate supervisor in the Department of Mechanical and Electrical Engineering, China University of Petroleum. Currently, Mr. Chen is the Chief of Shandong Key Laboratory of Petroleum Mechanical Engineering and the Research Office of the Offshore Petroleum Engineering; a member of the Quality & Reliability Committee of China Petroleum Society,

the Offshore Engineering Committee of China Naval Architects and Marine Engineers' Society and China Mechanical Engineering Society; and a member of the Editorial Committee of the Journal of Petroleum Science, the Journal of Oil Mining Field Machinery and the Journal of China University of Petroleum (Natural Science Edition). Mr. Chen was awarded the National Labor Day Medal in 2007. He has also been receiving special subsidies granted by the State Council of the PRC government (政府特殊津貼) since August 2005, for his significant contribution to the development of higher education in China.

Mr. Liu Yinchun (劉銀春), aged 61, has been an Independent Non-executive Director of the Company since January 18, 2008. Mr Liu served as director of East China Oil Bureau from 2002 to 2007. Mr. Liu graduated from Beijing Geosciences College (now known as China University of Geosciences) in 1969 with a Bachelor's Degree in Exploration Engineering. He has extensive experience in oil drilling and business management. In 1997, he served as the deputy director and Chief Engineer of East China Oil and Geology Bureau from 1996 to 2002. He was awarded Senior Engineer at professor level and has been receiving special subsidies granted by the State Council of the PRC government (政府特殊津貼) since February 1998, for his significant contribution to the development of engineering technology in China.

Mr. Wang Li (王礫), aged 37, has been an Independent Non-executive Director of the Company since January 18, 2008. Mr Wang graduated from China University of Political Science and Law in 1992 with a Bachelor's Degree in Civil Law and in 2001 received a Master's Degree in International Law from Napier University Edinburgh. Mr. Wang also studied law in international trade and international electronic business at Asia Economy Management College of the University of California in 1996. Mr. Wang specialises in legal services in finance, stock exchange, real estate and international trade. His clients include, among others, Bank of China (Chengdu branch), Citigroup Global Markets Asia Ltd and Construction Bank of China (International Division of Sichuan Branch). Mr Wang is a director of the Sichuan Lawyers Association.

Mr. Tai Kwok Leung Alexander (戴國良), aged 50, has been an Independent Non-executive Director of the Company since January 18, 2008. Mr. Tai graduated from Victoria University of Wellington in New Zealand with a degree in Bachelor of Commerce and Administration in 1982 and became an associate member of the Hong Kong Institute of Certified Public Accountants in 1983. Mr. Tai has extensive accountancy, corporate finance and investment experience in Hong Kong and overseas. Mr. Tai is a shareholder and an executive director of Access Capital Limited, a licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities.

Mr. Wang Chunlin (王春林), aged 44 has been an Independent Non-executive Director of the Company since January 18, 2008. Mr Wang graduated from the University of International Business & Economics in Beijing in 1986. In 1999, he obtained a MBA from Murdoch University in Australia and in 2003 he was awarded the Master of Science in International Shipping & Transport Logistics by Hong Kong Polytechnic University. Mr. Wang became a consultant of Pacific Basin Shipping Limited on 1 December 2005 responsible for group business development and was confirmed as its permanent employee on 1 March 2006. On 21 August 2006, Mr. Wang was appointed executive director of Pacific Basin Shipping Limited with effect from 1 September 2006. He is also a director of Asia Pacific Maritime & Infrastructure Group Limited in Hong Kong, Bermuda, BVI, Asia Pacific Fortune Limited and Asia Pacific Fortune (HK) Limited. Mr Wang joined the Sinotrans Group in 1986 and until 2002 assumed several senior positions in various subsidiaries and joint ventures of Sinotrans Group and was responsible for overseeing a wide range of activities. In 2002 he was promoted to Assistant President of Sinotrans Group and Managing Director of Sinotrans Shipping Limited. In April 2005 Mr. Wang joined the IMC Group where he was responsible for developing its business in Hong Kong and China.

Senior Management

Mr. Liu Zhi (劉智先生), aged 43, is a Vice-president of the Company. Mr. Liu has been a director of HH Egyptian Company since April 26, 2007. He has been a Deputy General Manager of Honghua Company since January 1, 2001, and he is in charge of domestic and overseas sales, and financial and accounting management. He was a director of Honghua Company from August 17, 2006 to March 8, 2007. He has respectively been a director of Hongtian Company since December 8, 2006, a director of Honghua International since January 13, 2004, and has been the general manager of Honghua International since January 6, 2004. Mr. Liu has contributed to the expansion of Honghua Group's markets inside and outside of China. Mr. Liu graduated from Southwest Petroleum University in 2003, with a Master's degree in oil and gas storage and transportation.

Mr. Luo Qiping (羅啓平先生), aged 44, is a Vice-president of the Company. He has respectively been a deputy general manager of Honghua Company since June, 2007, and a director of Honghua International since January 13, 2004. In 1993, he completed a course in machinery manufacture and design at the No. 2 Heavy Machinery Plant Vocational University, and obtained an engineering qualification from the Personnel Bureau of Sichuan Province, in September, 1997. He joined Honghua Company as an engineer in 1999. Prior to joining Honghua Company, he worked as a technician and then an engineer in Dongfang Petro Chemical General Equipment Factory (東方石化通用設備總廠) from 1982 to 1999. Mr. Luo has extensive experience in production management. He passed an examination in ISO9000:2000 Quality Management System Requirements and Internal Auditing Skills in April 2001 and awarded by Det Norske Veritas ("DNV") certificate of training.

Mr. Liu Gangqiang (劉剛強先生) is the secretary of the Board of Directors and a joint Company secretary of the Company. Please refer to the section entitled "Joint Company Secretaries" below for Mr. Liu's biography.

Ms. Lu Hong (魯紅女士) is the financial controller of the Company. Please refer to the section entitled "Qualified Accountant" for Ms. Lu's biography.

Ms. Leung Wai Han Corinna (梁慧嫻女士) is a joint Company secretary. Please refer to the section entitled "Joint Company Secretaries" below for Ms. Leung's biography.

Joint Company Secretaries

Mr. Liu Gangqiang (劉剛強先生), aged 38, has been the secretary of the Board of Directors and a joint Company secretary of the Company since January 21, 2008. He has been the secretary of the Board of Directors and the company secretary of Honghua Company since March, 2004. He is mainly responsible for company Reorganization and Listing preparation, capital and corporate finance management, financial data management, establishment of internal control systems, compliance and legal affairs, intellectual property protection, investor and shareholder relations, government and regulatory authority coordination, and day-to-day administration of the Board of Directors (e.g., organizing Board meetings and shareholders meetings, preparing documents for Board meetings and shareholders meetings, and filing papers, contracts and other legal documents concerning the Board of Directors).

From February, 2003, to September, 2003, he conducted research on the development of state-owned enterprises, in the Work Technology Center of the Sichuan State-Owned Enterprise Supervisory Committee. From October, 2000, to September, 2003, he was an assistant general manager of Sichuan Aerospace High-tech Co., Ltd., and general manager of Aerospace Network Communications System Engineering Co., Ltd. From September, 1997, to October, 2000, he served as an economist in Sichuan Trust & Investment Co., Ltd., and was engaged in securities analysis, investment financing, capital planning, asset management and legal affairs. From September, 1991, to May, 1994, he was a technician at Beijing Yanshan Petroleum & Chemicals Co., Ltd. Mr. Liu graduated from Chengdu Science and Technology University (now Sichuan University), with a Bachelor's degree in high polymer material and engineering, in 1991. He earned a Master's degree in Economics

from Southwest University of Finance and Economics in 1997. In 2003, he received a Ph.D. in Economics from Southwest University of Finance and Economics.

Ms. Corinna Leung (梁慧嫻女士), aged 39, has been a joint Company secretary of the Company since January 21, 2008. She is a senior manager of the Corporate Services Department of Tricor Services Limited. She is an associate with the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She provides corporate services to companies that are listed on the Main Board, Growth Enterprise Market of the Stock Exchange and private companies.

Qualified Accountant

Ms. Lu Hong (魯紅女士), aged 38, was appointed financial controller of Honghua Company in May, 2007, and has been the financial controller and the qualified accountant of the Company since June, 2007. Mr. Liu Zhi was responsible for financial and accounting management before Ms. Lu joined the Group in May, 2007. After Ms. Lu joined the Company, Mr. Liu Zhi became responsible for the Company's financial and accounting work concerning manufacturing and operations, and Ms. Lu was responsible for the financial and accounting work concerning the Listing. Upon the Company's Listing, Ms. Lu will be responsible for all the financial and accounting work of the Company and its subsidiaries. Ms. Lu was the company secretary, qualified accountant and assistant financial controller of Guangdong Nanyue Logistics Co., Ltd., a company listed on the Stock Exchange, from February, 2005, to December, 2006. She is a Certified Public Accountant in China, a Certified Public Accountant in Hong Kong, and has obtained a fellowship from the Association of Chartered Certified Accountants (FCCA). Ms. Lu graduated from China University of Geosciences, Beijing, with a Master's degree in 1994.

Audit Committee

We have established an audit committee in compliance with the requirements of the Listing Rules. The primary responsibilities of our audit committee are review and supervision of our financial reporting processes and our internal control systems. Our audit committee currently consists of Mr. Qi Daqing, Mr. Liu Xiaofeng, Mr. Chen Guoming, Mr. Liu Yinchun, Mr. Wang Li, Mr. Tai Kwok Leung Alexander and Mr. Wang Chunlin. The audit committee is chaired by Mr. Qi Daqing, who is an Independent Non-executive Director of our Company, and who has the appropriate professional qualifications and financial management expertise as required by the Listing Rules.

Remuneration Committee

The Company has established a remuneration committee. The primary duty of the remuneration committee of the Company is to make recommendations to the Board concerning the Company's policies and structure for remuneration of Directors and senior management. The remuneration committee consists of Mr. Zhang Mi, Mr. Qi Daqing and Mr. He Sean Xing. Mr. Qi Daqing who are Independent Non-executive Director and Mr. He Sean Xing who is a Non-Executive Director. The chairman of the remuneration committee of the Company is Mr. He Sean Xing.

Corporate Governance Committee

We have established a corporate governance committee. The primary responsibilities of our corporate governance committee are monitoring corporate governance matters. The corporate governance committee will be responsible for approving matters namely monitoring the overall implementation of internal control rules and advising on and providing guidance as to matters relating to corporate governance issues.

Our corporate governance committee currently consists of Mr. Qi Daqing, Mr. Liu Xiaofeng, Mr. Chen Guoming, Mr. Liu Yinchun, Mr. Wang Li, Mr. Tai Kwok Leung Alexander and Mr. Wang Chunlin, who all are Independent Non-executive Directors. The corporate governance committee is chaired by Mr. Liu Xiaofeng.

Internal Controls

Under our Articles of Association, our Board has the authority to determine our internal management organization and corporate governance. We have clearly defined the responsibility and authority of our Board of Directors and our senior management through our Articles of Association and internal policies. We have adopted certain internal control policies to manage and minimize financial and other risks, to ensure timely and accurate preparation and reporting of financial information, and to monitor compliance with laws by the senior management of the Group in the performance of their duties. For example, we have established an investment policy and a guarantee policy that are to be followed by all of our subsidiaries and that require Board resolution for investments or guarantees exceeding certain amounts. We have also established an internal control office as part of our management and an audit committee under our Board, both of which have the functions of monitoring compliance with laws by our senior management and in our daily operations, and of carrying out investigations for suspected breaches of law. However, certain control procedures, which are new and were introduced after Reorganization may need further adjustment and development to operate effectively. Our Directors are in the process of establishing additional policies and procedures. We plan to establish a strategic investment committee under our Board, to evaluate, approve and monitor large investment projects.

Corporate Governance Measures

The Company is aware that, upon successful listing on the Stock Exchange, it will be required to comply with stringent requirements concerning internal controls and corporate governance. In this regard, the Company has resolved to undertake the following steps to improve its protection of minority shareholders, to ensure that the management of the Company will adhere to the Listing Rules, as well as other applicable laws and regulations for a company listed on the Stock Exchange, and to enhance internal controls:

a) The Company adopted new Articles of Association by shareholders' resolutions dated January 21, 2008, in compliance with requirements of the Cayman Companies Law and the Listing Rules. The Articles of Association prohibit any Director from attending and being present in the Board meeting while any resolution of the Board or agenda in respect of any contract or arrangement in which the Director or any of his Associate(s) has/have a material interest is being discussed or voted. The Director is also prohibited from voting (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his Associate(s) has/have a material interest, and if he shall do so his vote shall not be counted (nor shall he be counted in the quorum for that resolution). The Company has established a balanced system to protect the interests of the minority shareholders.

b) The Controlling Shareholders of the Company undertake with the Company to defer or pass to the Independent Non-executive Directors of the Company all matters to which we have or may have a conflict of interest for consideration and decision. Such matters include, but not limited to (i) the exercise of option(s) which relate(s) to any connected persons (as defined in the Listing Rules) of us; (ii) the pre-emption right or the first right of refusal granted pursuant to the Non-competition Deed (避免同業競爭契約) dated February 15, 2008 given in favour of the Company (the "Deed"); and (iii) any connected transactions with us and the connected persons of us; and to provide all information necessary for the Company and the Independent Non-executive Directors to enforce the non-competition undertaking given under the Deed or to assess whether or not there is a breach of such non-competition undertaking.

c) The executive Directors undertake with the Company to increase the transparency in disclosure of decisions on matters considered or reviewed by the Independent Non-executive Directors in the annual report or by way of announcement, as appropriate, after the Listing, in compliance with the corporate governance measures and internal control systems as adopted by the Company.

d) The Company has retained RSM Nelson Wheeler Consulting Limited ("RSM") to advise on internal controls and corporate governance matters. RSM conducted an initial internal control evaluation of Honghua Company in May 2007 and produced a report which contains detailed recommendations of best practices. The Company is anxious to enhance its internal controls by fully implementing the new internal control procedures recommended by RSM. To this end, it has also retained Shanghai Huacai Management Consultancy Co; Ltd., a business consulting firm specialising in internal compliance and control issues, to assist in such implementation. In October 2007, RSM conducted a follow-up evaluation of the Group and found that the Group had already implemented the majority of RSM's recommendations. The Group also implemented all remaining RSM recommendations in December 2007.

e) Arculli Fong & Ng provided comprehensive training to the Directors of the Company concerning the requirements of the Listing Rules (e.g., understanding the requirements of, their obligations with regard to, and the sanctions that may be imposed under, the rules pertaining to connected transactions, directors' duties, shareholders' approvals, and disclosure requirements). The training provided by Arculli Fong & Ng included the following topics: (1) overview of applicable laws, rules and regulations relating to directors' obligations and responsibilities to a listed company; (2) disclosure of interests; (3) corporate governance; (4) notifiable transactions; (5) connected transactions; (6) the Codes on Takeovers and Mergers and Share Repurchases; (7) dealing in shares of the Company; (8) Guidelines on Disclosure of Price-Sensitive Information; (9) insider dealing and other market misconduct; (10) directors' responsibility on the Prospectus; (11) continuing obligations of directors of a listed company; (12) fiduciary duties under common law; (13) non-statutory guidelines of directors' duties; (14) term of reference of audit committee; (15) term of reference of remuneration committee; and (16) term of reference of nomination committee.

   The Company has confirmed that a detailed draft compliance manual has been completed and the training of the senior management of the Company was completed in January 2008.

f) By the sole director's written resolutions dated January 18, 2008, the Company appointed seven Independent Non-executive Directors who will make autonomous determinations on matters which may affect the minority shareholders' interests. Any conflicts in the interests of minority and majority shareholders will be reported in both Board and Shareholder meetings, thus preventing the Controlling Shareholders from adversely affecting the legal rights of other Shareholders in voting. The Company has established a new Board committee, consisting solely of Independent Non-executive Directors. The corporate governance committee will be responsible for the overall implementation of internal control rules, and advising and providing guidance on matters relating to corporate governance.

g) The Company has appointed CCB International Capital Limited as its Compliance Adviser, in order to ensure its future compliance with the Listing Rules, and plans to retain the advisor for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date, which is one year longer than the period required by the Listing Rules. The Company expects the compliance adviser to play an active role in assisting the Company in complying with the Listing Rules, raising the Company's standards in terms of Listing Rules compliance and corporate governance as a whole and has specified this in the agreement between the Company and the Compliance Adviser.

Before Listing, the majority of the Directors of Honghua Company had certain personal interests in the Company either by holding shares, employment or involvement in the day-to-day running of the Company. None of those Directors have any legal or financial background.

The Company has appointed seven Independent Non-executive Directors thereby increasing the total number of Directors to thirteen. Among the thirteen Directors, three are Executive Directors (from pre-listing management), three are Non-executive Directors (one from pre-listing management and two representing the Financial Investors), and the remaining seven are Independent Non-executive Directors who are independent of the Company.

There are seven Independent Non-executive Directors which means that the Independent Non-executive Directors now form a majority of the Board. In the event that a matter or decision to which the executive Directors or non-executive Directors have a conflict of interest, the Board therefore will not be able to make any decision without coming under the scrutiny of the Independent Non-executive Directors. The new balance between Executive Directors, Non-executive Directors and Independent Non-executive Directors will enhance the integrity and independence of the Board. The current Articles of Association contain a provision requiring the Board, at all times, be comprised of a majority of Independent Non-executive Directors. Unless otherwise determined, two Directors shall form a quorum for a board meeting.

Among the Non-executive Directors, Independent Non-executive Directors and senior management themselves, six (He Sean Xing, Qi Daqing, Wang Chunlin, Liu Xiaofeng, Wang Li and Tai Kwok Leung Alexander) have either held directorships at other companies listed on the Stock Exchange or have an accounting, financial or legal background. It follows that these Directors are already familiar with their fiduciary duties and responsibilities to the Company and their obligation to protect minority shareholders. The knowledge and experience which these Directors have acquired from their directorships of other listed companies or from serving their own clients who are listed companies, will help to raise the Board's overall standard of discharging its duties and responsibilities as required of a company listed on the Stock Exchange.

New policies and new procedures of internal controls have been established to guarantee the best interests of the Company and of the Company's minority shareholders. To approve and monitor large investment projects, the Company will establish a strategic investment committee. The efficiency and transparency of the Board and its corporate governance regime are to be maintained through the regular adjustment of their internal policies and where circumstances dictate.

Moreover, under the Directors' service contracts, a Director may not use or disclose any trade secrets or other confidential information of the Company in a personal capacity to the detriment of the Company. The Directors' service contracts further prohibit the Directors from making use of their positions and powers in the Company for personal gain (including but not limited to depriving the Company of business opportunities).

Zhang Mi and Ren Jie, both Executive Directors of the Company, have previously made certain investments in Honghua-Ural. Mr. Zhang and Mr. Ren disposed of these investments on November 15, 2007 and are no longer shareholders of Honghua-Ural. Given that (a) the investment in question had been made well before Mr. Zhang and Mr. Ren entered into their Directors' service contracts and (b) Mr. Zhang and Mr. Ren disposed of their investments at cost without making any personal gains to the detriment of the Company, Mr. Zhang and Mr. Ren have not been in breach of any provision of their service contracts set out in the paragraph above.

Mr Zhang and Mr Ren have never made any investment in Izhdrill-Honghua.

Remuneration of Directors and Senior Management

The aggregate amounts of remuneration (including fees, basic salaries, allowances and other benefits and contributions to pension schemes, housing allowances, other allowances and benefits in kind, and discretionary bonuses) which were paid to the Directors and senior management during the three years ended December 31, 2004, 2005, 2006 and for the eight months ended August 31, 2007, were approximately RMB 1,148,000, RMB 2,260,000, RMB 4,204,000 and RMB1,563,000 respectively.

For each of the three years ended December 31, 2004, 2005, 2006 and for the eight months ended August 31, 2007, the aggregate amounts of remuneration (including fees, basic salaries, allowances and other benefits and contributions to pension schemes, housing allowances, other allowances and benefits in kind, and discretionary bonuses) paid to Directors were approximately RMB659,000, RMB1,326,000, RMB2,359,000 and RMB885,000, respectively.

Except as disclosed above, no other amounts have been paid or are payable by us to the Directors and senior management for the three years ended December 31, 2004, 2005, 2006 and for the eight months ended August 31, 2007.

The Company will determine the remuneration of the Directors on the basis of their experience, performance, duties and market conditions. The remuneration (including fees, basic salaries, allowances and other benefits and contributions to pension schemes, housing allowances, other allowances and benefits in kind, and discretionary bonuses) of Executive Directors, Zhang Mi, Ren Jie and Zhang Xu, for the year ended December 31, 2007, is estimated to be approximately HK$1,909,858, HK$766,650 and HK$362,740, respectively. The remuneration of a Non-executive Directors Mr. Wang Yaoxin, for the year ended 2007 was HK$16,000. The remuneration for other Non-executive Directors and Independent Non-executive Directors for the year ended December 31, 2007 is estimated to be HK$16,000.

Further information about the service contracts entered into between the Company and the Directors is set out in the "Further Information about our Directors, Management, Staff and Experts — Particulars of service contracts" in Appendix VII of this Prospectus.

Our Relationship with Employees

We regard the expertise of the Directors and the technical skill of our employees as crucial to sustaining our business success. Our ability to attract, retain and motivate skilled employees will play a decisive role in our future success.

We aim to attract, retain and motivate employees by attractive remuneration packages. We provide attractive salaries and bonuses for our employees, as well as other benefits, including but not limited to retirement schemes, medical insurance, accident insurance, and unemployment insurance. Our salary levels are regularly reviewed against market standards. Training is provided to employees at all levels.

The Group conditionally approved and adopted the Share Option Scheme on January 21, 2008. The purpose of the scheme is to attract and retain the best available personnel, to provide additional incentives to employees (full-time and part-time) and Directors, and to promote the success of the Group. A summary of the principal terms of the Share Option Scheme is set out in the section headed "Share Option Scheme" in Appendix VII of this Prospectus.

Compliance Adviser

Our Company appointed CCB International Capital Limited as our Compliance Adviser, pursuant to Rule 3A.19 of the Listing Rules. On January 6, 2008, the Company and the Compliance Adviser entered into an agreement pursuant to which the Compliance Adviser will provide to the Company services upon Listing that, inter alia, include:-

(a) advising the Company on the following matters, or in the following situations, among others:

  (1) before the publication of any regulatory announcement, circular or financial report;

  (2) where the Company contemplates a transaction, which might be a notifiable or connected transaction including share issues and share repurchases;

(3) where the Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in the Prospectus, or where the business activities, developments or results of the Company deviate from any forecast, estimate, or other information in the Prospectus; and

(4) where the Stock Exchange makes any inquiry to the Company regarding unusual movements in the price or trading volume of the Company.

(b) attending the Board meetings and the corporate governance committee meetings of the Company, with agenda of matters in relation to the Company's compliance with the Listing Rules, at such reasonable time and place as advised by the Company with reasonable prior notice.

(c) together with other professional advisers retained by the Company, providing the Company with any updates on any new Listing Rules and other laws, codes, orders, regulations and guidelines applicable to the Company;

(d) providing the Company with advice and guidance regarding compliance with the Listing Rules;

(e) discharging such duties and functions as may be required to be performed as a compliance adviser under the Listing Rules from time to time.

The term of engagement of the compliance adviser will commence on the Listing Date and end on the date of dispatch of the second annual report of the Company, containing its financial results for the second full financial year commencing after the Listing Date.

As far as our Directors are aware, immediately following completion of the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may fall to be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme or Share Option Scheme), the following persons will have an interest or short position in the Shares or underlying Shares of our Company, which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group ("Substantial Shareholder").

(i) Long and short positions in the Shares and underlying shares

Name of shareholder	Nature of interest	Long/short position	Number and class of securities	Approximate percentage of ownership immediately after Global Offering (assuming no exercise of the Over-allotment Option)	Approximate percentage of ownership immediately after Global Offering (assuming exercise in full of the Over-allotment Option)
Zhang Mi	Corporate interest and settlor of a discretionary trust[1]	Long	1,617,727,837 Shares	48.5%	46.8%
Wealth Afflux Limited	Corporate interest[1]	Long	1,617,727,837 Shares	48.5%	46.8%
Ally Smooth	Corporate interest[1]	Long	1,617,727,837 Shares	48.5%	46.8%
Ren Jie	Corporate interest and settlor of a discretionary trust[2]	Long	1,617,727,837 Shares	48.5%	46.8%
Mowbray Worldwide Limited	Corporate interest[2]	Long	1,617,727,837 Shares	48.5%	46.8%
Liu Zhi	Corporate interest and settlor of a discretionary trust[3]	Long	1,617,727,837 Shares	48.5%	46.8%
Ecotech Enterprises Corporation	Corporate interest[3]	Long	1,617,727,837 Shares	48.5%	46.8%
Zheng Yong	Corporate interest[4]	Long	1,617,727,837 Shares	48.5%	46.8%
Charm Moral	Corporate interest[5]	Long	1,617,727,837 Shares	48.5%	46.8%
Zuo Huixian	Corporate interest and settlor of a discretionary trust[6]	Long	1,617,727,837 Shares	48.5%	46.8%
Vast & Fast Corporation	Corporate interest[6]	Long	1,617,727,837 Shares	48.5%	46.8%
Zhang Xu	Corporate interest and settlor of a discretionary trust[7]	Long	1,617,727,837 Shares	48.5%	46.8%
Cavendish Global Corporation	Corporate interest[7]	Long	1,617,727,837 Shares	48.5%	46.8%
Wang Jiangyang	Corporate interest[8]	Long	1,617,727,837 Shares	48.5%	46.8%
Chen Jun	Corporate interest[9]	Long	1,617,727,837 Shares	48.5%	46.8%
Beauty Clear	Corporate interest[10]	Long	1,617,727,837 Shares	48.5%	46.8%
Fan Bing	Corporate interest and settlor of a discretionary trust[11]	Long	1,617,727,837 Shares	48.5%	46.8%
Brondesbury Enterprises Limited	Corporate interest[11]	Long	1,617,727,837 Shares	48.5%	46.8%
Zhang Yanyong	Corporate interest[12]	Long	1,617,727,837 Shares	48.5%	46.8%
Ao Pei	Corporate interest[13]	Long	1,617,727,837 Shares	48.5%	46.8%
Tian Diyong	Corporate interest[14]	Long	1,617,727,837 Shares	48.5%	46.8%
Shen Dingjian	Corporate interest[15]	Long	1,617,727,837 Shares	48.5%	46.8%
Believe Power	Corporate interest[16]	Long	1,617,727,837 Shares	48.5%	46.8%

Name of shareholder	Nature of interest	Long/short position	Number and class of securities	Approximate percentage of ownership immediately after Global Offering (assuming no exercise of the Over-allotment Option)	Approximate percentage of ownership immediately after Global Offering (assuming exercise in full of the Over-allotment Option)
Liu Xuetian (deceased)	Settlor of a discretionary trust[17]	Long	1,617,727,837 Shares	48.5%	46.8%
Dobson Global Inc.	Corporate interest[17]	Long	1,617,727,837 Shares	48.5%	46.8%
Qu Yihong	Corporate interest[18]	Long	1,617,727,837 Shares	48.5%	46.8%
Liu Ying	Corporate interest[18]	Long	1,617,727,837 Shares	48.5%	46.8%
Zhou Bing	Corporate interest and settlor of a discretionary trust[19]	Long	1,617,727,837 Shares	48.5%	46.8%
Darius Enterprises Limited	Corporate interest[19]	Long	1,617,727,837 Shares	48.5%	46.8%
Equity Trustee	Trustee of discretionary trusts[1][2][3][6][7][11][17][19]	Long	1,617,727,837 Shares	48.5%	46.8%
Lu Lan	Corporate interest[20]	Long	1,617,727,837 Shares	48.5%	46.8%
Tian Yu	Corporate interest[21]	Long	1,617,727,837 Shares	48.5%	46.8%
Li Hanqiang	Corporate interest[22]	Long	1,617,727,837 Shares	48.5%	46.8%
Liu Yingguo	Corporate interest[23]	Long	1,617,727,837 Shares	48.5%	46.8%
Liu Lulu	Corporate interest[24]	Long	1,617,727,837 Shares	48.5%	46.8%
Benefit Way	Corporate interest[25]	Long	1,617,727,837 Shares	48.5%	46.8%
Ample Chance	Corporate interest[26]	Long	1,617,727,837 Shares	48.5%	46.8%
Ally Giant	Beneficial owner[27]	Long	1,617,727,837 Shares	48.5%	46.8%
COOS	Beneficial owner[28]	Long	174,425,609 Shares	5.2%	5.0%
CNOOC	Corporate interest[28]	Long	174,425,609 Shares	5.2%	5.0%
Nabors International	Beneficial owner[29]	Long	450,000,000 Shares	13.5%	13.0%
Nabors Management	Corporate interest[29]	Long	450,000,000 Shares	13.5%	13.0%
Nabors Global	Corporate Interest[29]	Long	450,000,000 Shares	13.5%	13.0%
Nabors Industries	Corporate Interest[29]	Long	450,000,000 Shares	13.5%	13.0%

Notes:

(1) Zhang Mi is a member of the Concert Group. The entire issued share capital of Ally Smooth is owned by Wealth Afflux Limited, which in turn is held by Equity Trustee as trustee of The ZYL Family Trust. The ZYL Family Trust is a discretionary trust established by Zhang Mi as settlor, with Equity Trustee as trustee, on October 17, 2007. The beneficiaries under The ZYL Family Trust are Zhang Mi and his family members.

(2) Ren Jie is a member of the Concert Group. Approximately 41.34% of the issued share capital of Charm Moral is owned by Mowbray Worldwide Limited, which in turn is held by Equity Trustee as trustee of The RJDJ Victory Trust. The RJDJ Victory Trust is a discretionary trust established by Ren Jie as settlor, with Equity Trustee as trustee on October 17, 2007. The beneficiaries under The RJDJ Victory Trust are Ren Jie and his family members.

(3) Liu Zhi is a member of the Concert Group. Approximately 29.33% of the issued share capital of Charm Moral is held by Ecotech Enterprises Corporation, which in turn is held by Equity Trustee as trustee of The LZWM Family Trust. The LZWM Family Trust is a discretionary trust, established by Liu Zhi as settlor, with Equity Trustee as trustee, on October 17, 2007. The beneficiaries under The LZWM Family Trust are Liu Zhi and his family members.

(4) Zheng Yong is a member of the Concert Group. He is the beneficial owner of approximately 29.33% of the issued share capital of Charm Moral, which is in turn the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance.

(5) Charm Moral is owned approximately 41.34% by Mowbray Worldwide Limited, approximately 29.33% by Ecotech Enterprises Corporation and approximately 29.33% by Zheng Yong.

(6) Zuo Huixian is a member of the Concert Group. Approximately 23.63% of issued share capital of Beauty Clear is owned by Vast & Fast Corporation, which in turn is held by Equity Trustee as trustee of The ZHH Family Trust. The ZHH Family Trust is a discretionary trust, established by Zuo Huixian as settlor, with Equity Trustee as trustee, on October 17, 2007. The beneficiaries under The ZHH Family Trust are Zuo Huixian and his family members.

(7) Zhang Xu is a member of the Concert Group. Approximately 22.77% of the issued share capital of Beauty Clear is held by Cavendish Global Corporation, which in turn is held by Equity Trustee as trustee of The Hong Xu Family Trust. The Hong Xu Family Trust is a discretionary trust, established by Zhang Xu as settlor, with Equity Trustee as trustee, on October 17, 2007. The beneficiaries under The Hong Xu Family Trust are Zhang Xu and his family members.

(8) Wang Jiangyang is a member of the Concert Group. He is the beneficial owner of approximately 5.76% of the issued share capital of Beauty Clear, which in turn is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance.

(9) Chen Jun is a member of the Concert Group. He is the beneficial owner of approximately 5.10% of the issued share capital of Beauty Clear, which in turn is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance.

(10) Beauty Clear is owned approximately 23.63 by Vast & Fast Corporation, approximately 22.77% by Cavendish Global Corporation, approximately 5.76% by Wang Jiangyang, approximately 5.10% by Chen Jun, and a total of approximately 42.74% by 3 other shareholders.

(11) Fan Bing is a member of the Concert Group. Approximately 32.72% of the issued share capital of Believe Power is held by Brondesbury Enterprises Limited, which in turn is held by Equity Trustee as trustee of The FBX Family Trust. The FBX Family Trust is a discretionary trust, established by Fan Bing as settlor, with Equity Trustee as trustee, on October 17, 2007. The beneficiaries under The FBX Family Trust are Fan Bing and his family members.

(12) Zhang Yanyong is a member of the Concert Group. He is the beneficial owner of approximately 29.16% of the issued share capital of Believe Power, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance.

(13) Ao Pei is a member of the Concert Group. He is the beneficial owner of approximately 5.53% of the issued share capital of Believe Power, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance.

(14) Tian Diyong is a member of the Concert Group. He is the beneficial owner of approximately 2.85% of the issued share capital of Believe Power, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance.

(15) Shen Dingjian is a member of the Concert Group. He is the beneficial owner of approximately 2.24% of the issued share capital of Believe Power, which in turn is the beneficial owner of approximately 12.71% of the issued share capital of Ample Chance.

(16) Believe Power is owned approximately 32.72% by Brondesbury Enterprises Limited, approximately 29.16% by Zhang Yanyong, approximately 5.53% by Ao Pei, approximately 2.85% by Tian Diyong, approximately 2.24% by Shen Dingjian, and a total of approximately 27.50% by 4 other shareholders.

(17) Liu Xuetian (deceased) was a member of the Concert Group and passed away on January 23, 2008. Approximately 35.57% of the issued share capital of Benefit Way is held by Dobson Global Inc., which in turn is held by Equity Trustee as trustee of The LXYY Family Trust. The LXYY Family Trust is a discretionary trust, established by Liu Xuetian (deceased) as settlor, with Equity Trustee as trustee, on October 17, 2007. The beneficiaries under The LXYY Family Trust are Liu Xuetian (deceased) and his family members.

(18) Qu Yihong and Liu Ying, family members of Liu Xuetian (deceased), are deemed to be interested in 1,617,727,837 Shares as directors of Dobson Global Inc.

(19) Zhou Bing is a member of the Concert Group. Approximately 19.36% of the issued share capital of Benefit Way is held by Darius Enterprises Limited, which in turn is held by Equity Trustee as trustee of The Fang Zhou Family Trust. The Fang Zhou Family Trust is a discretionary trust, established by Zhou Bing as settlor, with Equity Trustee as trustee, on October 17, 2007. The beneficiaries under The Fang Zhou Family Trust are Zhou Bing and his family members.

(20) Lu Lan is a member of the Concert Group. She is the beneficial owner of approximately 6.49% of the issued share capital of Benefit Way, which in turn is the beneficial owner of approximately 10.50% of the issued share capital of Ample Chance.

(21) Tian Yu is a member of the Concert Group. He is the beneficial owner of approximately 3.91% of the issued share capital of Benefit Way, which in turn is the beneficial owner of approximately 10.50% of the issued share capital of Ample Chance.

(22) Li Hanqiang is a member of the Concert Group. He is the beneficial owner of approximately 3.50% of the issued share capital of Benefit Way, which in turn is the beneficial owner of approximately 10.50% of the issued share capital of Ample Chance.

(23) LiuYingguo is a member of the Concert Group. He is the beneficial owner of approximately 1.52% of the issued share capital of Benefit Way, which in turn is the beneficial owner of approximately 10.50% of the issued share capital of Ample Chance.

(24) Liu Lulu is a member of the Concert Group. She is the beneficial owner of approximately 1.22% of the issued share capital of Benefit Way, which in turn is the beneficial owner of approximately 10.50% of the issued share capital of Ample Chance.

(25) Benefit Way is owned approximately 35.57% by Dobson Global Inc., approximately 19.36% by Darius Enterprises Limited, approximately 6.49% by Lu Lan, approximately 3.91% by Tian Yu, approximately 3.50% by Li Hanqiang, approximately 1.52% by Liu Yingguo, approximately 1.22% by Liu Lulu and approximately 28.43% by 6 other shareholders.

(26) Ample Chance is owned 36% by Ally Smooth, approximately 19.09% by Charm Moral, approximately 18.51% by Beauty Clear, approximately 12.71% by Believe Power, approximately 10.50% by Benefit Way and approximately 3.19% by Birdview (Birdview is wholly owned by Yang Hong who is not a member of the Concert Group).

(27) Ally Giant is wholly-owned by Ample Chance and will hold 1,617,727,837 Shares immediately following completion of the Global Offering.

(28) COOS will hold 174,425,609 Shares immediately following completion of the Global Offering. As at the Latest Practicable Date, the issued share capital of COOS was beneficially owned approximately 98.8% by CNOOC and approximately 1.2% by Overseas Oil & Gas Corporation Limited.

(29) Nabors International will hold 450,000,000 Shares immediately following completion of Global Offering. As at the Latest Practicable Date, the entire issued share capital of Nabors International was owned by Nabors Management. Nabors Management is wholly owned by Nabors Global which is in turn wholly owned by Nabors Industries.

(ii) Interests in other members of the Group

Name of interested party	Nature of interest	Name of other member of the Group	Number of shares / amount of registered capital	Approximate percentage of ownership
NCE Management Inc.	Beneficial interest	Honghua America	US$160,000	20%
Petroleum Projects and Technical Consultations Company	Beneficial interest	HH Egyptian Company	3,000 shares	25%
Engineering For the Petroleum and Process Industries Company	Beneficial interest	HH Egyptian Company	1,200 shares	10%
Tharwa Petroleum Company	Beneficial interest	HH Egyptian Company	1,800 shares	15%

For details of the Directors' interests in Shares immediately following the completion of the Global Offering, please refer to the section entitled "C. Disclosure of Interests" in Appendix VII to this Prospectus.

Except as disclosed herein, the Directors are not aware of any person (who is not a Director) who will, immediately following the completion of the Global Offering, be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company. The Directors are not aware of any arrangement which may, at a subsequent date, result in a change of control of the Company.

The following is a description of the authorized share capital of our Company, issued or to be issued, as fully paid or credited as fully paid, immediately before and after completion of the Global Offering (without taking into account the exercise of the Over-allotment Option).

	HK$
Authorized share capital:	
10,000,000,000 Shares at HK$0.10 each	1,000,000,000
Issued share capital:	
2,500,000,000 Shares issued as of the date of this Prospectus	250,000,000
Shares to be issued:[Notes]	
833,360,000 Shares to be issued pursuant to the Global Offering	83,333,600
Total issued and to be issued share capital:	
3,333,360,000 Shares	333,333,600

Notes:

1. Under the Pre-IPO Share Option Scheme of the Company, the grantees are entitled to subscribe for an aggregate of 60,000,000 Shares (representing approximately 1.8% of the issued share capital of the Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised). Please refer to the sub-section entitled "Pre-IPO Share Option Scheme" in Appendix VII to this Prospectus for details.
2. Under the Share Option Scheme of the Company, the grantees may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under the Share Option Scheme and any other share option schemes of the Company, which are equivalent to 333,336,000 Shares (representing an amount not exceeding 10% of the issued share capital of the Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised). Please refer to the sub-section entitled "Share Option Scheme" in Appendix VII to this Prospectus for details.

Assumptions

The above table assumes that the Global Offering becomes unconditional; the table does not take into account Shares which may be issued pursuant to any exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, then 125,000,000 additional Shares will be issued, resulting in a total issued share capital of 3,458,360,000 Shares, with a nominal value of HK$0.10 per share.

Ranking

The Shares are ordinary shares of the share capital of the Company, rank equally with all Shares currently issued or to be issued and, in particular, Shareholders of the Shares will be fully entitled to all dividends or other distributions declared, made or paid on the Shares, on a record date which falls after the date of this Prospectus.

General Mandate to Issue Shares

Subject to the conditions described in "Structure of the Global Offering — Conditions of the Hong Kong Public Offering," of this Prospectus, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares, and to make or grant offers, agreements or options, subject to the requirement that the aggregate nominal value of the Shares so allotted and issued, or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders), shall not exceed:

(a) 20% of the aggregate nominal value of the share capital of the Company issued immediately following the completion of the Global Offering, excluding any Shares which may be issued upon the exercise of Over-allotment Option; and

(b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any).

This general mandate to issue Shares will remain in effect until the earliest of the following:

(i) the conclusion of the Company's next annual general meeting;

(ii) the expiration of the period within which the Company's next annual general meeting is required by any applicable law or the Articles of Association to be held; or

(iii) this mandate is varied or revoked by an ordinary resolution of the Company's shareholders at a general meeting.

For further details of this general mandate, please refer to Appendix VI, "Summary of the Constitution of Our Company and Cayman Islands Company Law" to this Prospectus.

General Mandate to Repurchase Shares

Subject to the conditions described in "Structure of the Global Offering — Conditions of the Hong Kong Public Offering," of this Prospectus, the Directors have been granted a general unconditional mandate to exercise all powers to repurchase Shares, with a total nominal value of not more than 10% of the aggregate nominal value of the Company's share capital issued immediately following the completion of the Global Offering, excluding any Shares which may be issued upon the exercise of the Over-allotment Option.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the sub-section entitled "A. Further Information about our Group — Repurchases of our own securities," in Appendix VII to this Prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of the following:

(i) the conclusion of the Company's next annual general meeting;

(ii) the expiration of the period within which the Company's next annual general meeting is required by any applicable law or the Articles of Association to be held; or

(iii) this mandate is varied or revoked by ordinary resolution of the Company's shareholders at a general meeting.

For further details of this general mandate, please refer to Appendix VI, "Summary of the Constitution of Our Company and Cayman Islands Company Law" to this Prospectus.

Pre-IPO Share Option Scheme and Share Option Scheme

We have conditionally adopted a Pre-IPO Share Option Scheme and a Share Option Scheme. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are summarized in the sub-sections entitled "Pre-IPO Share Option Scheme" and "Share Option Scheme" in Appendix VII to this Prospectus.

You should read this section in conjunction with our combined financial statements, including the notes thereto, as set forth in "Appendix I — Accountants' Report". Our financial statements have been prepared in accordance with IFRS. The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please see the section headed "Risk Factors" in this Prospectus.

Overview

According to the Independent Technical Report in Appendix V of the Prospectus published by Spears & Associates, Inc. in December 2007, we were the second largest land rig manufacturer in the world and the largest in China in terms of revenue and production volume in 2006. In addition to manufacturing drilling rigs and rig parts and components, we offer drilling-related training as well as after-sales support services to our customers. For the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007, our revenue amounted to RMB539.3 million, RMB501.6 million, RMB2,335.9 million and RMB1,518.6 million, respectively. Export markets in North America, the Middle East, Russia and other oil and gas producing regions have been increasingly important for us in recent years. For the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007, our export revenue accounted for 2.8%, 31.5%, 83.5% and 54.6% respectively, of our total revenue.

We divide our business into two segments, drilling rigs and rig parts and components. We utilize industry-leading technologies to design and manufacture various types of customized rigs for exploration and production of oil and gas. Sales attributable to our drilling rigs segment accounted for 86.9%, 86.5%, 87.2% and 85.2% of our total revenue, respectively, for the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007. We either internally source rig parts and components to construct our rig products or procure such parts and components from third parties.

The following table sets forth our selected income statement and other financial information for the periods presented, derived from the Accountants' Report in Appendix I to this Prospectus.

	Year ended December 31,						Eight months ended August 31,			
	2004	% of revenue	2005	% of revenue	2006	% of revenue	2006 (unaudited)	% of revenue	2007	% of revenue
	RMB'000[1]	(%)	RMB'000[1]	(%)	RMB'000[1]	(%)	RMB'000[1]	(%)	RMB'000[1]	(%)
Revenue	539,265	*100.0*	501,570	*100.0*	2,335,948	*100.0*	842,830	*100.0*	1,518,647	*100.0*
Cost of sales	(440,028)	*(81.6)*	(392,993)	*(78.4)*	(1,558,121)	*(66.7)*	(598,405)	*(71.0)*	(1,019,110)	*(67.1)*
Gross profit	99,237	*18.4*	108,577	*21.6*	777,827	*33.3*	244,425	*29.0*	499,537	*32.9*
Other operating revenue	2,214	*0.4*	3,187	*0.6*	4,620	*0.2*	2,412	*0.3*	4,501	*0.3*
Other operating expenses	(572)	*(0.1)*	(648)	*(0.1)*	(917)	*(0.0)*	(84)	*0.0*	(101)	*0.0*
Selling expenses	(17,818)	*(3.3)*	(22,971)	*(4.6)*	(84,176)	*(3.6)*	(41,276)	*(4.9)*	(111,488)	*(7.3)*
General and administrative expenses	(29,039)	*(5.4)*	(42,436)	*(8.5)*	(110,185)	*(4.7)*	(40,079)	*(4.8)*	(89,352)	*(5.9)*
Other net income/ (expenses)	440	*0.1*	1,427	*0.3*	3,085	*0.1*	830	*0.1*	2,388	*0.2*
Profit from operations[2]	54,462	*10.1*	47,136	*9.4*	590,254	*25.3*	166,228	*19.7*	305,485	*20.1*
Net financing costs	(3,858)	*(0.7)*	(4,132)	*(0.8)*	(23,141)	*(1.0)*	(6,012)	*(0.7)*	(12,432)	*(0.8)*
Profit before taxation	50,604	*9.4*	43,004	*8.6*	567,113	*24.3*	160,216	*19.0*	293,053	*19.3*
Income tax expense	(10,488)	*(1.9)*	(10,749)	*(2.1)*	(103,203)	*(4.4)*	(60,797)	*(7.2)*	(54,724)	*(3.6)*
Profit for the year/ period	40,116	*7.5*	32,255	*6.4*	463,910	*19.9*	99,419	*11.8*	238,329	*15.7*
Attributable to:										
Equity shareholders of the Company	32,168	*6.0*	18,454	*3.7*	412,814	*17.7*	66,599	*7.9*	201,095	*13.2*
Minority interests	7,948	*1.5*	13,801	*2.7*	51,096	*2.2*	32,820	*3.9*	37,234	*2.5*
Profit for the year/ period	40,116	*7.5*	32,255	*6.4*	463,910	*19.9*	99,419	*11.8*	238,329	*15.7*
Dividends declared during the year/ period	2,164	0.4	1,638	*0.3*	19,533	*0.8*	19,533	*2.3*	—	—
Earnings per share — basic (RMB)[3]	0.013	*N/A*	0.007	*N/A*	0.165	*N/A*	0.027	*N/A*	0.08	*N/A*

(1) Except for per share numbers which are presented in RMB cents.

(2) Profit from operations represents profit before finance cost and tax.

(3) The calculation of earnings per Share is based on profit attributable to equity holders of the Company of each period presented on the assumption that 2,500,000,000 Shares, representing the number of Shares of the Company outstanding immediately before the Global Offering, had been in issue throughout the three years ended December 31, 2006 and the eight months ended August 31, 2007.

Basis of Presentation

Our Company was incorporated on June 15, 2007 and became the holding company of the subsidiaries that operate our rig manufacturing business as part of the Reorganization. Since Mr. Zhang Mi, the chairman of Honghua Company, and 22 other individual shareholders formed the Concert Group in 2003 to control the business operations and the related assets transferred to us upon our incorporation and continue to control us after our incorporation, our combined financial statements have been prepared as a reorganization of entities under common control. Our financial statements for the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007 present our results of operations as if we had been in existence throughout the period and as if the business operations and related assets were transferred to us as of January 1, 2004.

Pursuant to the Reorganization, in 2006, we acquired an additional 40% interest in Honghua International on July 18, 2006 and an additional 29% interest in Honghua America on September 5, 2006, as a result of which the equity interest that Honghua Company and the members of the Concert Group held in these two entities amounted to 92% and 80%, respectively. Prior to the acquisition, Honghua Company and some members of the Concert Group held an 85% equity interest in Honghua International and a 75% equity interest in Honghua America. Please refer to "Company History and Reorganization — Honghua International" and "Company History and Reorganization — Offshore Companies — Formation of Honghua America" for more details. We believe the Concert Group had control over these two companies before the Reorganization even though only some individual members of the Concert Group collectively held a 56% interest in Honghua International and a 36% interest in Honghua America. Because the Concert Group was set up for the purpose of better management and operation and stable development of Honghua Company and because Honghua Company was the largest single shareholder in each of Honghua International and Honghua America before the Reorganization, the individual members in the Concert Group who held any interest in these two companies were required to act for the best interests of Honghua Company already. As a result, Honghua Company already controlled the boards of directors and had the right to decide on the financial and operating policies of Honghua International and Honghua America before the Reorganization. Because the Concert Group has the effective control of Honghua Company, Honghua International and Honghua America were ultimately under control of the Concert Group. Since the Concert Group continues to control these two companies and our business after the Reorganization, our acquisitions of Honghua International and Honghua America are regarded as common control combinations and are therefore accounted for using the principles of merger accounting with reference to Accounting Guideline 5 "Merger accounting for Common Control Combinations" issued by Hong Kong Institution of Certified Public Accountants. Our financial statements for the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007 included these two entities from January 1, 2004.

Effective on July 18, 2006, we also acquired an 80% interest in each of Hongtian Company and Youxin Company as part of the Reorganization. Before the acquisition, we did not hold any equity interests in Hongtian Company or Youxin Company nor did we have any contractual arrangement in writing for our explicit control over these two companies. We had control over these two entities during the Track Record Period, however, because Hongtian Company and Youxin Company were special purpose entities set up to manufacture certain key drilling rig components mainly for orders from us. According to the interpretation issued by the International Accounting Standard Boards, SIC 12, "Consolidation—Special Purposes Entities ("SPE")", an entity must consolidate a SPE, when, in substance, the entity controls the SPE. There are certain circumstances that may indicate the control of an SPE by an entity under the SIC 12. We treated Hongtian Company and Youxin Company as SPEs because the activities of Hongtian Company and Youxin Company were actually conducted on behalf of us according to our specific business needs. Over 90% of the products of these two companies were sold to us during the Track Record Period and these two companies relied on us for the required technology and financing for their operation. We believe that by controlling the production capacity and operations of Hongtian Company and Youxin Company, we received the benefits from the operating activities of these two companies and may have been exposed to risks related to these two companies and their assets. Hongtian Company and Youxin Company are therefore regarded as SPE and the historical results of Hongtian Company and Youxin

Company are therefore included in our combined income statements, combined statements of changes in equity and combined cash flow statements for the relevant periods. At the same time, we recognized a 100% minority interest in each of Hongtian Company and Youxin Company before our acquisition in 2006 as described above. Such minority interests were reduced to 20% in each of these two companies after the Reorganization.

Factors Affecting our Results of Operations

Our results of operations and financial conditions have been and will continue to be affected by a number of factors, primarily including those set out below:

Global Demand for New Drilling Rigs

Demand for our products is primarily driven by the level of activities in the oil and gas exploration and production industry and by the need to expand and upgrade rig fleet and to replace aging rigs. In addition, we expect the demand for our high-performance heavy rigs to increase as more exploration and drilling activities are occurring in greater depths and more extreme conditions.

The oil and gas exploration and production industry is highly volatile. Around March and April 2003, oil prices declined sharply. However, since early 2004, increasing oil and gas prices have led to steadily rising levels of drilling activity throughout the world. To meet with the increasing demand for their services, drilling contractors expanded and upgraded their rig fleets, which, we believe, have led to a strong demand for our drilling rigs. We expect to benefit from the high oil and gas prices to the extent they continue. The volatility of the oil and gas industry will continue to impact our business and results of operations.

Expansion of Capacity

In order to capture the increasing demand for drilling rigs, we have continued to expand our production capacity. Our annual land rig production capacity increased from 38 and 42 rigs in 2004 and 2005 to 86 rigs in 2006. We expect to construct a new land rig production site. Upon completion of the construction, our annual production capacity is expected to reach 150 rigs by the end of 2008. We acquired Hongtian Company and Youxin Company in July 2006 to expand our manufacturing capacity of key rig components for both internal use and external sales. We are in the process of increasing our annual production capacity for mud pumps, a major contributor to the revenue of our rig parts and components segment, from 410 units in 2006 to 500 units by 2008. In addition, we are in the feasibility study stage of constructing a new offshore drilling rig manufacturing base.

We believe that these expansion plans we are taking across our business lines will enable us to meet the growth in demand we anticipate for our products and will help us capture an increased share of the markets within which we operate. Changes to market conditions, however, may result in a decline in the utilization rate of our production facilities and may slow down the growth of our sales.

Research and New Product Development

We believe our research and development of new products has been an important driver of our historical growth. We were the first rig manufacturer to launch the digitally-controlled VFD rigs in China, which has become our best selling rig line. We are in the process of developing top drives and new types of drilling rigs with enhanced capabilities, such as arctic rigs and 12,000-meter depth drilling rigs. We also plan to construct an offshore equipment manufacturing base to produce jack-up rigs and fixed rigs as well as other heavy structures. Further, we have entered into a Technology License Agreement with Nabors Global giving us access to technology which may enable us to develop and produce products such as offshore platform rigs, land drilling rigs, tubing rigs, workover rigs, jack-up rigs and barge rigs for sale to customers both in the PRC and overseas. Our new rig products could increase our revenue and market share. In addition, our new rig parts and components products could reduce our reliance on third party supplies, lower our cost of sales and shorten our

production cycle. We expect that our ability to successfully introduce new products will continue to play an important role in sustaining our growth.

Raw Material Prices

Raw materials accounted for approximately 92.8%, 87.6% 91.1% and 92.5% of our total cost of sales for the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007, respectively. This amounted to approximately RMB409 million, RMB344 million, RMB1,420 million and RMB943 million over the same respective periods. The most important raw materials for our operations are steel and steel related products and other rig parts and components we do not produce ourselves, such as hydraulics, diesel engines and AC variable frequency motors. We currently source almost all of our basic steel inputs domestically from five suppliers operating primarily in Chongqing and Chengdu, while our externally supplied parts and components that we do not produce ourselves, such as those described above, are typically manufactured in the United States, Finland, or Germany and sourced through local distributors. Fluctuations in the prices of these materials and components have a direct impact on our results of operations. We have entered into strategic cooperation agreements with some suppliers that allow us to purchase raw materials at a favourable price that may be lower than the market price. According to such strategic cooperation agreements, we can enjoy favourable pricing, priority in after-sales services and a stable supply of raw materials from these suppliers, which reduces our exposure to fluctuations in the supply of some raw materials to some extent. We do not engage in any hedging transactions to protect us against such fluctuations. Our product price reflects the fluctuation in prices of raw materials products to the extent possible, however, as the production period of drilling rigs usually spans around six months, the prices we agree with our customers at the time of signing the contracts may not reflect the costs that we will eventually bear for the steel, steel and steel products, electric products, or other products we may use to complete these contracts. We believe the fluctuation in raw materials prices will continue to impact our profitability. See "Fluctuations in raw material prices may adversely affect our business" in the "Risk Factors" section of this Prospectus.

Seasonality

Our business operation is not seasonal in nature. Some of our customers, however, prefer to place the orders in the beginning of a year and accept delivery in the third or fourth quarter. Therefore, our revenue and profit in the first half of the year are often lower than the second half and we will continue to experience significant fluctuations in revenue and profit on an interim basis.

Product Mix

We currently offer a wide range of drilling rigs and rig parts and components. Our drilling rigs consist of two major types, digitally-controlled land rigs and conventional land rigs. Digitally-controlled land rigs usually command a higher price than conventional land rigs with similar depth or horsepower. The selling prices of drilling rigs also vary with drilling depth and horsepower. In addition, the average selling prices are usually higher for rigs with more auxiliary parts and components. Therefore our results of operations have been and will continue to be affected by our product mix.

Critical Accounting Policies

Our combined financial statements included in this Prospectus have been prepared in accordance with IFRS. Our results of operations and financial condition are sensitive to accounting policies, assumptions and estimates that underlie the preparation of our combined financial statements. Critical accounting policies are the accounting policies that are the most important to the portrayal and understanding of our financial condition and/or results of operations and require our management's most difficult, subjective or complex judgments, often as a result of the need to make estimates that are particularly sensitive because of their significance to our financial statements and because of the possibility that future events affecting the estimates may differ significantly from management's current judgments.

Impairment of property, plant and equipment

If circumstances indicate that the carrying value of an asset may not be recoverable, the assets may be considered as being impaired and we will recognize an impairment loss in our profit or loss. Our management reviews the carrying amount of assets periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. When the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount and an impairment loss is recognized in the income statement.

The recoverable amount is the higher of an asset's value in use and fair value less costs to sell. To determine the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgment relating to the sale volume, revenue and amount of operating costs. To determine a reasonable approximation of recoverable amount, our management uses all readily available information and makes estimates based on reasonable and supportable assumptions and projections of sale volume, revenue and amount of operating costs. No impairment of property, plant and equipment was made during the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007.

Impairment of trade and other receivables

Trade and other receivables are carried at cost or amortized cost. Our management reviews trade and other receivables at each balance sheet date and estimates the provision of impairment of trade and other receivables by assessing their recoverability. Provisions are applied to trade and other receivables where events or changes in circumstance indicate that the balances may not be collectible and require the use of the estimates. If such an indication exists, we will recognize an impairment loss, determined as the difference between the carrying amount and the present value of the estimated future cash flows, in our income statement immediately. If the provision for the trade and other receivables proves to be inadequate, additional provisions would be required, which will affect our profits for the relevant period. We did not make material provisions in the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007.

Write down of inventories

Our management reviews our inventories periodically and determines the write-down for obsolescence of inventories when the carrying amounts of inventories decline below their estimated net realizable value. Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are made with reference to aged inventories analyses, projections of expected future saleability of goods and management experience and judgment. Actual saleability of goods may be different from our estimation due to changes in the market conditions, which will affect our earnings. For the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007, our write-down of inventory amounted to RMB0.6 million, RMB11.2 million, RMB8.2 million and RMB31.2 million, respectively.

Depreciation and amortization

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets are amortized on a straight-line basis over the estimated useful lives. We determine the estimated useful lives and related depreciation charges for our assets. The estimation of useful lives is based on our management's historical experience with similar assets and takes account into anticipated technology changes. The depreciation and amortization expense for future periods will need to be adjusted if there are significant changes from previous estimates. Historically, we have not been required to make any material adjustments.

Provision for warranty costs

We usually provide a one year warranty to our customers for our products and undertake to repair or replace items that fail to perform satisfactorily without charges during the warranty period. We make a provision for such

warranty liabilities in estimated amounts based on past experience on the product defect rates and the expected material and labor costs to provide the repair and maintenance service. In case of new products, we may also take into account expert opinions and industry data for the estimated warranty costs. Provisions we made for warranty cost in 2006 were RMB11.8 million. We believe that our current provision for warranty cost is sufficient.

Description of Selected Income Statement Items

Revenue

Our revenue represents the sales of drilling rigs and sales of rig parts and components to external customers. Our revenue is currently recognized when the significant risks and rewards of ownership have been transferred to the buyer, which normally takes place at delivery. The payments that we receive from our customers prior to product delivery are recorded as receipts in advance under trade and other payables in our balance sheet.

Cost of sales

Our cost of sales mainly includes direct material costs, direct labor costs, depreciation and amortization and other manufacturing expenses. Other manufacturing expenses include provisions for warranty costs.

Other operating revenue

Other operating revenue consists primarily of revenue we derive from repair and maintenance services that we provide to our customers. We charge our customers for the repair and maintenance service if it is provided (i) after the expiration of the warranty period, or (ii) within the warranty period, provided the malfunction is not caused by quality problems of our products. Rental income from the lease of equipment also contributes, to a lesser extent, to other operating revenue.

Other operating expense

Other operating expenses mainly represent direct labor costs, traveling expenses and the material costs for replacement of rig parts we incurred in relation to the repair and maintenance services we provided as described above.

Selling expenses

Our selling expenses mainly include transportation costs for delivery of our products, salaries and other expenses for our sales staff, and marketing expenses.

General and administrative expenses

General and administrative expenses consist primarily of salaries for administrative staff and research and development staff, various employee welfare expenses, depreciation, entertainment expenses and other administration-related expenses. In 2006, our general administrative expenses also included a provision of RMB13.2 million we made for allegedly delayed deliveries to Nabors. This matter, however, has since been resolved amicably.

Other net income/(expenses)

Our other income and expenses mainly include government grants and losses on disposal of fixed assets, construction in progress, donations, gains on the waiver of debts and stocktake gains or losses. The government grants mainly consisted of a subsidy of RMB3.2 million granted by the government of Deyang City, Sichuan province in 2005 upon our application for our research and development of 7000-meter depth digitally-controlled VFD rigs and a subsidy of RMB2.3 million granted by the government of Deyang City, Sichuan province in 2006 for our export sales.

Net finance costs

Our finance costs mainly represent interest income on bank deposits, interest expenses on bank and other borrowings, exchange losses and bank charges.

Income tax expenses

Income tax expenses represent the corporate income tax at the statutory rates prevailing in the jurisdictions in which we operate on our assessable profit before tax as determined under the relevant laws and regulations, and the movement in deferred tax assets or liabilities recognized for the relevant period.

Before the new Enterprise Income Tax Law came into effect on January 1, 2008, companies incorporated in the PRC were generally subject to a 33% corporate income tax rate. Some of our subsidiaries, however, are entitled to preferential tax treatment. As a foreign-invested company, Honghua Company was entitled to a preferential income tax rate of 3% from October 1, 2006, to December 31, 2007, and will be subject to a preferential income tax rate of 18% starting at the outset of 2008 and lasting for three years. Our PRC legal advisor, King & Wood, has advised us that the preferential treatment Honghua Company presently enjoys will continue under the new Enterprise Income Tax Law. We expect that our Group's tax payment will increase in 2008 and will further increase following the expiry of the above preferential tax treatment. Please refer to note 6 to the Accountant Report in Appendix I for the details of the preferential tax rates applied to us.

Minority Interests

Minority interests represent the interests of minority shareholders in the results of operations of our non-wholly-owned subsidiaries. In 2004, 2005 and 2006 before the Reorganization, our minority interests were comprised of a 15% interest in each of Honghua International and Lucky Wish, a 25% interest in Honghua America and a 100% interest in each of Youxin Company and Hongtian Company. We did not hold any equity interests in Youxin Company and Hongtian Company before the Reorganization. Youxin Company and Hongtian Company are consolidated in our historical results and we recognized a 100% minority interest in each of Hongtian Company and Youxin Company. See "Basis of Presentation". After the Reorganization, our minority interests consist of an 20% interest held by minority shareholders in each of Honghua International and Lucky Wish and a 20% interest in each of Youxin Company, Hongtian Company and Honghua America.

Results of Operations

Eight months ended August 31, 2007 compared to eight months ended August 31, 2006

The table below sets out revenue, cost of sales, units sold and gross profit information attributable to our two business segments and key product groups for the eight months ended August 31, 2006 and 2007.

	Eight months ended August 31,					
	2006 (unaudited)			2007		
	Revenue	Cost of Sales	Gross Profit Margin	Revenue	Cost of Sales	Gross Profit Margin
	(RMB in millions)		%	(RMB in millions)		%
Drilling Rigs	718.4	513.7	28.5	1,253.3	860.0	31.4
Rig Parts and Components	124.4	84.7	31.9	265.3	159.1	40.0
Total	842.8	598.4	29.0	1518.6	1.019.1	32.9

	Eight months ended August 31,			
	2006 (unaudited)		2007	
	Revenue	Units Sold	Revenue	Units Sold
	(RMB in millions)		(RMB in millions)	
Digitally controlled rigs	593.3	18	1,015.7	35
Conventional rigs	125.1	14	237.6	20
Mud pumps	64.4	78	116.4	91
Other	60.0	N/A	148.9	N/A
Total revenue	842.8		1,518.6	

	Eight months ended August 31,			
	2006 (unaudited)		2007	
	Cost of Sales			
	(RMB in millions)	%	(RMB in millions)	%
Drilling rigs				
Material	452.8	88.2	795.6	92.5
Contract cost	8.4	1.6	2.5	0.3
Staff cost	16.6	3.2	20.1	2.3
Repair and maintenance	0.0	0.0	0.0	0.0
Depreciation	3.9	0.8	5.8	0.7
Manufacturing expense	32	6.2	36	4.2
Total	513.7	100.0	860	100.0
Rig Parts and Components				
Material	74.7	88.2	147.4	92.7
Contract cost	1.4	1.7	0.5	0.3
Staff cost	2.8	3.3	3.7	2.3
Repair and maintenance	0.0	0.0	0.0	0.0
Depreciation	0.6	0.8	1.1	0.7
Manufacturing expense	5.2	6.1	6.4	4.0
Total	84.7	100.0	159.1	100.0

Revenue

Our revenue increased by RMB675.8 million, or 80.2%, from RMB842.8 million for the eight months ended August 31, 2006 to RMB1,518.6 million for the eight months ended August 31, 2007, due primarily to an increase in sales of drilling rigs and other rig parts and components.

Revenue from our drilling rigs segment increased by RMB534.9 million, or 74.5%, from RMB718.4 million for the eight months ended August 31, 2006 to RMB1,253.3 million for the eight months ended August 31, 2007. Sales of drilling rigs in the eight months ended August 31, 2007 increased significantly mainly because (i) the revenue from our drilling rigs segment in the eight months ended August 31, 2006 was relatively low as compared to other years, because we received large orders from Nabors Group towards the end of 2005, most of which were filled later in the second half of 2006 and (ii) we expanded sales of digitally controlled drilling rigs to domestic customers in 2007. Drilling rigs delivered to Nabors Group amounted to 15 rigs in the eight months ended August 31, 2006 and 15 rigs in the eight months ended August 31, 2007. However, the average selling price of the digitally-controlled drilling rigs in the eight months ended August 31, 2007 was lower than the eight months ended August 31, 2006, mainly attributable to the lower configuration and lower amount of auxiliary parts for the eight rigs ordered by the domestic customers, which therefore resulted in a lower price.

Revenue from our rig parts and components segment for the eight months ended August 31, 2007 was RMB265.3 million, an increase of 113.3%, compared to RMB124.4 million for the eight months ended August 31, 2006, mainly resulting from increased orders from Nabors for rig parts and components.

Cost of Sales

Our cost of sales increased by RMB420.7 million, or 70.3%, from RMB598.4 million for the eight months ended August 31, 2006 to RMB1,019.1 million for the eight months ended August 31, 2007, mainly attributable to increased sales volumes in both segments in the eight months ended August 31, 2007. The primary contributing components to the increase in cost of sales for the eight months ended August 31, 2007 included an increase of RMB415.5 million in material costs, due to increased production volumes.

Cost of sales for our drilling rigs segment increased by RMB346.3 million, or 67.4%, from RMB513.7 million for the eight months ended August 31, 2006 to RMB860.0 million for the eight months ended August 31, 2007, primarily due to an increase in the number of drilling rigs we delivered in the eight months ended August 31, 2007.

Cost of sales for our rig parts and components segment for the eight months ended August 31, 2007 was RMB159.1 million, an increase of 87.8%, compared to RMB84.7 million for the eight months ended August 31, 2006. This increase mainly resulted from the increased sales volumes of mud pumps and other parts and components.

Gross Profit

Our gross profit increased by RMB255.1 million, from RMB244.4 million for the eight months ended August 31, 2006 to RMB499.5 million for the eight months ended August 31, 2007. Our gross profit margin increased from 29.0% for the eight months ended August 31, 2006 to 32.9% for the eight months ended August 31, 2007, due primarily to an increase in the gross profit margin of the drilling rigs segment.

The increase in gross profit margin of drilling rigs segment, from 28.5% for the eight months ended August 31, 2006 to 31.4%, for the eight months ended August 31, 2007 was primarily driven by continued growth in our sales of digitally-controlled VFD rigs. Digitally controlled VFD rigs yielded a higher gross profit margin than the products we delivered in the eight months ended August 31, 2006.

The gross profit margin of our rig parts and components segment increased to 40.0% for the eight months ended August 31, 2007, compared to 31.9% for the eight months ended August 31, 2006, primarily due to increased export sales of our rig parts and components, which have a higher gross profit margin than our domestic sales.

Other Operating Revenue

Our other operating revenue increased from RMB2.4 million for the eight months ended August 31, 2006 to RMB4.5 million for the eight months ended August 31, 2007. This increase was primarily due to an increase in repair services rendered during the eight months ended August 31, 2007 compared to the eight months ended August 31, 2006.

Other Operating Expenses

Other operating expenses were RMB0.10 million for the eight months ended August 31, 2007, compared to RMB0.08 million for the eight months ended August 31, 2006.

Selling Expenses

Our selling expenses increased by RMB70.2 million, or 170.0%, from RMB41.3 million for the eight months ended August 31, 2006 to RMB111.5 million for the eight months ended August 31, 2007, attributable primarily to (i) an increase in exports of drilling rigs in the eight months ended August 31, 2007, which incurred more transportation expenses; (ii) commissions we paid to sales agents in 2007 for our sales in Middle East in 2006; and (iii) increased staff expenses as we expanded our business and sales team from the second half of 2006.

General and Administrative Expenses

General and administrative expenses increased by RMB49.3 million, or 122.9%, from RMB40.1 million for the eight months ended August 31, 2006 to RMB89.4 million for the eight months ended August 31, 2007, primarily due to the increased number of administrative and research and development staff in line with our business growth.

Other Net Income/(Expenses)

We recorded other net income of RMB2.4 million for the eight months ended August 31, 2007, as compared to other net income of RMB0.8 million for the eight months ended August 31, 2006.

Profit from Operations

As a result of the changes in the items discussed above, our profit from operations increased by RMB139.3 million, from RMB166.2 million for the eight months ended August 31, 2006 to RMB305.5 million for the eight months ended August 31, 2007.

Net Financing Costs

Our finance costs increased by RMB6.4 million, or 106.7%, from RMB6.0 million for the eight months ended August 31, 2006 to RMB12.4 million for the eight months ended August 31, 2007, mainly as a result of the increased interest expenses as we incurred more bank loans for our expanded production from the second half of 2006.

Profit before Taxation

Profit before taxation increased by RMB132.9 million, or 83.0%, from RMB160.2 million for the eight months ended August 31, 2006 to RMB293.1 million for the eight months ended August 31, 2007.

Income Tax Expense

Our income tax expense decreased by RMB6.1 million, or 10.0%, from RMB60.8 million for the eight months ended August 31, 2006 to RMB54.7 million for the eight months ended August 31, 2007, mainly as a result of our effective tax rate being decreased. Our effective tax rate was 18.7% for the eight months ended August 31, 2007, as compared to 37.9% for the eight months ended August 31, 2006. The lower effective tax rate for the eight months ended August 31, 2007 was attributable primarily to the fact that Honghua Company had adopted an income tax rate of 33% for the period from January to September 2006, but has enjoyed an exemption from national income tax since October 1, 2006 which leaves Honghua Company's income earned from October 1, 2006 to December 31, 2007 subject only to the local tax rate of 3%.

Profit for the Period

As a result of the changes in the items discussed above, profit for the year increased by RMB138.9 million, or 139.7%, from RMB99.4 million for the eight months ended August 31, 2006 to RMB238.3 million for the eight months ended August 31, 2007.

Profit Attributable to Minority Interests

Profit attributable to minority interests was RMB37.2 million for the eight months ended August 31, 2007, as compared to RMB32.8 million for the eight months ended August 31, 2006. This increase is attributable primarily to the increased profits realized by our majority owned subsidiaries.

Profit Attributable to Shareholders of the Company

Profit attributable to the shareholders of the Company for the eight months ended August 31, 2007 was RMB201.1 million, compared with RMB66.6 million for the eight months ended August 31, 2006.

2006 Compared to 2005

The table below sets out revenue, cost of sales, units sold and gross profit information attributable to our two business segments and key product groups for 2005 and 2006.

	Year ended December 31,					
	2005			2006		
	Revenue	Cost of Sales	Gross Profit Margin	Revenue	Cost of Sales	Gross Profit Margin
	(RMB in millions)		%	(RMB in millions)		%
Drilling Rigs	434.0	345.6	20.4	2,037.3	1,362.4	33.1
Rig Parts and Components	67.6	47.4	29.9	298.6	195.7	34.5
Total	501.6	393.0	21.7	2,335.9	1,558.1	33.3

	Year ended December 31,			
	2005		2006	
	Revenue (RMB millions)	Units Sold	Revenue (RMB millions)	Units Sold
Digitally-controlled rigs	193.6	6	1,536.9	50
Conventional rigs	240.4	26	500.4	32
Mud pumps	30.5	32	144.4	191
Other	37.1	NA	154.2	NA
Total Revenue	**501.6**		**2,335.9**	

	Year ended December 31,			
	2005		2006	
	Cost of Sales			
	(RMB in millions)	%	(RMB in millions)	%
Drilling rigs				
Material	302.8	87.6	1,242.0	91.2
Contract cost	5.8	1.7	14.0	1.0
Staff cost	9.7	2.8	32.0	2.3
Repair and maintenance	0.0	0.0	0.3	0.0
Depreciation	3.8	1.1	7.6	0.6
Manufacturing expense	23.5	6.8	66.5	4.9
Total	345.6	100	1,362.4	100
Rig Parts and Components				
Material	38.5	81.2	177.2	90.5
Contract cost	5.1	10.8	5.5	2.8
Staff cost	1.0	2.1	3.5	1.8
Repair and maintenance	—	0.0	—	0.0
Depreciation	0.4	0.8	0.9	0.5
Manufacturing expense	2.4	5.1	8.6	4.4
Total	47.4	100	195.7	100

Revenue

Our revenue increased by RMB1,834.3 million, or 365.7%, from RMB501.6 million in 2005 to RMB2,335.9 million in 2006, primarily due to an increase in sales of drilling rigs and mud pumps in 2006.

Revenue from our drilling rigs segment for 2006 increased by RMB1,603.3 million, or 369.4%, from RMB434.0 million in 2005 to RMB2,037.3 million in 2006, mainly because our land rig sales volume increased from 32 rigs in 2005 to 82 rigs in 2006. Our export volume increased from four drilling rigs in 2005 to 50 drilling rigs in 2006, of which 45 were delivered to Nabors in North America, as a result of the increased orders from Nabors Group. The increase in revenue from our drilling rigs segment was also attributable to a higher average selling price we realized in 2006, as a result of the change in product mix. Digitally-controlled VFD rigs accounted for 58.5% of the total number of rigs we delivered in 2006, while 53.1% of the rigs we delivered in 2005 were mechanical rigs. Our digitally-controlled VFD rigs usually command a higher selling price than mechanical drilling rigs, and the higher percentage of digitally-controlled VFD rigs we delivered in 2006 therefore led to a higher average selling price in 2006.

Revenue from our rig parts and components segment for 2006 was RMB298.6 million, an increase of 341.9%, compared to RMB67.6 million in 2005, resulting from an increase of RMB113.9 million in sales of mud pumps and an increase in sales of other parts and components, including those we manufactured and procured from third parties. We started to expand our mud pump production facilities in 2005 and our sales volumes increased from 32 units in 2005 to 191 units in 2006. There was a sharp increase in orders for mud pumps from North American clients in 2006. The increase in sales volumes of mud pumps was partly offset by a decrease in their average selling price in 2006, mainly because we gave a discount to some third party wholesale distributors due to their large order size in 2006.

Cost of Sales

Our cost of sales increased by RMB1,165.1 million, or 296.5%, from RMB393.0 million in 2005 to RMB1,558.1 million in 2006, mainly attributable to increased sales volumes in both segments in 2006. The primary contributing component to the increase in cost of sales in 2006 was an increase of RMB1,077.9 million in material costs, due to increased production in both segments. We made a provision of RMB11.8 million for

warranty cost in 2006, as compared to a write-back of RMB1.3 million in 2005, mainly as a result of the sharp increase in our sales in 2006.

Cost of sales for our drilling rigs segment in 2006 increased by RMB1,016.8 million, or 294.2%, from RMB345.6 million in 2005 to RMB1,362.4 million in 2006, primarily due to an increase in the number of drilling rigs we delivered in 2006.

Cost of sales for our rig parts and components segment in 2006 was RMB195.7 million, an increase of 312.9%, compared to RMB47.4 million in 2005. This increase mainly resulted from the increased sales volume of mud pumps and other parts and components.

Gross Profit

Our gross profit increased by RMB669.2 million, from RMB108.6 million in 2005 to RMB777.8 million for 2006. Our gross profit margin increased from 21.7% in 2005 to 33.3% in 2006, due primarily to the increase in gross profit margin of the drilling rigs segment.

The increase in gross profit margin of drilling rigs segment, from 20.4% in 2005 to 33.1%, in 2006 was primarily driven by the growth in our sales of digitally-controlled VFD rigs in 2006. Digitally-controlled VFD rigs we sold in 2006 yielded a higher gross profit margin than the products we delivered in 2005. Our gross profit margin was higher in 2006 also because we expanded production and lowered costs through economies of scale.

The gross profit margin of our rig parts and components segment increased from 29.9% in 2005 to 34.5% in 2006, primarily due to a higher gross profit margin of other rig parts and components, partly offset by a decrease in gross profit margin of mud pumps. We realized a higher gross profit margin in 2006 from other rig parts and components because in 2006 we expanded export sales of parts and components, which had a higher gross profit margin than domestic sales. The gross profit margin of mud pumps decreased in 2006 because we expanded our production of mud pumps in 2006 and offered discounts to some wholesale distributors for large-scale orders.

Other Operating Revenue

Our other operating revenue increased by RMB1.4 million, or 43.8%, from RMB3.2 million in 2005 to RMB4.6 million in 2006, primarily due to increased repair service we rendered in 2006. The increase in our repair service was attributable primarily to the growing number of our drilling rigs in operation.

Other Operating Expenses

Other operating expenses were RMB0.9 million in 2006, compared to RMB0.6 million in 2005.

Selling Expenses

Our selling expenses increased by RMB61.2 million, or 266.1%, from RMB23.0 million in 2005 to RMB84.2 million in 2006, attributable primarily to the increase in exports of drilling rigs in 2006. Our export products are usually delivered under FOB or CIF terms and we bear the costs for transportation for delivery at the designated seaport, while for domestic sales in China, delivery is usually made at our production facilities and our customers pay for the transportation costs. The increased export volume in 2006 therefore led to a higher amount of selling expenses in 2006 as compared to 2005.

General and Administrative Expenses

General and administrative expenses increased by RMB67.8 million, or 159.9%, from RMB42.4 million in 2005 to RMB110.2 million in 2006. The contributors to such increase in 2006 mainly included an increase in

the number of administrative staff and research and development staff, and an increase in average salaries in 2006. In 2006, we also made a provision of RMB13.2 million for delayed delivery alleged by Nabors Group. This matter, however, has since been resolved amicably.

Other Net Income

We recorded other net income of RMB3.1 million in 2006, as compared to other net income of RMB1.4 million in 2005. The increase was mainly due to the decrease in loss on disposal of fixed assets.

Profit from Operations

As a result of the changes in the items discussed above, our profit from operations increased by RMB543.2 million, from RMB47.1 million in 2005 to RMB590.3 million in 2006.

Net Financing Costs

Our finance costs increased by RMB19.0 million, from RMB4.1 million in 2005 to RMB23.1 million in 2006, primarily due to an increase of RMB13.6 million and RMB6.9 million, respectively, in exchange losses and interest expenses in 2006. Most of our export sales are denominated in U.S. dollars. Any appreciation of the Renminbi against the U.S. dollar from delivery to cash settlement results in exchange losses. Our interest expenses increased in 2006 because we incurred more bank loans to finance our expanded production and the interest rate also increased during this period as a result of the increase in the benchmark interest rate by PBOC.

Profit before Taxation

Profit before tax for 2006 increased by RMB524.1 million, from RMB43.0 million in 2005 to RMB567.1 million in 2006.

Income Tax Expense

Our income tax expense increased by RMB92.5 million, from RMB10.7 million in 2005 to RMB103.2 million in 2006, due primarily to the increase in profit before tax in 2006. Our effective tax rate was 18.2% in 2006, as compared to 25.0% in 2005. The lower effective tax rate in 2006 was attributable primarily to the fact that Honghua Company, our major subsidiary that manufactures and sells drilling rigs, has been subject to a 3% preferential tax rate since October 1, 2006 and most of its revenues were realized in the second half of 2006. Honghua Company was subject to the standard 33% corporate income tax rate in 2005 and for the nine months ended September 30, 2006. On September 15, 2006, Honghua Company was changed into a foreign-invested enterprise and is therefore entitled to an exemption from the 30% national corporate income tax from October 1, 2006 to December 31, 2007 and a 50% reduction of the national corporate income tax from 2008 to 2010. The tax concession resulting from the 30% national corporate income tax exemption amounted to RMB70.2 million in 2006. Hongtian Company and Youxin Company also enjoyed a preferential income tax rate of 15% in 2005 and 2006 as new high-tech enterprises in the western region of the PRC. Youxin Company is not entitled to the tax preferential treatment enjoyed by Honghua Company as a foreign invested enterprise, because Youxin Company was acquired by Honghua Company in 2006 before Honghua Company was acquired by Asia Harbour and converted to a foreign invested company and Youxin Company was treated as a PRC domestic company by the relevant PRC tax authority. For details of and risks associated with transitioning tax treatments, see the risk factor headed "Any change in the preferential tax treatment in the PRC may have an adverse impact on our results of operations" in the Risk Factors section of this Prospectus. Our income tax expense in 2006 included a provision of RMB4.0 million for overseas taxation, because Honghua America we set up in Texas in 2004 started to make a profit in 2006.

Profit for the Year

As a result of the changes in the items discussed above, profit for the year increased by RMB431.6 million, from RMB32.3 million in 2005 to RMB463.9 million in 2006.

Profit Attributable to Minority Interests

Profit attributable to minority interests increased by RMB37.3 million, from RMB13.8 million in 2005 to RMB51.1 million in 2006, attributable primarily to the increased profits in our 80% owned subsidiaries, including Hongtian Company, Youxin Company, Honghua International and Honghua America.

Profit Attributable to Shareholders of the Company

Profit attributable to the shareholders of the Company in 2006 was RMB412.8 million compared with RMB18.5 million in 2005.

2005 Compared with 2004

The table below sets out revenue, cost of sales, units sold and gross profit information attributable to our two business segments and key product groups for 2004 and 2005:

	Year ended December 31,					
	2004			2005		
	Revenue	Cost of Sales	Gross Profit Margin	Revenue	Cost of Sales	Gross Profit Margin
	(RMB in millions)		%	(RMB in millions)		%
Drilling Rigs	468.8	400.1	14.7	434.0	345.6	20.4
Rig Parts and Components	70.5	39.9	43.4	67.6	47.4	29.9
Total	539.3	440.0	18.4	501.6	393.0	21.7

	Year ended December 31,			
	2004		2005	
	Revenue (RMB million)	Unit Sold	Revenue (RMB million)	Unit Sold
Digitally-controlled rigs	206.2	11	193.6	6
Conventional rigs	262.6	21	240.4	26
Mud pumps	3.5	6	30.5	32
Other	67.0	NA	37.1	NA
Total Revenue	**539.3**		**501.6**	

	Year ended December 31,			
	2004		2005	
	Cost of Sales			
	(RMB in millions)	%	(RMB in millions)	%
Drilling rigs				
Material	372.0	93.0	302.8	87.6
Contract cost	3.0	0.7	5.8	1.7
Staff cost	9.2	2.3	9.7	2.8
Repair and maintenance	0.2	0.0	0.0	0.0
Depreciation	2.4	0.6	3.8	1.1
Manufacturing expense	13.3	3.4	23.5	6.8
Total	400.1	100	345.6	100
Rig Parts and Components				
Material	36.5	91.5	38.5	81.2
Contract cost	1.8	4.5	5.1	10.8
Staff cost	0.3	0.8	1.0	2.1
Repair and maintenance	0.0	0.0	—	0.0
Depreciation	0.2	0.5	0.4	0.8
Manufacturing expense	1.1	2.7	2.4	5.1
Total	39.9	100	47.4	100

Revenue

Our revenue decreased by RMB37.7 million, or 7.0%, from RMB539.3 million in 2004 to RMB501.6 million in 2005, mainly resulting from a decrease in sales of drilling rigs in 2005.

Revenue from our drilling rigs segment for 2005 decreased by RMB34.8 million, or 7.4%, from RMB468.8 million in 2004 to RMB434.0 million in 2005. This decrease in revenue was not due to a reduction in sales volume, which remained at 32 rigs in both 2004 and 2005. The decrease in revenue primarily resulted from a change in product mix. In 2004, we sold 11 digitally-controlled VFD rigs, 10 mechanical rigs and 11 other conventional rigs, while in 2005, we sold only four digitally-controlled VFD rigs, two trailer drilling rigs, 17 mechanical rigs and nine other conventional rigs. Digitally controlled VFD rigs have a higher average selling price than mechanical rigs and the decrease in sales volume of such rigs caused the reduction in revenue.

Revenue from our rig parts and components segment for 2005 decreased by RMB2.9 million, or 4.1%, from RMB70.5 million in 2004 to RMB67.6 million in 2005. The number of mud pumps we sold increased from six units in 2004 to 32 units in 2005. The increase in revenue derived from sales of mud pumps was more than offset, however, by the decrease in revenue from sales of other rig parts and components. In 2005, we utilized our production capacity for our own rigs in anticipation of increased rig orders in 2005 and 2006. Therefore our external sales of rig parts and components declined from 2004 to 2005.

Cost of Sales

Our cost of sales decreased by RMB47.0 million, or 10.7%, from RMB440.0 million in 2004 to RMB393.0 million in 2005. The primary contributing component to the decrease of cost of sales in 2005 was a decrease of RMB67.2 million in material costs, partly offset by an increase of RMB12.3 million in other manufacturing expenses, mainly as a result of the expanded production of mud pumps. We had a write-back of the warranty costs in 2004 and 2005, which amounted to RMB4.2 million and RMB1.3 million respectively, mainly because our accumulated experiences and improved quality of our products led to a lower repairing rate in 2004 and 2005, as compared to previous years.

Cost of sales from our drilling rigs segment in 2004 decreased by RMB54.5 million, or 13.6%, from RMB400.1 million in 2004 to RMB345.6 million in 2005, primarily due to the change in our product mix discussed above.

Cost of sales from our rig parts and components segment in 2005 was RMB47.4 million, an increase of 18.8% compared to RMB39.9 million in 2004. This increase mainly resulted from the increase in sales of mud pumps.

Gross Profit

Our gross profit increased by RMB9.3 million, or 9.4%, from RMB99.3 million in 2004 to RMB108.6 million in 2005. Our gross profit margin increased from 18.4% in 2004 to 21.7% in 2005, mainly because the gross profit margin of our drilling rigs segment increased from 14.7% to 20.4%.

The gross profit margin of our drilling rigs segment increased from 14.7% in 2004 to 20.4% in 2005, primarily due to a significant increase in gross profit margin of digitally-controlled VFD rigs in 2005. Our digitally-controlled VFD rigs commanded a higher selling price and yielded much higher gross profit margin in 2005.

The gross profit margin of our rig parts and components segment decreased from 43.4% in 2004 to 29.9% in 2005, mainly because an increase in gross profit margin of mud pumps was more than offset by decreased gross profit margin of other rig parts and components. We started trial production of mud pumps and incurred losses in 2004. The gross profit margin of other rig parts and components was higher in 2004, because we engaged in some rig upgrading businesses associated with sales of parts and components in 2004, which realized a higher gross profit margin, while in 2005, we utilized our resources for production and sales of drilling rigs and rig parts and components due to increased orders.

Other Operating Revenue

Our other operating revenue increased by RMB1.0 million, or 45.5% from RMB2.2 million in 2004 to RMB3.2 million in 2005, primarily due to increased revenue derived from our repair and maintenance service.

Other Operating Expenses

Other operating expenses remained stable at RMB0.6 million in 2004 and 2005.

Selling Expenses

Our selling expenses increased by RMB5.2 million, or 29.2%, from RMB17.8 million in 2004 to RMB23.0 million in 2005, primarily due to increased transportation expenses. We had no export sales of drilling rigs in 2004. We exported four rigs in 2005 and therefore incurred more transportation expenses.

General and Administrative Expenses

General and administrative expenses increased by RMB13.4 million, or 46.2%, from RMB29.0 million in 2004 to RMB42.4 million in 2005, primarily due to an increase in administrative staff and research and development staff.

Other Net Income/(expenses)

We recorded an other net income of RMB0.4 million and RMB1.4 million, respectively, in 2004 and 2005.

Profit from Operations

As a result of the changes in the items discussed above, our profit from operations decreased by RMB7.4 million, or 13.6%, from RMB54.5 million in 2004 to RMB47.1 million in 2005.

Net Financing Costs

Our net financing costs increased by RMB0.2 million, or 5.1%, from RMB3.9 million in 2004 to RMB4.1 million in 2005.

Profit before Taxation

Profit before taxation for 2006 decreased by RMB7.6 million, or 15.0%, from RMB50.6 million in 2004 to RMB43.0 million in 2005.

Income Tax Expense

Our income tax expense was RMB10.5 million in 2004, compared to an income tax expense of RMB10.7 million in 2005. We incurred more tax expense in 2005 although our profit before taxation was lower than that of 2004, mainly because Honghua International started to make a profit in 2005 and was subject to a standard 33% tax rate. Our effective tax rate was 20.7% in 2004 and 25.0% in 2005. Honghua Company, Youxin Company and Hongtian Company each enjoyed a 15% preferential tax rate in 2004 and 2005 as new high-tech enterprises in the western region of the PRC.

Profit for the Year

As a result of the changes in the items discussed above, profit for the year decreased by RMB7.8 million, or 19.5%, from RMB40.1 million in 2004 to RMB32.3 million in 2005.

Profit Attributable to Minority Interests

Profit attributable to minority interests increased by RMB5.9 million, or 74.7%, from RMB7.9 million in 2004 to RMB13.8 million in 2005, mainly because Hongtian Company, Youxin Company and Honghua International recorded more profits in 2005, as compared to 2004. Minority shareholders had a 100%, 100% and 15% interest in each of Hongtian Company, Youxin Company and Honghua International, respectively, in 2004 and 2005. As explained above, we consolidated the financial results of Hongtian Company and Youxin Company from January 1, 2004, although we did not hold any shareholdings in these two entities during the relevant periods, because they were special purpose entities we set up to manufacture certain key rig parts and components.

Profit Attributable to Equity Shareholders of the Company

Profit attributable to equity shareholders of the Company in 2005 was RMB18.5 million, compared with RMB32.2 million in 2004.

Liquidity and Capital Resources

To date, our principal sources of funds are cash generated from operations, bank borrowings and capital injections by investors. Our cash requirements relate primarily to the purchase of materials and other operating expenses, acquisition of land use rights and other fixed assets, service of debts and dividends payments.

Our liquidity will primarily depend on our ability to generate cash flow from operations and obtain external financing to meet our debt obligations, as they become due, as well as our future capital expenditures. We had cash and cash equivalents of RMB26.0 million as of December 31, 2004, RMB294.0 million as of December 31, 2005, RMB158.4 million as of December 31, 2006 and RMB212.8 million as of August 31, 2007.

Cash Flow

The following table presents selected cash flow data from our cash flow statements for the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2006 and 2007.

	Year ended December 31,			Eight months ended August 31,	
	2004	2005	2006	2006 (unaudited)	2007
	RMB in millions				
Net cash inflow/(outflow) from operating activities	24.0	365.7	(306.6)	(294.1)	(440.4)
Net cash outflow from investing activities	(24.3)	(77.8)	(196.4)	(130.7)	(125.9)
Net cash (outflow)/inflow from financing activities	(21.5)	(19.9)	367.4	234.1	620.7
(Decrease)/increase in cash and cash equivalents	(21.8)	268.0	(135.6)	(190.7)	54.4

Operating activities

We had a net cash outflow of RMB440.4 million from operating activities in the eight months ended August 31, 2007, while our operating profit before changes in working capital for the same period was RMB333.2 million. The cash outflow of RMB773.6 million was primarily due to: (i) an increase in trade and other receivables of RMB504.1 million; (ii) an increase in inventories of RMB493.4 million; (iii) an increase of RMB90.2 million in amounts due from related parties; and (iv) an increase of RMB131.1 million in pledged deposits, which were partly offset by an increase of RMB240.8 million in amounts due to related parties and an increase in trade and other payables of RMB184.3 million. The significant increase in inventories was primarily attributable to the expansion in production in the second half of 2007 as well as to new business activities with Honghua Company's Russian distributor, Izhdrill-Honghua, beginning at the end of 2006, and a new customer, Clusseter Limited, in June 2007. The expansion in production and the new business activities with Izhdrill-Honghua and Clusseter Limited were for the same type of drilling rigs. Therefore, we entered a purchase plan for relatively small amounts of the common and standard raw materials of the sort used in constructing these types of rigs beginning in January 2007 and we didn't start purchasing large quantities of raw materials and specific raw materials for these particular rigs until we signed the contracts for such rigs. The increases in amounts due to related parties were primarily due to new business activities with HH Egyptian Company and Ural-Honghua, and the increase in pledged deposits was due to new loans from PRC banks secured by offshore mortgage facilities. The significant increase in trade receivables was primarily due to the delivery of drilling rigs to Nabors Group in the first half of 2007. The increase in other receivables was primarily due to the increase in VAT refund receivables as a result of the increase in overseas sales, the insurance premiums we paid to cover certain business uncertainties in the U.S., and prepayments on overseas trips for global expansion, after-sales services and purchases of raw materials. We are entitled to a VAT refund for our export sales under current PRC regulations. The increase in trade and other payables was primarily due to the large quantity of raw materials we procured due to the increase in overseas sales.

We had a net cash outflow of RMB306.6 million from operating activities in 2006, while our operating profit before changes in working capital for the same period was RMB593.4 million. The cash outflow of RMB900.0 million was primarily due to (i) an increase in trade and other receivables of RMB531.7 million, (ii) an increase in inventories of RMB391.8 million and (iii) an increase in restricted bank deposits of RMB107.9 million, partly offset by an increase in trade and other payables of RMB110.1 million. The significant increase in trade and other receivables and inventories was primarily attributable to our expanded production and increased sales in 2006. The increase in trade and other receivables included an increase of RMB34.4 million in VAT

refund receivable as a result of our expanded export sales in 2006. The increase in trade and other payables was primarily due to the increase in trade payables, mainly as a result of our expanded production, partly offset by a decrease in receipts in advance because we received a significant instalment payment from one of our customers towards the end of 2005. The increase in restricted bank deposits of RMB107.9 million represented the escrow fund we set up for the use of proceeds from the convertible bonds we issued in 2006. Such restricted bank deposits had been fully released by the end of June 2007.

Net cash generated from operating activities in 2005 amounted to RMB365.7 million, while our operating profit before changes in working capital for the same period was RMB55.7 million. The cash inflow of RMB310.0 million was primarily due to an increase in trade and other payables of RMB770.1 million, mainly reflecting the increased orders and instalment payments made by our customers in 2005, partly offset by (i) an increase in inventories of RMB218.5 million, (ii) an increase in trade and other receivables of RMB154.6 million, and (iii) an increase in pledged deposits of RMB73.1 million. The increase in inventories and trade and other receivables was primarily attributable to our expansion of production in 2005 in response to the increased overseas orders for our products.

Net cash generated from operating activities in 2004 amounted to RMB24.0 million, while our operating profit before changes in working capital for the same period was RMB59.0 million. The cash outflow of RMB35.0 million was primarily due to (i) a decrease in trade and other payables of RMB10.9 million, primarily due to a decrease in VAT payable, (ii) income tax paid of RMB9.2 million and (iii) an increase in trade and other receivables of RMB7.0 million, primarily due to the increase in our revenues.

Investing activities

Net cash used in investing activities in the eight months ended August 31, 2007 amounted to RMB125.9 million, mainly consisting of a payment of RMB45.1 million for the investment in our Egypt joint venture, deposits of RMB20.0 million for acquisition of land and payment of RMB28.0 for fixed assets.

Net cash used in investing activities in 2006 amounted to RMB196.4 million, mainly consisting of our payment of RMB133.4 million for the acquisition of fixed assets and the construction of production plants and our acquisition of minority interests of RMB49.4 million. The minority interests we acquired in 2006 represented an 80% interest in each of Hongtian Company and Youxin Company and an additional 40% interest in Honghua International which we acquired in 2006, as well as the investment we made in Honghua America.

Net cash used in investing activities in 2005 amounted to RMB77.8 million, mainly consisting of our payment for acquisition of land, plant and machinery and construction of buildings for mud pump production.

Net cash used in investing activities in 2004 amounted to RMB24.3 million, mainly consisting of our payment for acquisition of plant and machinery and construction of buildings for rig production.

Financing activities

Net cash inflow from financing activities in the eight months ended August 31, 2007 amounted to RMB620.7 million, primarily reflecting new bank loans of RMB809.6 million and a loan from an ultimate holding company of RMB149.0 million, partly offset by repayment of bank loans of RMB400.8 million.

Net cash inflow from financing activities in 2006 amounted to RMB367.4 million, primarily reflecting new bank loans of RMB388.5 million and a loan from an ultimate holding company of RMB262.7 million, partly offset by appropriations to shareholders of RMB154.8 million and payment for repurchase of shares of RMB87.1 million. The appropriations to shareholders in 2006 represented the consideration Asia Harbour made for acquisition of shares from Honghua Company's shareholders.

Net cash used in financing activities in 2005 amounted to RMB19.9 million, primarily reflecting repayment of bank loans of RMB52.9 million, partly offset by new bank loans of RMB29.2 million and capital injections of RMB7.7 million by the shareholders of Honghua Company in 2005.

Net cash used in financing activities in 2004 amounted to RMB21.5 million, primarily reflecting repayment of bank loans of RMB17.3 million and interest paid of RMB4.1 million.

Working Capital

Inventory

The following table shows a summary of our inventory balances as of the respective balance sheet dates below, as well as the average inventory turnover days.

	Year ended December 31,			As at August 31,
	2004	2005	2006	2007
	RMB in millions			
Raw materials	42.8	135.1	241.4	286.5
Work in progress	22.0	115.9	188.7	348.4
Goods in transit	1.1	38.5	41.7	136.0
Finished goods	14.2	9.1	218.6	412.9
Total	80.1	298.6	690.4	1,183.8
Turnover of average inventory (days)	66	176	116	223

Notes:

Average inventory equals inventory at the beginning of the period plus inventory at the end of the period with the sum divided by two. Turnover of average inventory (in days) is average inventory divided by cost of sales multiplied by the number of days in the period.

Our inventory balances have been increasing over 2004, 2005, 2006 and the first eight months of 2007, primarily due to our expanded production in response to increased overseas orders in the second half of 2005 and 2006. Such expansion in production in 2006 resulted in an increase in the balances of raw materials and work in progress as of December 31, 2005 and 2006. The balance of finished goods was particularly high as of August 31, 2007, mainly representing completed drilling rigs of relatively higher value than those in past periods of comparison and mud pumps scheduled to be delivered to our clients at the end of 2007 that are currently awaiting delivery, in the process of being delivered, or clearing customs for export to various destinations. We faced longer delivery periods for our products because of the limited capacity of railway transportation generally and large quantities of exports awaiting clearance at customs. This did not cause any material impact on our business and we have not received any customer complaints relating to delayed delivery. Turnover of average inventory in 2005 was 176 days, mainly because we expanded our production capacity and increased the reserve level of materials in 2005, in anticipation of increasing orders and large amounts of deliveries in 2006. Our average inventory in 2006 was relatively high as we had several drilling rigs ready for delivery at the end of 2006 and therefore the level of finished goods in 2006 was significantly higher than in 2004 and 2005.

Trade and bill receivables

	Year ended December 31,			As at August 31,
	2004	2005	2006	2007
Turnover of average trade and bill receivables (days)	93	117	59	127
Impairment losses of trade and other receivables (RMB'000)	—	394	1,637	—

Notes:

Average trade and bill receivables equal trade and bill receivables at the beginning of the period plus trade and bill receivables at the end of the period with the sum divided by two. Turnover of average trade and bill receivables (in days) is average trade and bill receivables divided by revenue for the relevant period multiplied by the number of days in the period.

Our trade and bill receivables amounted to RMB144.7 million, RMB175.5 million, RMB573.7 million and RMB1,015.4 million as of December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007, respectively. The significant increase in our trade and bill receivables as of August 31, 2007 was primary due to our expanded sales in 2007. We usually grant an average credit period of 30 to 90 days (from the billing date) to our customers.

As of August 31, 2007, our current trade receivables were RMB383.3 million and our trade receivable less than one month past due had increased by RMB191.7 million from RMB649,000 as of December 31, 2006, to RMB192.3 million. RMB273.8 million of current trade receivables and RMB185.2 million of these balances past due for less than one month as of August 31, 2007, representing outstanding balances of greater than RMB1.0 million from subsidiaries of the state-owned oil companies Sinopec and CNPC. At the oral request of these customers, most of whom are among our top ten customers in terms of sales, the Company's management has agreed to short-term deferrals of repayment taking into account the creditworthiness of these customers. As of January 21, 2008, RMB149.8 million of trade receivables attributable to outstanding balances from these customers of greater than RMB1.0 million that are reflected as current as of August 31, 2007, and RMB128.4 million past due for less than one month due from these customers on outstanding balances of greater than RMB1.0 million as of August 31, 2007, had been repaid, leaving a total of RMB180.8 million due from these customers on outstanding balances of greater than RMB1.0 million as of January 21, 2008. The Directors believe that the balances outstanding attributable to these state-owned oil companies are collectable based on these customers' good records of payment, their creditworthiness and the confirmation of amounts outstanding from these customers' management teams. Of the remaining RMB116.6 million less than one month past due, RMB89.4 million was due from Nabors Industries, which had been subsequently settled by January 21, 2008.

Our balance of trade receivables aged one to three months past due also increased from RMB18.0 million to RMB368.0 million, and our balance of trade receivables aged more than three months increased from RMB9.2 million to RMB71.9 million from December 31, 2006 to August 31, 2007, respectively. These increases were primarily due to payments withheld by Nabors Industries as a result of the contractual dispute described in the subsection headed "Dispute with Nabors" under the section headed "Our Business — Legal Proceedings" of this Prospectus. All withheld amounts due from Nabors Industries, including RMB342.4 million one to three months past due and RMB61.0 million over three months past due, have since been settled as a result of the amicable settlement reached between us and Nabors International. Of the amount that was outstanding as of August 31, 2007 that was not due from Nabors Industries, RMB25.5 million was one to three months past due and RMB10.9 million was over three months past due. Of these remaining outstanding amounts, RMB13.2 million had been subsequently settled as of January 21, 2008.

Our trade receivables also include the retention money, which is generally 5% of the sales price withheld by our PRC domestic customers during the one year warranty period. The retention money amounted to RMB54.1 million, RMB25.1 million, RMB29.4 million and RMB45.3 million, respectively, as of December 31, 2004, 2005 and 2006 and as of August 31, 2007. Such retention money will be paid to us if our products do not

have any major quality problem during the warranty period. Turnover days of average trade and bill receivables in 2006 were lower than 2004 and 2005 mainly because we received a significant prepayment of RMB160.6 million towards the end of 2005 from an overseas customer for the drilling rigs delivered in 2006. This prepayment reduced our trade receivables as of December 31, 2006 and therefore decreased the turnover days of average trade and bill receivables in 2006. We did not make material provisions for impairment of trade and other receivables in any of the three years ended December 31, 2004, 2005 and 2006 or the eight months ended August 31, 2007. The amount of provisions for impairment of trade and other receivables in the years ended December 31, 2005 and 2006 were approximately RMB0.4 million and RMB1.6 million respectively, and there was no provision in the year ended December 31, 2004 and the eight months ended August 31, 2007.

Trade and bill payables

	Year ended December 31,			As at August 31,
	2004	2005	2006	2007
			(days)	
Turnover of average trade and bill payables	81	154	81	143

Notes:

Average trade and bill payables equal trade and bill payables at the beginning of the period plus trade and bill payables at the end of the period with the sum divided by two. Turnover of average trade and bill payables (in days) is average trade and bill payables divided by cost of sales for the relevant period multiplied by number of days in the period.

Our trade and bill payables amounted to RMB131.7 million, RMB199.7 million, RMB490.3 million and RMB709.4 million as of December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007, respectively. The increase in our trade and bill payables as of December 31, 2005 and 2006 and August 31, 2007 resulted mainly from our expanded production. Turnover days of average trade and bill payables in 2006 were lower than 2004 and 2005 because we made more prepayments for some imported rig components to ensure on time delivery of rigs. Such prepayments we made reduced our trade and bill payables as of December 31, 2006 and therefore decreased the turnover days of average trade and bill payables in 2006. Our turnover days of average trade and bill payables increased from 2004 to 2005 due to our use of credit periods of up to three months with our raw materials suppliers to source raw materials for substantial new orders from Nabors Group in 2005 set to be delivered in 2006.

Balances with Related Companies

As of August 31, 2007, amounts due to and due from related companies were RMB295.6 million and RMB92.2 million, respectively. Please refer to note 27 of Appendix I to this Prospectus. All amounts of a non-trade nature due to and due from related companies will be fully settled before Listing.

Net Current Assets

As of August 31, 2007, we had net current assets of RMB198.3 million. As of August 31, 2007, our current assets amounted to RMB3,061.1 million, comprising inventories of RMB1,183.8 million, trade and other receivables of RMB1,373.5 million, amounts due from related companies of RMB92.2 million, pledged bank deposits of RMB198.8 million and cash and cash equivalents of RMB212.8 million. As of August 31, 2007, current liabilities amounted to RMB2,862.7 million, comprising interest-bearing borrowings of RMB758.6 million, trade and other payables of RMB1,279.2 million, current taxation of RMB40.9 million, loans from shareholders of the holding company of RMB76.9 million, amount due to related companies of RMB295.6 million and loans from ultimate holding company of RMB411.6 million.

Taking into account the estimated net proceeds available to us from the Global Offering, our cash and cash equivalents on hand, available banking facilities and cash generated from future operations, we confirm that we have sufficient working capital for at least 12 months from the date of this Prospectus.

Indebtedness

Our borrowings as of December 31, 2004, 2005, 2006, August 31, 2007 and as of December 31, 2007 were as follows:

	As of December 31,			As of August 31,	As of December 31,
	2004	2005	2006	2007	2007
				(RMB in millions)	
Indebtedness					
Bank loans					
— Secured	—	5.0	72.6	27.7	25.3
— Unsecured	54.9	26.2	280.0	733.6	831.1
Loan from a financial institution	—	—	13.7	15.8	15.3
Total	54.9	31.2	366.3	777.1	871.7

As of December 31, 2005, our secured bank borrowing amounted to approximately RMB5.0 million, secured by land with an aggregate carrying value of approximately RMB5.3 million. As of December 31, 2006, our secured bank borrowing amounted to approximately RMB72.6 million, secured by land with an aggregate carrying value of approximately RMB24.5 million. As of August 31, 2007, our secured bank borrowing amounted to approximately RMB27.7 million, secured by land with an aggregate carrying value of approximately RMB22.5 million. As of December 31, 2007, our secured bank borrowing amounted to approximately RMB25.3 million, secured by land with an aggregate carrying value of approximately RMB17.5 million.

The effective interest rate on our bank loans was 4.80% to 7.96% per annum as of December 31, 2004, 4.80% to 9.68% per annum as of December 31, 2005, 5.28% to 9.68% per annum as of December 31, 2006 and 4.86% to 9.38% as of August 31, 2007. The loan from a financial institution as of December 31, 2006 and August 31, 2007 bore interest at 6.50% per annum. Our interest-bearing borrowings do not contain any financial or non-financial covenants that materially restrict our operations except that we will need to obtain the consent of our lenders before taking significant corporate actions such as mergers, acquisitions, asset sales or liquidations. We do not have any financial instruments held for trading purposes. We currently do not hold any derivative instruments.

As of December 31, 2004 and 2005, all of our bank and other borrowings were denominated in Renminbi. As of December 31, 2006, we had a U.S. denominated borrowing of US$2.7 million and all the other interest-bearing borrowings were denominated in Reminbi.

We confirm that there have been no material changes in our indebtedness, commitments and contingent liabilities since December 31, 2007.

Capital Expenditures

Our principal capital expenditures relate primarily to acquisition of land and construction and expansion of our production facilities. Our capital expenditures in 2004, 2005 and 2006 and the eight months ended August 31, 2007 were RMB24.8 million, RMB67.1 million, RMB142.7 million and RMB64.9 million, respectively. The increase in our capital expenditures in 2005, 2006 and the eight months ended August 31, 2007 mainly reflected our expansion of production facilities during these periods. These capital expenditures were funded primarily out of cash flows generated from operations and borrowings.

The following table sets out our estimate of future capital expenditures for the periods indicated.

	Year ended December 31,		
	2007	2008	2009
	(RMB in millions)		
Capital Expenditures			
Expansion of production facilities	155.0	192.0	63.0
Construction of offshore rig and heavy structure manufacturing base	—	1,000.0	1,000.0
Total	155.0	1,192.0	1,063

Our current plans with respect to future are subject to change based upon the evolution of our business plan, including potential acquisition, the progress of our capital projects, market conditions and our outlook on future business conditions. There is no guarantee that any of the planned capital expenditures outlined above will proceed as planned. As we continue to expand, we may incur additional capital expenditures. Other than as required by law and the Listing Rules, we do not undertake any obligation to publish updates of our capital expenditure plans. For more information, see "Forward-looking Statements" in this Prospectus.

We expect to finance our planned capital expenditure in 2007, 2008 and 2009 through a combination of cash generated from operations, the net proceeds of the Global Offering and bank loans. In the future, we may consider additional debt or equity financing, depending on market conditions, our financial performance and other relevant factors. We cannot assure you, however, that we will be able to raise additional capital, should that become necessary, on terms acceptable to us or at all.

Contractual Obligations, Operating Lease Commitments and Capital Commitments

Our contractual obligations consist primarily of payment obligations under credit facilities, as described above. The following table summarizes our contractual obligations as of August 31, 2007. We expect to fund such contractual obligations principally from cash generated from our operations and bank loans.

	Payments due by period			
	Total	Less than 1 year	1-5 years	More than 5 years
	(RMB in millions)			
Contractual Obligations				
Bank loans	761.3	758.6	—	2.7
Loan from a financial institution	15.8	—	13.2	2.6
Total	777.1	758.6	13.2	5.3

The following table summarizes our capital commitments as of the dates indicated.

	As of December 31,			As at August 31,
	2004	2005	2006	2007
	(RMB in millions)			
Capital Commitments				
Contracted but not provided for	—	14.8	293.3	171.5
Authorized but not contracted for	—	—	38.8	203.0
Total	—	14.8	332.1	374.5

The capital commitments we made as of August 31, 2007 represented our purchase of fixed assets and our construction of production facilities. The capital commitments we made as of December 31, 2006 mainly represented our purchase of fixed assets, construction of production facilities and the investment to be made in the Egyptian joint venture. RMB83.2 million of the contracted capital commitment as of December 31, 2006 will

be due within 2007 and the remaining will be invested during the three years from early 2007. We expect to fund such capital commitment principally from cash generated from our operations, bank loans and the net proceeds from the Global Offering.

Contingent Liabilities

We have not entered into any financial guarantees or similar commitments to guarantee the payment obligations of any parties other than our subsidiaries. Except as disclosed above or under "Balances with Related Companies — Indebtedness" and apart from intra-group liabilities, as of August 31, 2007, we did not have any contingent liabilities or off-balance-sheet arrangements that have or are reasonable like to have a current or future effect on our financial condition that we believe are material to investors.

Market Risks

Interest Rate Risk

The PBOC has the sole authority in the PRC to establish and adjust the benchmark interest rates for RMB-denominated borrowings. Financial institutions in China set their effective interest rates based on the benchmark interest rates published by the PBOC. As of December 31, 2006, approximately 94.2% of our bank and other borrowings are denominated in Renminbi and borrowed from domestic commercial banks at interest rates that vary in accordance with the benchmark interest rates set by the PBOC. Interest rates on our bank and other borrowings are subject to adjustments by our lenders in accordance with changes in the PBOC benchmark rates. Historically, we have not used any interest rate swaps to hedge our exposure to interest rate risk.

We are exposed to interest rate risk resulting from changes in interest rates on our short-term and long-term debt. Increases in interest rates will increase our interest expense on outstanding borrowings and the cost of new borrowings, and therefore could have a material adverse effect on our financial position. The effective interest rate on our borrowings was 4.86% to 9.38% per annum as of August 31, 2007.

Foreign Exchange Risk

We conduct our business primarily in Renminbi and U.S. dollars. On July 21, 2005, the PRC Government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a daily 0.3% band against a basket of certain foreign currencies. This change in policy has resulted in an appreciation of the Renminbi against the U.S. dollar. The central parity rate of the Renminbi rose to 7.622 to the U.S. dollar on June 22, 2007, bringing the currency's total appreciation to more than 11.3% since reform of the exchange rate system began in July 2005. The PRC government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates. Continued appreciation of the Renminbi against the U.S. dollar will adversely affect our income from export contracts denominated in U.S. dollars. We do not currently hedge our exchange rate exposure in U.S. dollars or other foreign currencies in which we deal. See "Risk Factors — Risk factors relating to the PRC — Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect the financial condition and results of operations of our Company and our ability to pay dividends."

Inflation Risk

Although in recent years, the PRC has not experienced significant inflation, there are signs that inflation in the PRC is increasing. However, inflation has not had a significant effect on our business during the past three years. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 4.7% in 2007, 1.5% in 2006, 1.8% in 2005 and 3.9% in 2004. As of the date of this Prospectus, we have not been materially affected by any inflation or deflation.

Disclosure Under the Listing Rules

We confirm that, as of August 31, 2007 and to our best knowledge, there have been no other matters which would cause us to make the disclosure under Rules 13.13 to 13.19 of the Listing Rules.

Profit Estimate

We estimate that, on the bases and assumptions set out in Appendix III to this Prospectus and in the absence of unforeseen circumstances, our estimated combined profit attributable to equity holders for the year ended December 31, 2007 will not be less than RMB538.3 million. The profit estimate for the year ended December 31, 2007 has been prepared by our Directors based on our audited combined results for the eight months ended August 31, 2007 and an estimate of our combined results for the remaining four months ended December 31, 2007.

Dividends and Dividend Policy

After the completion of the Global Offering, our shareholders will be entitled to receive dividends declared by us. The declaration of, payment and amount of interim dividends will be subject to the discretion of our Directors in accordance with our Articles of Association and will be dependent upon our future operations and earnings, financial condition, capital requirements and surplus, contractual restrictions, payments by subsidiaries of cash dividends to us and other factors that our Directors deem relevant.

We declared dividends of approximately of RMB2.2 million, RMB1.6 million and RMB19.5 million, respectively, for 2004, 2005 and 2006. No dividends were declared for the year ended December 31, 2007. There is no guarantee that dividends will be paid in the future. The declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend on, among other things, the following factors:

- our financial results and resources available;
- business opportunities and capital requirements; and
- market conditions.

Subject to the factors above, the Directors intend to declare and recommend annual dividends of not less than 20% of our annual distributable profit attributable to equity holders of the Company for the financial years ending December 31, 2008 and 2009.

Cash dividends on the ordinary shares of the Company, if any, will be paid in Hong Kong dollars. Other types of payment, if any, will be paid to the shareholders by any means the Directors deem appropriate and practicable.

Distributable Reserves

Our Company was incorporated on June 15, 2007 and has not carried out any business since the date of incorporation. Accordingly, there was no reserve available for distribution to shareholders as of December 31, 2006. The aggregate amount of distributable reserves as of December 31, 2006 of the companies comprising the Group was RMB196.3 million.

Unaudited Pro Forma Net Tangible Assets

The following is an illustrative statement of our unaudited pro forma adjusted net tangible assets attributable to our equity holders which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had been taken place on August 31, 2007 and based on our combined net tangible assets as derived from the audited combined balance sheet of the Group of August 31, 2007 as shown in the Accountants' Report, the text of which is set out in Appendix I to the Prospectus and is adjusted as follows:

	Net tangible asset value as at August 31, 2007	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible asset value	Unaudited pro forma adjusted net tangible asset value per Share	Unaudited pro forma adjusted net tangible asset value per Share
	RMB'000	RMB'000	RMB'000	RMB	(Equivalent to HK$)
Based on an Offer Price of HK$3.16 per Offer Share	582,450	2,264,985	2,847,435	0.85	0.92
Based on an Offer Price of HK$4.50 per Offer Share	582,450	3,259,358	3,841,808	1.15	1.24

Notes:

(1) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$3.16 and HK$4.50 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may be allotted and issued upon exercise of the Over-allotment Option.

(2) The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraph and on the assumption of a total of 3,333,360,000 Shares being the number of shares in issue as at August 31, 2007, which takes no account any Shares which may be allotted and issued upon exercise of the Over-allotment Option, or which may be allotted and issued upon exercise of options that may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the paragraph headed "Resolutions in writing passed, by all the Shareholders of the Company on January 21, 2008" in Appendix VII to this Prospectus.

(3) With reference to the valuation of the property interests of the Group as set out in Appendix IV to this Prospectus, there was a revaluation surplus of the Group's properties of approximately RMB48,588,000 and has not been included in the above adjusted net tangible assets of the Group. Such revaluation surplus has not been recorded in the Financial Information as set out in Appendix I and will not be recorded in the financial statements of the Group for the year ended December 31, 2007 as the Group's property interests are carried at cost model. If such revaluation surplus would be included to the financial statements of the Group for the year ended December 31, 2007, an additional depreciation of approximately RMB1,416,000 per annum would be incurred.

Future Plans

Our objectives are to further strengthen our leadership position in the global land rig market and to expand into the offshore drilling rig market. In order to increase the annual rig production to 150 rigs by 2008, the Group's plan to increase capacity is as follows.

(1) *Expansion of the site for final assembly tests.* The Group has expanded the site for final assembly tests from 62,000 m^2 to 71,000 m^2, and this expanded site is already in use. Additionally, the Group has increased the positions for final assembly tests from 16 to 19.

(2) *Expansion of workshops.* The Group plans to extend the steel-structure workshop by 300 m^2, to build a new steel-structure workshop covering of 23,660 m^2, and to build a new sand-painting workshop covering 24,000 m^2. These expansions will be completed by approximately February, 2008;

(3) *Increasing equipment and staff.* The Group plans to add equipment and staff, in order to utilize the increased physical capacity.

(4) *Optimization of supply system and final assembly techniques.* The Group plans to optimize the supply system for prompt material supply and production. The Group plans to optimize final assembly techniques for reducing the amount of time drilling rigs spend on the final assembly ground and thereby improving turnover on the final assembly ground.

We intend to achieve these objectives through our business strategies, as detailed in the section of this Prospectus headed "Our Business — Business Strategies."

Use of Proceeds

Assuming the Over-allotment Option is not exercised and the Offer Price is fixed at HK$3.83 per Share (being the midpoint of the stated Offer Price range of HK$3.16 to HK$4.50 per Share), we project that the net proceeds of the Global Offering, after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, to be approximately HK$2,972 million. To implement our business strategy of increasing equipment production capacity, improving the technology and innovation of our product lines, and expanding product and service lines, we intend to use these net proceeds for the following general purposes.

(i) Approximately 60% is to be used for the construction of an offshore equipment manufacturing base in the eastern coastal area of China, to produce jack-up rigs and fixed rigs as well as large structures. This includes acquiring land and coastline in Shanghai or neighboring provinces, investing in research and development and new equipment, and constructing new factories.

(ii) Approximately 12% is to be used for increasing production capacity, and for the development of new land rig equipment and rig parts and components. In order to increase the annual rig production to 150 rigs by 2008, the Group needs capital investment, including fixed capital (for such items as expansion of the ground for final assembly tests, expansion of workshops, and increase in production and testing equipment).

The new land rig equipment, parts and components intended to be developed include:

- top drive units;
- rigs capable of withstanding extreme temperatures in arctic and desert environments;
- rigs with a depth range of 12,000 meters;
- offshore drilling modules for 7,000- to 12,000-meter depth drilling rigs;
- semi-trailer rigs; and

- helicopter-mounted drilling rigs;
- light, speedy and efficient rigs, with various depth ranges, that are equipped with the combined technology of our hydraulic device, digitally-controlled VFD rig and coiled tubing drilling;
- HH-1600 high-pressure mud pumps;
- HH-2200 high-pressure power driven mud pumps;
- synthetic well logging instruments;
- digitally controlled VFD software, long-distance and statistic handling systems

(iii) Approximately 20% is to be used for acquisitions, establishing joint ventures and strategic alliances with international partners, in order to expand our product offerings to the oil and gas exploration and production industry, specifically, in the following areas:

- BOP system, casing pipe-head, and wellhead equipment;
- drilling equipment (drill pipe, oil pipe, and drill collar) and tools;
- casting technology and forging technology;
- electrical machines and gears.

The Company is in the process of searching for potential international partners.

The remaining proceeds will be used for working capital and day to day expenses.

To the extent that our net proceeds are not immediately applied to the aforementioned purposes, and to the extent permitted by PRC law and regulations, we intend to deposit such proceeds into short-term demand deposits and/or money market instruments.

Any change to the above proposed use of proceeds will be duly published by announcement.

The net proceeds we receive from the Global Offering in Hong Kong dollars will be accounted for in our financial statements at the exchange rate published by the PBOC in effect at the time the net proceeds are received.

None of the issue and sale of the Offer Shares, the execution, delivery and performance of the Underwriting Agreements, the consummation of any related transaction, or the provision of services with respect to the Global Offering, or the facilitation of any of the foregoing, will result in a violation by any person (including, without limitation, the Underwriters and purchasers of the Offer Shares) of any regulation or statute of the United States, including, without limitation, the U.S. Trading with the Enemy Act (as amended), the U.S. International Emergency Economic Powers Act (as amended), the Iran and Libya Sanctions Act of 1996, or any economic sanctions administered by the Office of Foreign Assets Control of the USA Department of the Treasury.

The Company, its subsidiaries and affiliates, will use the net proceeds received by the Company from the sale of the Offer Shares in the manner specified in the section headed "Future Plans and Use of Proceeds" in this Prospectus, and, will not, directly or indirectly, use the proceeds of the sale of the Offer Shares to fund, directly or indirectly, activities or business with, or for the benefit of, any government, individual or entity, that is the subject of any OFAC-administered sanctions, or in a manner that would cause any person (including, without limitation, the Underwriters and purchasers of the Offer Shares), to violate any regulation or statute of the United States, including, without limitation, the U.S. Trading with the Enemy Act (as amended), the U.S. International Emergency Economic Powers Act (as amended), the Iran and Libya Sanctions Act of 1996, or any OFAC-administered sanctions.

Hong Kong Underwriters

Joint Lead Managers

Credit Suisse (Hong Kong) Limited
Morgan Stanley Asia Limited

Co-Lead Manager

Core Pacific — Yamaichi International (Hong Kong) Limited

Co-Managers

CCB International Capital Limited
CSC Securities (HK) Limited
ICEA Capital Limited
Kingston Securities Limited
Luen Fat Securities Company Limited
Piper Jaffray Asia Securities Limited

International Offering Underwriters

Joint Lead Managers

Credit Suisse (Hong Kong) Limited
Morgan Stanley & Co. International plc

Co-Lead Manager

Core Pacific — Yamaichi International (Hong Kong) Limited

Co-Managers

Guotai Junan Securities (Hong Kong) Limited
ICEA Capital Limited
Kingston Securities Limited
Luen Fat Securities Company Limited

Underwriting Arrangements and Expenses

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on February 22, 2008. As described in the Hong Kong Underwriting Agreement, we are offering the Public Offer Shares for subscription by the public in Hong Kong, on the terms and conditions of this Prospectus and the Application Forms, at the Offer Price. Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, all the Shares in issue and the Shares to be offered as mentioned in this Prospectus, and to certain other conditions set out in the Hong Kong Underwriting Agreement, including the Joint Global Coordinators (on behalf of the Underwriters) and us agreeing to the Offer Price, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for the Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering, on the terms and subject to the conditions of this Prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional upon (among other things) the International Placing Agreement having been signed, becoming unconditional, and not having been terminated in accordance with its terms.

Grounds for termination

The Joint Global Coordinators (on behalf of themselves and the Hong Kong Underwriters) may in their absolute discretion, terminate the Hong Kong Underwriting Agreement with immediate effect, by notice to our Company at any time prior to 8:00 a.m., on the Listing Date, if:

(a) there shall develop, occur, exist or come into effect:

(i) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in

the interpretation or application thereof by any court or other competent authority of the Cayman Islands, Hong Kong, the PRC, the US, the European Union, Japan or any other relevant jurisdiction; or

(ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change in local, national or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including but not limited to conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting the Cayman Islands, Hong Kong, the PRC, the US, the European Union, Japan or any other relevant jurisdiction; or

(iii) any suspension or limitation on trading in shares or securities generally on the New York Stock Exchange, the Stock Exchange, the Tokyo Stock Exchange or the London Stock Exchange or minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority, or a disruption has occurred in securities settlement or clearance services or procedures in the Cayman Islands, Hong Kong, the PRC, the US, the European Union, Japan or any other relevant jurisdiction; or

(iv) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or currency exchange rates in Hong Kong, the PRC, the US, the European Union, Japan or any other relevant jurisdiction; or

(v) any change or development involving a prospective change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of the Company or any member of the Group, including any litigation or claim of any third party being threatened or instigated or any existing claim being amended or revised against the Company or any member of the Group; or

(vi) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this Prospectus; or

(vii) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary and/or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), the PRC, the Cayman Islands, the European Union, Japan or any other relevant jurisdiction; or

(viii) any outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or wide-spread epidemic or political or social crisis involving the US, the PRC, Hong Kong, the Cayman Islands, the European Union, Japan or any escalation thereof, or the declaration by the US, the PRC, Hong Kong or the Cayman Islands of a national emergency or war; or

(ix) any event of force majeure, including without limitation any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism (whether or not responsibility has been claimed), labour dispute, strike or lock-out involving the US, the PRC, Hong Kong, the Cayman Islands, the European Union or Japan;

which, in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

(A) is or may be or is likely to be materially adverse to the business, financial or other condition or prospects of our Company or the Group or, in the case of sub-paragraph (iv), to any present or prospective shareholder of our Company in his/its capacity as such; or

(B) has or might have or is likely to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or

(C) makes it inadvisable, inexpedient or impracticable to proceed with the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this Prospectus; or

(b) there comes to the notice of the Joint Global Coordinators any matter or event showing any of the Warranties (as defined in the Hong Kong Underwriting Agreement) given by the Warrantors (as defined in the Hong Kong Underwriting Agreement) to be untrue or misleading which is or, in the sole opinion of the Joint Global Coordinators, likely to be, material in the context of the Global Offering when given or repeated; or

(c) there comes to the notice of the Joint Global Coordinators any breach on the part of our Company or the Controlling Shareholders of any of the provisions of the Hong Kong Underwriting Agreement or the International Placing Agreement, or

(d) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this Prospectus, not having been disclosed in this Prospectus, constitute a material omission herefrom; or

(e) any statement contained in this Prospectus, the Application Forms, the Formal Notice (as defined in the Hong Kong Underwriting Agreement) and any announcements in the agreed form issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, has or may become untrue, incorrect or misleading in any material respect; or

(f) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of a material nature of our Group pursuant to the indemnities referred to in the Hong Kong Underwriting Agreement; or

(g) a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any member of our Group or in respect of which our Company or any member of our Group is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on our Group taken as a whole; or

(h) a petition is presented for the winding-up or liquidation of our Company or any member of our Group or our Company or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any member of our Group or anything analogous thereto occurs in respect of our Company or any member of our Group, which in the sole opinion of the Joint Global Coordinators, may or is likely to be material in the context of the Global Offering provided that the Joint Global Coordinators shall, to the extent practicable, seek to consult with our Company on the effect of any such development.

Undertakings

(a) Undertakings by us

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Global Offering or any issue of Shares or securities in compliance with Rule 10.08(1) to (4) of the Listing Rules, the Company will not, at any time during the period of six months from the date on which dealings in the Shares commence on the Stock Exchange

(the "First Six-month Period"), allot or issue or agree to allot or issue any Shares or other securities of the Company (including warrants or other securities of the Company) or grant or agree to grant any options or rights over any Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce the intention to do so.

Our Company has undertaken to each of the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters that our Company will comply in all respects with the terms and conditions of the Hong Kong Public Offering and, in particular, without limitation, except pursuant to the Global Offering, the Over-allotment Option or the Share Option Scheme, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of the First Six-month Period, our Company will not without the Joint Global Coordinators' prior written consent (subject to the requirements set out in the Hong Kong Listing Rules) (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of our share capital or any securities or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions described in (i) or (ii) is to be settled by delivery of share capital or such other securities, in cash or otherwise PROVIDED THAT the foregoing restrictions shall not apply to the issue of the Offer Shares by our Company pursuant to the Global Offering, and our Company has further agreed that, in the event of an issue or disposal of any Shares or any interest therein after the First-Six-month Period, we will take all reasonable steps to ensure that such an issue or disposal will not create a disorderly or false market for the Shares.

b) Undertakings by Nabors International and the Controlling Shareholder

Pursuant to Rule 10.07(1) of the Listing Rules, each of Nabors International and the Controlling Shareholders has undertaken to us that it or he shall not and shall procure that the relevant registered shareholder(s) shall not, without prior consent of the Stock Exchange:

(i) during the period commencing from the date of this Prospectus up to the expiry of the First Six-month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it or he is shown by this Prospectus to be the beneficial owner (the "Locked-up Shares"); and

(ii) within the period of six months immediately following the expiry of the First Six-month Period (the "Second Six-month Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Locked-up Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, (i) Nabors International and the Controlling Shareholders would collectively or (ii) the Controlling Shareholders, cease to be a controlling shareholder of the Company.

Nabors International and Ally Giant, on behalf of the Controlling Shareholders have agreed that with respect to the Second Six-month Period, Nabors International will have preferential rights to sell its Shares as against any Controlling Shareholder. In such event, no Controlling Shareholder shall be permitted to sell its Shares without first offering to Nabors International the opportunity to sell all or any portion of Shares held by Nabors International.

Each of Nabors International and the Controlling Shareholders has further undertaken to us that it will, at any time after the date of this Prospectus and until the end of the Second Six-month Period:

(i) upon any pledge or charge in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or securities or interests in the Shares or securities of the Company beneficially owned by it for a bona fide commercial loan, immediately inform the Company and the Joint Global Coordinators in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and

(ii) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the Shares or securities of the Company will be disposed of, immediately inform the Company and the Joint Global Coordinators in writing of such indications.

Upon receiving the above information in writing, we will also, as soon as practicable, notify the Stock Exchange and make a public disclosure of such information by way of a notice which is published in the newspapers.

Each of the Controlling Shareholders has undertaken to each of the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters that, it will not and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it will, except pursuant to the Global Offering, the Over-allotment Option, and the stock borrowing agreement, where applicable, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules:

(a) at any time from the date of the Hong Kong Underwriting Agreement until the expiry of the First Six-month Period, offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by it (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of our Company or any interest therein) as of the Listing Date or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so; and

(b) during the Second Six-month Period, offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by it (including but not limited to any securities that are convertible into or exercisable or exchangeable for or that represent the right to receive, any such share capital or other securities of our Company or any interest therein) as of the Listing Date or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so if,

immediately following such transaction, the Controlling Shareholders would collectively or individually, as the case may be, cease to be the controlling shareholders (as defined in the Listing Rules); and

(c) in the event of a disposal by it of any share capital or any interest therein during the Second Six-month Period it will take all reasonable steps to ensure that such a disposal will not create a disorder or false market for the Shares or other securities of our Company.

Nabors International has undertaken to each of the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters that, it will not and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it will, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules, during the First Six-month Period, offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by it (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of our Company or any interest therein) as of the Listing Date or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so provided that, to the extent permitted by the Listing Rules and in compliance with all relevant laws and regulations, Nabors International may enter into synthetic arrangements in respect of Shares or interests in Shares held by it equivalent to or representing 5% of the Company's entire share capital (on a fully diluted basis, including any Shares which may be issued pursuant to the Global Offering) but under no circumstance will such arrangements result in Nabors International's interests in the Shares of the Company during this period being reduced to less than 13.5% (assuming no exercise of Over-allotment Option).

c) Undertakings by the Financial Investors

Each of the Financial Investors has undertaken to each of the Company, the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors that it will not, and will procure that none of its Associates or companies controlled by it or any nominee or trustee holding for it will without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules at any time during the period from the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date, offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of the Company or any interest therein held by it immediately following the completion of the Global Offering and International Placing (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of the Company or any interest therein) or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so, and in the event of a disposal by it of any of the share capital of the Company or any interest therein thereafter it or he will ensure that such a disposal will not create a disorderly or false market for the Shares or other securities of the Company.

Hong Kong Underwriters' interests in our Company

Except for its obligations under the Hong Kong Underwriting Agreement and as disclosed in this Prospectus, none of the Hong Kong Underwriters has any shareholding interests in our Company or any other member of our Group or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company or any other member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

Buyers of Offer Shares sold by the Underwriters may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offer Price.

International Offering

In connection with the International Offering, it is expected that we will enter into an International Placing Agreement with the Joint Global Coordinators and the International Underwriters. Under the International Placing Agreement, the International Underwriters would, subject to certain conditions, severally agree to purchase the International Offer Shares being offered pursuant to the International Offering or procure purchasers for such International Offer Shares.

We will grant to the International Underwriters an Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters within 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 125,000,000 additional Shares, at the Offer Price to, among other things, cover over-allocations in the International Offering, if any. The Joint Global Coordinators may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements from holders of Shares, or exercise of the Over-allotment Option, or by a combination of these means, or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the additional 125,000,000 Shares will represent approximately 15% of the number of Offer Shares initially available in the Global Offering.

Commission and Expenses

For the services of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement, the Company will pay to the Joint Global Coordinators, for themselves and on behalf of the other Hong Kong Underwriters, an underwriting commission calculated at the rate of 3.25% of the Offer Price multiplied by the number of Public Offer Shares less any Shares reallocated to the International Placing (as defined in the Hong Kong Underwriting Agreement), ignoring for this purpose any Clawback Shares (as defined in the Hong Kong Underwriting Agreement). In addition, the Company may, in its sole discretion, pay to the Joint Global Coordinators (for its account only) an additional incentive fee of up to 0.75% of the Offer Price multiplied by the total number of Offer Shares and shall communicate such in writing to the Joint Global Coordinators prior to or at the pricing of the Shares.

Our Company's aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Global Offering, are estimated to amount to approximately HK$220 million (assuming the Over-allotment Option is not exercised and an Offer Price of HK$3.83, which is the mid-point of the indicative range of the Offer Price).

We and the Controlling Shareholders have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

The Global Offering

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

(i) the Hong Kong Public Offering of 83,336,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below under "Structure of the Global Offering — The Hong Kong Public Offering"; and

(ii) the International Offering of 750,024,000 Offer Shares (subject to adjustment and the Over-allotment Option as mentioned below) in the United States to qualified institutional buyers (as such term is defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act, and to parties outside the United States in reliance on Regulation S.

Credit Suisse and Morgan Stanley are the Joint Global Coordinators of the Global Offering.

Of the total of 833,360,000 Shares comprised in the Global Offering (assuming the Over-allotment Option is not exercised), 833,360,000 Shares are newly issued and offered by the Company (representing 100% of the Global Offering).

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, respectively, may be subject to reallocation as described below under "Structure of the Global Offering — Pricing and Allocation."

Pricing and Allocation

The International Underwriters are soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective investors will be required to specify the number of International Offer Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or about Friday, February 29, 2008.

Pricing of the Offer Shares for the purposes of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Friday, February 29, 2008 but in any event not later than March 3, 2008, and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us.

The Offer Price will be not more than HK$4.50 per Offer Share and is currently expected to be not less than HK$3.16 per Offer Share unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this Prospectus.**

Based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) may, with our consent, reduce the number of Offer Shares and/or the indicative offer price range below that stated in this Prospectus (which currently is HK$3.16 to HK$4.50 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event

not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notices of the reduction of the number of Offer Shares and/or the indicative Offer Price range. Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed "Summary" in this Prospectus, and any other financial information which may change as a result of any such reduction. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares and/or the Offer Price range is so reduced.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares, after the listing of the Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our shareholders as a whole.

Allocation of Public Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The net proceeds from the Global Offering accruing to the Company are estimated to be approximately HK$2,972 million. The estimated net proceeds are calculated after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Global Offering, assuming that the Over-allotment Option is not exercised and an Offer Price of HK$3.83 per Offer Share, being the mid-point of the proposed Offer Price range of HK$3.16 to HK$4.50 per Offer Share.

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, and the results of application and basis of allocations of the Public Offer Shares are expected to be announced on March 6, 2008 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

Conditions of the Hong Kong Public Offering

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, among other things:

- the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, all the Shares in issue and the Shares to be issued and sold as mentioned herein (including any

additional Shares which may be issued and sold pursuant to the exercise of the Over-allotment Option), and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

- the Offer Price having been duly determined and the execution and delivery of the International Placing Agreement on or about the Price Determination Date; and

- the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators, on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than March 26, 2008.

If for any reason the Offer Price is not agreed between us and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The consummation of each of the International Offering and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the day after such lapse.

In the above situation, we will return all application monies to the applicants, without interest and on the terms set out in the section headed "How to Apply for the Public Offer Shares" in this Prospectus. In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving bankers or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

We expect to issue Share certificates for the Public Offer Shares on March 6, 2008. However, these Share certificates will only become valid certificates of title if (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting" in this Prospectus has not been exercised, which is expected to be around 8:00 a.m. (Hong Kong time) on the Listing Date.

The Hong Kong Public Offering

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions set out in the Hong Kong Underwriting Agreement and described in the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this Prospectus) for the subscription in Hong Kong of, initially, 83,336,000 Offer Shares at the Offer Price, representing approximately 10.0% of the total number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the Public Offer Shares will represent approximately 2.5% of our enlarged issued share capital immediately after completion of the Global Offering but before any exercise of the Over-allotment Option.

The total number of the Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools for allocation purposes only:

- Pool A: The Public Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK$5 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) or less; and

- Pool B: The Public Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of more than HK$5 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) and up to the value of Pool B.

Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If the Public Offer Shares in one (but not both) of the Pools are under-subscribed, the surplus Public Offer Shares in that Pool will be transferred to the other Pool to satisfy demand in the other Pool and be allocated accordingly.

Applicants can only receive an allocation of the Public Offer Shares from either Pool A or Pool B but not from both Pools. Multiple or suspected multiple applications and any application for more than 50% of the 83,336,000 Offer Shares initially included in the Hong Kong Public Offering (that is, 41,668,000 Public Offer Shares) will be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she or any person(s) for whose benefit he or she is making the application have not indicated an interest for or applied for or taken up or been placed or allotted (including conditionally and/or provisionally) and will not indicate an interest for or apply for or take up or be placed or allotted (including conditionally and/or provisionally) any Offer Shares under the International Offering nor otherwise have participated or will participate in the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

We will reject multiple applications within Pool A or Pool B, and between the two Pools. Our Directors, the Hong Kong Underwriters and we will take reasonable steps to identify and reject applicants under the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Offer Shares in the Hong Kong Public Offering. Investors who have not received Offer Shares under the Hong Kong Public Offering may receive Offer Shares under the International Offering.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such investor is excluded from any application of Offer Shares under the Hong Kong Public Offering.

The Offer Price will be not more than HK$4.50 per Offer Share and is expected to be not less than HK$3.16 per Offer Share. Applicants for Public Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum offer price of HK$4.50 for each Public Offer Share. If the Offer Price as finally determined is less than the offer price of HK$4.50 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, appropriate refund payments (including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply for the Public Offer Shares — Refund of Application Monies."

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 250,008,000, 333,344,000 and 416,680,000 Offer Shares, respectively, representing approximately 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Offer Shares will be allocated to Pool A and Pool B.

In addition, if the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators may reallocate to the International Offering all or any unsubscribed Public Offer Shares in such proportions as they deem appropriate.

References in this Prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

The International Offering

The International Offering will consist of an offer of an aggregate of 750,024,000 Offer Shares, representing 90% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option) at the Offer Price. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

The Offer Shares have not been registered under the U.S. Securities Act and, pursuant to the International Offering, the International Underwriters will conditionally place our Shares in the United States only to QIBs in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act. Other Offer Shares being sold as part of the International Offering are being sold to institutional and professional investors outside the United States in offshore transactions made in accordance with and reliance on Rule 903 or 904 of Regulation S.

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters within 30 days after the last day for lodging applications under the Hong Kong Public Offering. A regulatory announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Joint Global Coordinators will have the right to require us to allot and issue up to an aggregate of 125,000,000 additional Shares, representing in aggregate approximately 15% of the initial Offer Shares, at the Offer Price, to, amongst other things, cover over-allocations solely in the International Offering, if any.

Over-allotment and Stabilization

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the Offer Price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, Morgan Stanley, as stabilizing manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited

period after the issue date. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on Morgan Stanley, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of Morgan Stanley, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. The number of Shares that may be over-allocated will not be greater than the number of Shares which may be issued and sold upon exercise of the Over-allotment Option, being 125,000,000 Shares, which is approximately 15% of the Shares initially available under the Global Offering.

Morgan Stanley, its affiliates or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

(i) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;

(ii) in connection with any action described in paragraph (i) above;

(A) (1) over-allocate the Shares; or

(2) sell or agree to sell the Shares so as to establish a short position in them,

for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;

(B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for the Shares in order to close out any position established under paragraph (A) above;

(C) sell or agree to sell any of the Shares acquired by it in the course of the stabilizing action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; or

(D) offer or attempt to do anything as described in paragraphs (ii)(A)(2), (ii)(B) or (ii)(C) above.

Morgan Stanley, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by Morgan Stanley, its affiliates or any person acting for it, which may include a decline in the market price of the Shares.

Stabilization cannot be used to support the price of the Shares for longer than the stabilization period, which begins on the day on which trading of the Shares commences on the Stock Exchange and ends on the earlier of the thirtieth day after the last day for lodging of applications under the Hong Kong Public Offering or the commencement of trading of the Shares. The stabilization period is expected to expire on March 29, 2008, being the 30th day after the last date for lodging applications under the Hong Kong Public Offer, after which an announcement will be made pursuant to section 9 and schedule 3 of the Securities and Futures (Price Stabilization) Rules. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore then market price, could fall.

Any stabilizing action taken by Morgan Stanley, its affiliates or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilization period. Stabilizing bids or market purchases effected in the course of the stabilization action may be made at any price at or below the Offer Price and can therefore be done at a price below the price the investor has paid in acquiring the Shares.

Dealing Arrangements

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on March 7, 2008, it is expected that dealings in Shares on the Stock Exchange will commence at 9:30 a.m. on March 7, 2008.

I. METHODS OF APPLICATION

There are three ways to make an application for Public Offer Shares. You may either (i) use an Application Form; (ii) apply online through the designated website of the White Form eIPO service provider, referred to herein as the **"White Form eIPO"** service; or (iii) **electronically** instruct HKSCC to cause HKSCC Nominees to apply for Public Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** or **yellow** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

II. WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for the Public Offer Shares available for subscription by the public on a **white** or **yellow** Application Form, or if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a U.S. person (as defined in Regulation S);
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Public Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**. If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Global Coordinators (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Joint Global Coordinators or the designated White Form eIPO Service Provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Public Offer Shares are not available to existing beneficial owners of Shares, our Directors or chief executive or their respective Associates or any other connected persons of our Company or persons who will become our connected persons immediately upon completion of the Global Offering.

You may apply for Public Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offering Shares under the International Offering, but may not do both.

III. APPLYING BY USING AN APPLICATION FORM

Which Application Form to use

Use a **white** Application Form if you want the Public Offer Shares issued in your own name.

Use a **yellow** Application Form if you want the Public Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Where to Collect the Application Forms

You can collect a **white** Application Form and a Prospectus from:

- any of the following offices of the Hong Kong underwriters:

Credit Suisse (Hong Kong) Limited	45/F Two Exchange Square, 8 Connaught Place, Central, Hong Kong
Morgan Stanley Asia Limited	30/F Three Exchange Square, Central, Hong Kong
Core Pacific International (Hong Kong) Limited	36/F, Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong
CCB International Capital Limited	Suite 2815-21, 28th Floor, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong
CSC Securities (HK) Limited	Suite 3204-07, 32/F, Cosco Tower, 183 Queen's Road, Central, Hong Kong
ICEA Capital Limited	26/F, ICBC Tower 3, Garden Road, Central, Hong Kong
Kingston Securities Limited	Suite 2801, 28/F One IFC, 1 Harbour View St, Central, Hong Kong
Luen Fat Securities Company Limited	6/F, New Henry House, 10 Ice House Street, Central, Hong Kong
Piper Jaffray Asia Securities Limited	39/F, Tower 1 Lippo Centre, 89 Queensway, Hong Kong

- or any one of the following branches of Bank of Communications Co., Ltd. Hong Kong Branch

	Branch Name	Address
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
	Central District Sub-Branch	G/F., Far East Consortium Bldg, 125A Des Voeux Road C., Central
	North Point Sub-Branch	442-444 King's Road, North Point
	Chaiwan Sub-Branch	G/F 121-121A Wan Tsui Road, Chaiwan

	Branch Name	Address
Kowloon	Kowloon Sub-Branch	G/F., 563 Nathan Road
	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
	Lam Tin Sub-Branch	G/F, 63-65 Kai Tin Tower, Kai Tin Road, Lam Tin
	Kwun Tong Sub-Branch	Shop A G/F. Hong Ning Court, 55 Hong Ning Road, Kwun Tong
New Territories	Fanling Sub-Branch	Shop No.84A-84B, G/F., Flora Plaza, Fanling
	Tuen Mun Sub-Branch	Flat/Rm 7, Castle Peak Lin Won Building, Yan Ching Circuit, Tuen Mun
	Ma On Shan Sub-Branch	Shop Nos. 3038A & 3054-56, Level 3, Sunshine City Plaza, Ma On Shan
	Market Street Sub-Branch	G/F, 53 Market Street, Tsuen Wan

or any one of the following branches of Industrial and Commercial Bank of China (Asia) Limited:

	Branch Name	Address
Hong Kong Island	Central Branch	1/F., 9 Queen's Road Central
	Sheung Wan Branch	Shop F, G/F, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Sheung Wan
	West Point Branch	242-244 Queen's Road West, Sai Ying Pun
	Wan Chai Road Branch	G/F, 103-103A Wan Chai Road
	Hennessy Road Branch	Shop 2A, G/F & Basement, Cameron Commercial Centre, 468 Hennessy Road, Causeway Bay
Kowloon	Hung Hom Branch	Shop 2A, G/F, Hung Hom Shopping Mall, 2-34E Tak Man Street, Hung Hom
	Shamshuipo Branch	G/F., 290 Lai Chi Kok Road, Shamshuipo
	Mongkok Branch	G/F., Belgian Bank Building, 721-725 Nathan Road, Mongkok
	Tsim Sha Tsui Branch	Shop 6-7, G/F., Hankow Centre, 5-15, Hankow Road, Tsimshatsui
	Mei Foo Branch	Shop N95A, 1/F, Mount Sterling Mall, Mei Foo Sun Chuen
New Territories	Tseung Kwan O Branch	Shop Nos. 2011-2012, Level 2, Metro City, Plaza II, 8 Yan King Road, Tseung Kwan O
	Kwai Fong Branch	C63A-C66, 2/F, Kwai Chung Plaza, Kwai Fong

You can collect a **yellow** Application Form and a Prospectus during normal business hours from 9 a.m. on Monday, 25 February 2008 till 12 noon on Thursday, 28 February 2008 from:

The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong

How to complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by signing on the Application Form:

(a) you agree with our Company and each shareholder of our Company that the Shares in our Company are freely transferable by the holders thereof;

(b) you confirm that you have only relied on the information and representations in this Prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this Prospectus;

(c) you agree that we, the Joint Global Coordinators, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisers are liable only for the information and representations contained in this Prospectus and any supplement thereto;

(d) you undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not indicated an interest for, applied for or taken up any Offer Shares under the International Offering; and

(e) you agree to disclose to our Company and/or our registrars, the receiving banker, the Joint Global Coordinators and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **yellow** Application Forms to be valid:

You, as the applicant(s), must complete the yellow Application Forms as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

(a) If you are applying through a designated CCASS participant (other than a CCASS investor participant):

  (i) The designated CCASS participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(b) If you are applying as an individual CCASS investor participant:

  (i) The form must contain your NAME and Hong Kong I.D. Card number.

  (ii) Your participant I.D. must be inserted in the appropriate box.

(c) If you are applying as a joint individual CCASS investor participant:

(i) The form must contain all joint investor participants' NAMES and the Hong Kong I.D. Card Number of all joint investor participants;

(ii) Your participant I.D. must be inserted in the appropriate box.

(d) If you are applying as a corporate CCASS investor participant:

(i) The form must contain your company NAME and Hong Kong Business Registration number:

(ii) Your participant I.D. and your company chop (bearing your company name) must be inserted in the appropriate box.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render your application invalid.

If your application is made through a duly authorized attorney, we and the Joint Global Coordinators as our agent may accept it at our discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and the Joint Global Coordinators in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

IV. APPLYING BY USING WHITE FORM eIPO

General

(i) You may apply through **White Form eIPO** by submitting an application through the designated website at **www.eipo.com.hk**. If you apply through **White Form eIPO** the Shares will be issued in your own name.

(ii) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.

(iii) The designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at **www.eipo.com.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

(iv) By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorized the designated **White From eIPO** Service Provider to transfer the details of your application to our Company and our registrars.

(v) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Public Offer Shares. Each electronic application instruction in respect of more than 1,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.

(vi) You should give electronic application instructions through **White Form eIPO** at the times set out in paragraph VI of the section entitled "How to Apply for the Public Offer Shares".

(vii) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at **www.eipo.com.hk**. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, February 28, 2008, or such later time as described under the section entitled "Effects of bad weather on the opening of application lists" in paragraph VI of the section entitled "How to Apply for the Public Offer Shares", the designated **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.eipo.com.hk**.

(viii) Warning**:** The application for Public Offer Shares through the **White Form eIPO** service is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Our Company, our Directors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service will be submitted to our Company or that you will be allotted any Public Offer Shares.

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a white Application Form. However, once you have submitted electronic application instructions and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a white Application Form. See "How many applications you may make'' below.

Conditions of the White Form eIPO service

In using the **White Form eIPO** service to apply for the Public Offer Shares, the applicant shall be deemed to have accepted the following conditions:

That the applicant:

- **Applies** for the desired number of Public Offer Shares on the terms and conditions of the Prospectus and White Form eIPO Application Form subject to the Articles of Association of the Company;
- **Undertakes** and agrees to accept the Public Offer Shares applied for, or any lesser number allotted to the applicant on such application;
- **Declares** that this is the only application made and the only application intended by the applicant to be made whether on a WHITE or YELLOW Application Form or by giving electronic application instruction to HKSCC or to the **White Form eIPO** Service Provider under the **White Form eIPO** service, to benefit the applicant or the person for whose benefit the applicant is applying;
- **Undertakes** and **confirms** that the applicant and the person for whose benefit the applicant are applying have not applied for or taken up, or indicated an interest for, or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, nor otherwise participate in the International Offering;
- **Understands** that this declaration and representation will be relied upon by our Company in deciding whether or not to make any allotment of Public Offer Shares in response to such application;

- **Authorizes** our Company to place the applicant's name on the register of members of our Company as the holder of any Public Offer Shares to be allotted to the applicant, and (subject to the terms and conditions set out in this Prospectus) to send any Share certificates and/or any refund cheque(s) by ordinary post at the applicant's own risk to the address given on the White Form eIPO Application Form except where the applicant has applied for 1,000,000 or more Public Offer Shares and that applicant collects any Share certificate(s) and/or refund cheque(s) in person in accordance with the procedures prescribed in the White Form eIPO Application Form and this Prospectus;

- **Requests** that any refund cheque(s) be made payable to the applicant; and (subject to the terms and conditions set out in this Prospectus) to send any refund cheques by ordinary post and at the applicant's own risk to the address given on the White Form eIPO Application Form (except where the applicant has applied for 1,000,000 or more Public Offer Shares and collects any refund cheque(s) in person in accordance with the procedures prescribed in the White Form eIPO Application Form and the Prospectus);

- **Have read** the terms and conditions and application procedures set out on in the White Form eIPO Application Form, the Prospectus and the eIPO website and **agree** to be bound by them.

- **Represents, warrants** and **undertakes** that the applicant, and any persons for whose benefit the applicant are applying are non-U.S. person(s) outside the United States (as defined in Regulation S under the U.S. Securities Act of 1993 as amended), when completing and submitting this Application Form or is a person described in paragraph (h)(3) of Rule 902 of Regulation S under the U.S. Securities Act of 1993, as amended or the allotment of or application for the Public Offer Shares to or by whom or for whose benefit this application is made would not require the Company to comply with any requirements under any law or regulation (whether nor not having the force of law) of any territory outside Hong Kong; and

- **Agrees** that such application, any acceptance of it and the resulting contract, will be governed by and construed in accordance with the laws of Hong Kong.

Supplemental Information

If any supplement to this Prospectus is issued, applicant(s) who have already submitted an electronic application instruction through the **White Form eIPO** service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications through the **White Form eIPO** service that have been submitted remain valid and may be accepted. Subject to the above and below, an application once made through the **White Form eIPO** service is irrevocable and applicants shall be deemed to have applied on the basis of this Prospectus as supplemented.

Effect of completing and submitting an application through the White Form eIPO service

By completing and submitting an application through the **White Form eIPO** service, you for yourself or as agent or nominee and on behalf of any person for whom you act as agent or nominee shall be deemed to:

- instruct and authorise our Company, the Joint Sponsors and/or the Joint Global Coordinators as agent for the Company (or their respective agents or nominees) to do on your behalf all things necessary to register any Public Offer Shares allotted to you in your name as required by the Articles of Association and otherwise to give effect to the arrangements described in this Prospectus and the White Form eIPO Application Form;

- confirm that you have only relied on the information and representations in this Prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this Prospectus;

- agree that our Company and the Directors, are liable only for the information and representations contained in this Prospectus and any supplement thereto;

- agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC or to the White Form eIPO Service Provider via the White Form eIPO service;

- (if you are an agent for another person) warrant reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC or to the White Form eIPO Service Provider via the White Form eIPO service, and that you are duly authorised to submit the application as that other person's agent;

- undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up, or indicated an interest for, and will not apply for, take up or indicate an interest for, any Offer Shares under the International Offering;

- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

- agree to disclose to our Company, and/or its registrar, receiving bankers, Joint Sponsors, Joint Global Coordinators and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made this application;

- agree with our Company and each shareholder of our Company, and our Company agrees with each of its shareholder, to observe and comply with the Companies Ordinance, the Memorandum of Association and the Articles of Association;

- agree with our Company and each shareholder of our Company that the Shares in our Company are freely transferable by the holders thereof;

- authorise our Company to enter into a contract on your behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his or her obligations to shareholders as stipulated in the Memorandum and Articles of Association;

- represent, warrant and undertake that you are not, and none of the other person(s) for whose benefit you are applying, is a U.S. person (as defined in Regulation S);

- represent and warrant that you understand that the Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S) when completing the Application Form or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

- confirm that you have read the terms and conditions and application procedures set out in this Prospectus, the White Form eIPO Application Form and the eIPO website and agree to be bound by them;

- undertake and agree to accept the Shares applied for, or any lesser number allocated to you under your application; and

- if the laws of any place outside Hong Kong are applicable to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Sponsors, the Joint Global Coordinators and the Hong Kong Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this Prospectus, the White Form eIPO Application Form and the eIPO website.

Our Company, the Joint Sponsors, the Joint Global Coordinators, the Underwriters and their respective directors, officers, employees, partners, agents, advisers, and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in such application.

Additional information

For the purposes of allocating Public Offer Shares, each applicant giving electronic application instructions through **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Public Offer Shares for which you have applied, or if your application is otherwise rejected by the designated eIPO service provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at **www.eipo.com.hk**.

Otherwise, any monies payable to you due to a refund for any of the reasons set out below in the paragraph headed "Refund of application monies" below.

V. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://*ip.ccass.com*) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Vicwood Plaza
199 Des Voeux Road
Central Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our registrar.

Application for Public Offer Shares by HKSCC nominees on your behalf

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:

(a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this Prospectus;

(b) HKSCC Nominees does the following things on behalf of each such person:

(i) agrees that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

(ii) undertakes and agrees to accept the Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

(iii) undertakes and confirms that that person has not indicated an interest for, applied for or taken up any International Offering Shares under the International Offering;

(iv) (if the electronic **application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;

(v) (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;

(vi) understands that the above declaration will be relied upon by our Company, the Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

(vii) authorizes our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;

(viii) confirms that that person has read the terms and conditions and application procedures set out in this Prospectus and agrees to be bound by them;

(ix) confirms that that person has only relied on the information and representations in this Prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations save as set out in any supplement to this Prospectus;

(x) agrees that our Company, the Joint Global Coordinators, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisers are liable only for the information and representations contained in this Prospectus and any supplement thereto;

(xi) agrees to disclose that person's personal data to our Company, our registrar, receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents and any information which they may require about that person;

(xii) agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;

(xiii) agrees that that any application made by HKSCC Nominees on behalf of that person pursuant to electronic application instructions given by that person is irrevocable before March 26, 2008, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before March 26,, 2008 except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before March 26, 2008 if a person responsible for this Prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus;

(xiv) agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;

(xv) agrees with our Company (for our Company itself and for the benefit of each of its Shareholders) that Shares in our Company are freely transferable by the holders hereof;

(xvi) agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Public Offer Shares; and

(xvii) agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum offer price, and the related brokerage, the SFC transaction levy, and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies (in each case including brokerage, the SFC transaction levy, and the Stock Exchange trading fee) by crediting your designated bank account;

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

Minimum application amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Public Offer Shares. Such instructions in respect of more than 1,000 Public Offer Shares must be in one of the number of shares in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Section 40 of the Companies Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, our registrar, receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The application of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions,** they should either: (i) submit a **white** or **yellow** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, February 28, 2008.

VI. WHEN MAY APPLICATIONS BE MADE

Applications on WHITE or YELLOW Application Forms

Completed **white** or **yellow** Application Forms, with payment attached, must be lodged by 12:00 noon on Thursday, February 28, 2008, or, if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, with full payment in HK dollars attached, should be deposited in the special collection boxes provided at any of the branches of Bank of Communications Co., Ltd. Hong Kong Branch or Industrial and Commercial Bank of China (Asia) Limited listed under the section III in the paragraph headed "Where to Collect The Application Forms" at the following times:

Monday, February 25, 2008	**—**	**9:00 a.m. to 4:30 p.m.**
Tuesday, February 26, 2008	**—**	**9:00 a.m. to 4:30 p.m.**
Wednesday, February 27, 2008	**—**	**9:00 a.m. to 4:30 p.m.**
Thursday, February 28, 2008	**—**	**9:00 a.m. to 12:00 noon**

White Form eIPO

You may submit your application to the designated eIPO service provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on Monday, February 25, 2008 until 11:30 a.m. on Thursday, February 28, 2008 or such later time as described under the paragraph headed "Effect of bad weather on the opening of the application lists" under this section below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, February 28, 2008, the last application day, or, if the application lists are not open on that day, then by the time and date stated in "Effect of bad weather on the opening of the application lists" under this section below.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, February 28, 2008.

No proceedings will be taken on applications for the Public Offer Shares and no allotment of any such Public Offer Shares will be made until the closing of the application lists. No allotment of any of the Public Offer Shares will be made later than March 26, 2008.

Electronic Application Instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, February 25, 2008	**—**	**9:00 a.m. to 8:30 p.m.(1)**
Tuesday, February 26, 2008	**—**	**8:00 a.m. to 8:30 p.m. (1)**
Wednesday, February 27, 2008	**—**	**8:00 a.m. to 8:30 p.m. (1)**
Thursday, February 28, 2008	**—**	**8:00 a.m. (1) to 12:00 noon**

(1) *These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.*

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on February 25, 2008 until 12:00 noon on February 28, 2008 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on February 28, 2008, the last application day, or if the application lists are not open on that day, by the time and date stated in the paragraph headed "Effect of bad weather on the opening of the application lists".

Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, February 28, 2008. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists of the Hong Kong Public Offering do not open and close on Thursday, February 28, 2008 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed "Expected Timetable" in this Prospectus, such dates mentioned in the section headed "Expected Timetable" in this Prospectus may be affected. A press announcement will be made in such event.

VII. HOW MANY APPLICATIONS YOU MAY MAKE

Multiple applications or suspected multiple applications are liable to be rejected.

You may make more than one application for the Public Offer Shares only if:

You are a **nominee,** in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed and will be rejected.

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions through the designated website at **www.eipo.com.hk** and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction,** you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form or **electronic application instruction** is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service;
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person which confirm that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service; and that you are duly authorized to sign the Application Form or give **electronic application instruction** as that other person's agent.

All of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service ; or
- both apply (whether individually or jointly) on one **white** Application Form and one **yellow** Application Form or on one white or yellow Application Form and give **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service; or
- apply on one **white** or **yellow** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the designated white Form eIPO Service Provider through **White Form eIPO** service; for more than 50% of the Public Offer Shares initially being offered for sale under the Public Offer as more particularly described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering"; or
- have indicated an interest for or have been or will be placed International Offering Shares under the International Offering.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**. If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being made for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company; or
- control more than one-half of the voting power of the company; or
- hold more than one-half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

VIII. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Public Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which Public Offer Shares will not be allotted to you:

(a) **If your application is revoked:**

By completing and submitting an Application Form or submitting an **electronic application instruction** to HKSCC or the designated **White Form eIPO** Service Provider, you agree that your application or the

application made by HKSCC Nominees or the **White Form eIPO** Service Provider on your behalf cannot be revoked on or before Wednesday, March 26, 2008. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your application or submit your electronic application instructions to HKSCC or to the White Form eIPO Service Provider. This collateral contract will be in consideration of our Company agreeing that we will not offer any Public Offer Shares to any person on or before Wednesday, March 26, 2008 except by means of one of the procedures referred to in this Prospectus.

You may only revoke your application or the application made on your behalf by HKSCC Nominees or the **White Form eIPO** Service Provider on or before Wednesday, March 26, 2008 if a person responsible for this Prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus.

If any supplement to the Prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the Prospectus as supplemented.

If your application or the application made on your behalf by HKSCC Nominees or the **White Form eIPO** Service Provider has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) **Full discretion of our Company, the Joint Global Coordinators or the designated White Form eIPO Service Provider (where applicable) or our or their respective agents to reject or accept:**

We, the Joint Global Coordinators or the designated **White Form eIPO** Service Provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

(c) **If the allotment of Public Offer Shares is void:**

The allotment of Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **yellow** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Public Offer Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies us of that longer period within three weeks of the closing date of the application lists.

(d) **You will not receive any allotment if:**

- you make multiple applications or you are suspected to have made multiple applications;
- you or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) International Offering Shares in the International Offering. By filling in any of the Application Forms or submitting **electronic application instructions,** you agree not to apply for or indicate an

interest for International Offering Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received International Offering Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Public Offer Shares in the Hong Kong Public Offering;

- your electronic application instructions through the White Form eIPO service are not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.eipo.com.hk**;

- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;

- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);

- the Underwriting Agreements do not become unconditional; or

- the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for Public Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offering Shares under the International Offering, but may not do both.

IX. HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum offer price is HK$4.50 per Public Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. This means that for every board lot of 1,000 Public Offer Shares, you will pay HK$4,545.41. The Application Forms have tables showing the exact amount payable for the numbers of Public Offer Shares that may be applied for.

You must pay the maximum offer price and related brokerage, SFC transaction levy and the Stock Exchange trading fee in full when you apply for the Public Offer Shares. You must pay the amount payable upon application for Public Offer Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form or this Prospectus.

If your application is successful, brokerage is paid to participants of the Stock Exchange or the Stock Exchange, the SFC transaction levy, and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy collected by the Stock Exchange on behalf of the SFC).

X. RESULTS OF ALLOCATIONS

The results of allocations and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering can be found in our announcement to be posted on our Company's website www.hh-gltd.com on Thursday, March 6, 2008;

- Results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations website at **www.iporesults.com.hk** on a 24-hour basis from 8:00 a.m. on Thursday, March 6, 2008 to 12:00 midnight on Wednesday, March 12, 2008. The user will be

required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its Application Form to search for his/her/its own allocation result;

- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Public Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, March 6, 2008 to Sunday, March 9, 2008; and

- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, March 6, 2008 to Saturday, March 8, 2008 at all the receiving bank branches and sub-branches at the addresses set out in the section headed "How to Apply for the Public Offer Shares — Where to Collect the Application Forms".

Announcement of the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering and the basis of allotment of the Public Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Thursday, March 6, 2008.

Dispatch/Collection of share certificates and refund cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price of HK$4.50 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Public Offer Shares. No receipt will be issued for sums paid on application. Subject as mentioned below, in due course, there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form (except as otherwise provided below for pink Application Forms):

(a) (i) share certificate(s) for all the Public Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Public Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **yellow** Application Forms whose share certificates will be deposited into CCASS as described below); and/or

(b) refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including related brokerage at the rate of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% but without interest.

Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed

on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and share certificates for successful applicants under **white** Application Forms and White Form eIPO service are expected to be posted on or before Thursday, March 6, 2008. The right is reserved to retain any share certificates and any surplus application monies pending clearance of cheque(s).

If you apply using a white Application Form:

If you have applied for 1,000,000 Public Offer Shares or more and you have elected on your **white** Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from our Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor**,** Hopewell Centre**,** 183 Queen's Road East**,** Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, March 6, 2008. If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) and share certificate(s) within the time period specified for collection, they will be dispatched thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for 1,000,000 Public Offer Shares or above and have not indicated on your Application Forms that you will collect your share certificate(s) and/or refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Public Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this Prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in respect of the application monies or the appropriate parties thereof, together with the related brokerage, Stock Exchange trading fee, and SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Thursday, March 6, 2008 by ordinary post and at your own risk.

If you apply using a yellow Application Form:

If you apply for Public Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Thursday, March 6, 2008, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the South China Morning

Post (in English) and the Hong Kong Economic Times (in Chinese) on Thursday, March 6, 2008. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, March 6, 2008 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your CCASS Investor Participant stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

If you apply for 1,000,000 Public Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

If you have applied for 1,000,000 Public Offer Shares or above and have not indicated on your Application Forms that you will collect your refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Public Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this Prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your refund cheque(s) (where applicable) in respect of the application monies or the appropriate portion thereof, together with the related brokerage, Stock Exchange trading fee, and SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Thursday, March 6, 2008 by ordinary post and at your own risk.

Application made through White Form eIPO

If you apply for 1,000,000 Public Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated eIPO Service Provider through the designated website at **www.eipo.com.hk** and your application is wholly or partially successful, you may collect your Share certificate(s) and/or refund cheque(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p,m. on Thursday, March 6, 2008, or such other date as notified by our company in the newspapers as the date of dispatch/collection of Share certificates/refund cheques.

If you do not collect your Share certificate(s) and/or refund cheque(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated eIPO Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the designated eIPO Service Provider through the designated website at **www.eipo.com.hk** on Thursday, March 6, 2008 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated eIPO Service Provider set out above in "Applying by Using **White Form eIPO** — Additional Information."

If you apply by giving electronic application instruction to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

Deposit of share certificates into CCASS and refund of application monies

- No temporary documents of title will be issued. No receipt will be issued for application monies received.

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account at the close of business on Thursday, March 6, 2008 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the newspapers on Thursday, March 6, 2008. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, March 6, 2008 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, March 6, 2008. Immediately following the credit of the Public Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Public Offer Share paid on application, in each case including the related brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, March 6, 2008. No interest will be paid thereon.

XI. REFUND OF APPLICATION MONIES

If you do not receive any Public Offer Shares for any reason, we will refund your application monies, including related brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Public Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, we will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of despatch of refund cheques will be retained for our benefit.

In a contingency situation involving a substantial over-application, at the discretion of us and the Joint Global Coordinators, cheques for applications made on Application Forms for certain small denominations of Public Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on Thursday, March 6, 2008 in accordance with the various arrangements as described above.

XII. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, March 7, 2008.

The Shares will be traded in board lots of 1,000 each. The stock code of the Shares is 196.

XIII. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong
February 25, 2008

The Directors
Honghua Group Limited
Credit Suisse (Hong Kong) Limited
Morgan Stanley Asia Limited

Dear Sirs,

Introduction

We set out below our report on the combined financial information relating to Honghua Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), including the combined income statements, combined statements of changes in equity and combined statements of cash flows of the Group for each of the years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007 (the "relevant period") and the combined balance sheets of the Group as at December 31, 2004, 2005 and 2006 and August 31, 2007 together with a summary of significant accounting policies and other explanatory notes thereto (the "Financial Information") for inclusion in the Prospectus of the Company dated February 25, 2008 (the "Prospectus").

The Company was incorporated in the Cayman Islands on June 15, 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "Company History and Reorganization" in the Prospectus, which was completed on October 16, 2007, the Company became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation saves for the Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the companies comprising the Group, except for Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company"), Chengdu Hongtian Electric Drive Engineering Co., Ltd., ("Hongtian Company"), Sichuan Honghua Youxin Petroleum Machinery Co., Ltd, ("Youxin Company"), Honghua International Co., Ltd. ("Honghua International"), as they are either incorporated shortly or dormant before August 31, 2007 or are investment holding companies and have not carried on any business since their respective dates of incorporation or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. We have, however, reviewed all significant transactions of these companies from their respective dates of incorporation to August 31, 2007 for the purpose of this report.

The statutory financial statements of the aforesaid entities which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China ("PRC"), were audited during the relevant period by the respective statutory auditors as indicated below:

Name of company	Financial period	Auditors
Honghua Company	December 31, 2004, 2005 and 2006	(北京五聯方圓會計師事務所有限公司)
Hongtian Company	December 31, 2004	(四川興誠信聯合會計師事務所)
	December 31, 2005	(中天運會計師事務所有限公司四川分所)
	December 31, 2006	(北京五聯方圓會計師事務所有限公司)
Youxin Company	December 31, 2004 and 2005	(四川蜀源會計師事務所有限公司)
	December 31, 2006	(北京五聯方圓會計師事務所有限公司)
Honghua International	December 31, 2004, 2005 and 2006	(北京五聯方圓會計師事務所有限公司)

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate (the "Underlying Financial Information"). Adjustments have been made, for the purpose of this report, to restate the Underlying Financial Information to conform with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). IFRSs include International Accounting Standards and Interpretations.

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs. The responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the relevant period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and we have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the companies comprising the Group in respect of any period subsequent to August 31, 2007.

Opinion

In our opinion, for the purposes of this report and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the Group's combined results, combined statements of changes in equity and combined statement of cash flows for the relevant period and of the Group's combined state of affairs as at December 31, 2004, 2005 and 2006 and August 31, 2007.

Comparative financial information

For the purpose of this report, we have also reviewed the unaudited financial information of the Group including the combined income statement, combined statement of changes in equity and combined statement of cash flows for the eight months ended August, 31 2006, together with the notes thereon (the "August 31, 2006 Corresponding Information"), for which the directors are responsible, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making inquiries of group management and applying analytical procedures to the August 31, 2006 Corresponding Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the August 31, 2006 Corresponding Information.

On the basis of our review of the August 31, 2006 Corresponding Information which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the unaudited financial information presented for the eight months ended August 31, 2006.

A BASIS OF PRESENTATION

The combined income statements, combined statements of changes in equity and combined statements of cash flows of the Group as set out in Section B include the results of operations of the companies comprising the Group on the basis that the Company, for the purpose of this report, is regarded as a continuing entity and that the Reorganisation had been completed as at the beginning of the relevant period and that the business of the Group had been conducted by the Company throughout the relevant period as they are related to entities under common control. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses ultimately are controlled by the same party or parties both before and after the business combination, and that control is not transitory.

All material intra-group transactions and balances have been eliminated on combination.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of establishment	Issued and fully paid-up/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Asia Harbour International Ltd. (“Asia Harbour”) (宏海國際有限公司) (note i)	Hong Kong, July 8, 2006	US$1	100%		Investment holding
Sichuan Honghua Petroleum Equipment Co., Ltd. (“Honghua Company”) (四川宏華石油設備有限公司) (notes i, ii, iii)	The PRC, December 31, 1997	RMB72,000,000		100%	Manufacturing of petroleum equipment
Chengdu Hongtian Electronic Drive Engineering Co., Ltd. (“Hongtian Company”) (成都宏天電傳工程有限公司) (notes i, ii, iv)	The PRC, June 6, 2001	RMB7,000,000		80%	Manufacturing of panel of drilling rig
Sichuan Honghua Youxin Petroleum Machinery Co., Ltd .(“Youxin Company”) (四川宏華友信石油機械有限公司) (notes i, ii, iv)	The PRC, August 7, 1998	RMB5,880,000		80%	Manufacturing of parts of drilling rigs
Honghua International Co., Ltd. (“Honghua International”) (四川宏華國際科貿有限公司) (notes i, ii, v)	The PRC, January 14, 2004	RMB3,200,000		80%	Trading of drilling rigs and related parts
Honghua America LLC (“Honghua America”) (note v, vi)	United States of America, October 11, 2004	US$800,000		80%	Trading of drilling rigs and related parts
Honghua Golden Coast Equipment FZE (“Golden Coast Company”) (宏華金海岸設備有限公司) (note i)	United Arab Emirates, November 23, 2006	AED1,000,000		80%	Not yet commenced business
Lucky Wish International Ltd. (“Lucky Wish”) (泓運國際有限公司) (note i)	BVI, February 2, 2005	US$1		80%	Trading of parts of drilling rigs

Notes:

(i) These entities are limited liability companies.

(ii) The official names of these companies are in Chinese. The English translation of the company name is for reference only.

(iii) As part of the Reorganisation, Honghua Company was transformed from domestic enterprise to wholly-owned foreign enterprise.

(iv) Hongtian Company and Youxin Company (formerly known as Guanghan Youxin Co., Ltd. (廣漢市友信有限責任公司)) were special purpose entities ("SPEs") established by the Group for the purpose of manufacturing certain core components of drilling rigs. The Group does not have any direct or indirect shareholdings in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving all of the benefits related to the SPEs' operations and net assets. The financial statements of Hongtian Company and Youxin Company were combined into the Group's financial statements line by line. Owing to the fact that Honghua Company has no equity interest in the Hongtian Company and Youxin Company, the shareholders' interest were treated as minority interest.

The Group acquired an 80% equity interest of each of Hongtian Company and Youxin Company on July 18, 2006 and thereafter, Hongtian Company and Youxin Company legally became subsidiaries of the Group. The relevant assets and liabilities of the Hongtian Company and Youxin Company acquired by the Group have been recognised at historical cost.

For the purpose of this report, the results of Hongtian Company and Youxin Company for the relevant period have been included in the Group's combined income statements, combined statements of changes in equity and combined cash flow statements for the relevant period. The state of affairs of Hongtian Company and Youxin Company as at December 31, 2004, 2005 and 2006 and August 31, 2007 have been included in the Group's combined balance sheets at the respective dates. The interests of equity shareholders in SPEs (prior to the acquisition of equity interest) are presented as minority interests in the Group's combined financial statements.

(v) The Group acquired additional equity interests from minority equity holders of Honghua America and Honghua International to increase its equity interests to 80% with effective from September 5, 2006 and July 18, 2006, respectively. Honghua America and Honghua International became subsidiaries of the Group.

Because the ultimate equity holders controlled the aforesaid entities acquired by the Group before the Reorganisation and continue to control the companies comprising the Group after the Reorganisation, the Financial Information has been prepared as a reorganisation of businesses under common control. Accordingly, the relevant assets and liabilities of the aforesaid entities acquired by the Group have been recognized at historical cost.

For the purpose of this report, the results of Honghua America and Honghua International for the relevant period have been included in the Group's combined income statements, combined statements of changes in equity and combined cash flow statements for the relevant period. The state of affairs of Honghua America and Honghua International as at December 31, 2004, 2005 and 2006 and August 31, 2007 have been included in the Group's combined balance sheets at the respective dates.

(vi) Honghua America (formerly known as New Continental Equipment Co., Ltd. (美國新大陸設備有限公司)) was established as a limited partnership in the State of Texas, United States of America. It was converted into a limited liability company on December 19, 2006.

B FINANCIAL INFORMATION

1 Combined Income Statements

	Section C Note	Year ended 31 December			Eight months ended 31 August	
		2004	2005	2006	2006	2007
		RMB'000	RMB'000	RMB'000	(unaudited) RMB'000	RMB'000
Revenue	3	539,265	501,570	2,335,948	842,830	1,518,647
Cost of sales		(440,028)	(392,993)	(1,558,121)	(598,405)	(1,019,110)
Gross profit		99,237	108,577	777,827	244,425	499,537
Other operating revenue	4	2,214	3,187	4,620	2,412	4,501
Other operating expenses	4	(572)	(648)	(917)	(84)	(101)
Selling expenses		(17,818)	(22,971)	(84,176)	(41,276)	(111,488)
General and administrative expenses		(29,039)	(42,436)	(110,185)	(40,079)	(89,352)
Other net income	4	440	1,427	3,085	830	2,388
Profit from operations		54,462	47,136	590,254	166,228	305,485
Net financing costs	5(a)	(3,858)	(4,132)	(23,141)	(6,012)	(12,432)
Profit before taxation	5	50,604	43,004	567,113	160,216	293,053
Income tax expense	6(a)	(10,488)	(10,749)	(103,203)	(60,797)	(54,724)
Profit for the year/period		40,116	32,255	463,910	99,419	238,329
Attributable to:						
Equity shareholders of the Company		32,168	18,454	412,814	66,599	201,095
Minority interests		7,948	13,801	51,096	32,820	37,234
Profit for the year/period		40,116	32,255	463,910	99,419	238,329
Dividends declared during the year/ period	9	2,164	1,638	19,533	19,533	—
Earnings per share	10					
—basic (RMB)		0.013	0.007	0.165	0.027	0.080

The accompanying notes form part of the Financial Information.

2 Combined Balance Sheets

	Section C Note	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at August 31, 2007
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Fixed assets					
—Property, plant and equipment	11	52,118	96,640	210,418	239,601
—Interest in leasehold land held for own use under operating leases	11	10,429	15,732	24,616	36,189
—Freehold land	11	—	6,506	6,295	6,059
		62,547	118,878	241,329	281,849
Deposit paid for acquisition of leasehold land		—	11,066	21,171	41,140
Construction in progress	12	13,756	13,740	11,071	16,323
Deferred tax asset	21	1,410	2,950	13,088	22,318
Interest in a jointly controlled entity	22	—	—	—	45,091
Total non-current assets		77,713	146,634	286,659	406,721
Current assets					
Inventories	13	80,138	298,617	690,391	1,183,810
Trade and other receivables	14	183,039	337,647	869,374	1,373,461
Amount due from related companies	27(b)	1,831	4,269	1,998	92,165
Restricted bank deposit	15	—	—	107,875	—
Pledged bank deposits	16	15,104	88,207	67,746	198,845
Cash and cash equivalents	17	26,013	293,982	158,351	212,788
Total current assets		306,125	1,022,722	1,895,735	3,061,069
Total assets		383,838	1,169,356	2,182,394	3,467,790
Current liabilities					
Interest-bearing borrowings	18	54,900	31,184	345,000	758,550
Amount due to related companies	27(b)	7,128	7,380	54,859	295,646
Loan from ultimate holding company	27(b)	—	—	262,656	411,632
Loan from shareholders of the holding company	27(b)	—	—	—	76,850
Trade and other payables	19	211,413	981,517	1,091,647	1,279,155
Current taxation		3,866	4,429	64,623	40,891
Total current liabilities		277,307	1,024,510	1,818,785	2,862,724
Net current assets/ (liabilities)		28,818	(1,788)	76,950	198,345
Total assets less current liabilities		106,531	144,846	363,609	605,066
Non-current liabilities					
Interest-bearing borrowings	18	—	—	21,299	18,512
Deferred tax liability	21	—	—	4,259	4,104
Total non-current liabilities		—	—	25,558	22,616
Total liabilities		277,307	1,024,510	1,844,343	2,885,340
Equity					
Share capital	23	21,011	21,011	—	—
Reserves	24	63,510	80,326	303,613	510,778
Total equity attributable to equity holders of the Company		84,521	101,337	303,613	510,778
Minority interests		22,010	43,509	34,438	71,672
Total equity		106,531	144,846	338,051	582,450
Total liabilities and equity		383,838	1,169,356	2,182,394	3,467,790

The accompanying notes form part of the Financial Information.

3 Combined Statements of Changes in Equity

	Section C Note	Attributable to equity shareholders of the Company							Minority interests	Total equity
		Share capital	Share premium	Other Reserve	Statutory reserve	Exchange reserve	Retained profits	Sub-total		
		RMB'000 (Note 22)	RMB'000	RMB'000 (Note 23d)	RMB'000 (Note 23a)	RMB'000 (Note 23b)	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2004		21,011	—	—	11,945	—	21,561	54,517	13,662	68,179
Profit for the year		—	—	—	—	—	32,168	32,168	7,948	40,116
Capital injection by minority interests		—	—	—	—	—	—	—	400	400
Dividend paid during the year	9	—	—	—	—	—	(2,164)	(2,164)	—	(2,164)
Appropriation to statutory reserve		—	—	—	4,477	—	(4,477)	—	—	—
At December 31, 2004		21,011	—	—	16,422	—	47,088	84,521	22,010	106,531
At January 1, 2005		21,011	—	—	16,422	—	47,088	84,521	22,010	106,531
Profit for the year		—	—	—	—	—	18,454	18,454	13,801	32,255
Capital injection by minority interests		—	—	—	—	—	—	—	7,698	7,698
Appropriation to statutory reserve		—	—	—	7,964	—	(7,964)	—	—	—
Dividend paid during the year	9	—	—	—	—	—	(1,638)	(1,638)	—	(1,638)
At December 31, 2005		21,011	—	—	24,386	—	55,940	101,337	43,509	144,846
At January 1, 2006		21,011	—	—	24,386	—	55,940	101,337	43,509	144,846
Profit for the year		—	—	—	—	—	412,814	412,814	51,096	463,910
Acquisition of minority interest	24(d)	—	—	10,762	—	—	—	10,762	(60,167)	(49,405)
Capital reduction	23(a)	(12,941)	—	—	(9,340)	—	(64,850)	(87,131)	—	(87,131)
Dividend paid during the year	9	—	—	—	—	—	(19,533)	(19,533)	—	(19,533)
Appropriation to statutory reserve		—	—	—	62,852	—	(62,852)	—	—	—
Capital injection	23(b)	10,680	29,470	—	—	—	—	40,150	—	40,150
Exchange difference		—	—	—	—	(28)	—	(28)	—	(28)
Arising from reorganisation	23(c)	(18,750)	—	(136,008)	—	—	—	(154,758)	—	(154,758)
At December 31, 2006		—*	29,470	(125,246)	77,898	(28)	321,519	303,613	34,438	338,051
At January 1, 2007		—*	29,470	(125,246)	77,898	(28)	321,519	303,613	34,438	338,051
Profit for the period		—	—	—	—	—	201,095	201,095	37,234	238,329
Exchange difference		—	—	7,801	—	(1,731)	—	6,070	—	6,070
At August 31, 2007		—*	29,470	(117,445)	77,898	(1,759)	522,614	510,778	71,672	582,450
(Unaudited)										
At January 1, 2006		21,011	—	—	24,386	—	55,940	101,337	43,509	144,846
Profit for the period		—	—	—	—	—	66,599	66,599	32,820	99,419
Acquisition of minority interests in SPE		—	—	17,808	—	—	—	17,808	(55,590)	(37,782)
Acquisition of minority interests in HHI		—	—	(7,045)	—	—	—	(7,045)	(4,577)	(11,622)
Capital reduction	23(a)	(12,941)	—	—	(9,340)	—	(64,850)	(87,131)	—	(87,131)
Dividend				—	—	—	(19,533)	(19,533)	—	(19,533)
Capital injection		10,680	29,470	—	—	—	—	40,150	—	40,150
Exchange difference		—	—	—	—	(12)	—	(12)	—	(12)
At August 31, 2006		18,750	29,470	10,763	15,046	(12)	38,156	112,173	16,162	128,335

* Denotes share capital of US$1.

The accompanying notes form part of the Financial Information.

4 Combined Statements of Cash Flows

	Section C Note	Year ended 31 December			Eight months ended 31 August	
		2004	2005	2006	2006	2007
					(unaudited)	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating activities						
Profit before taxation		50,604	43,004	567,113	160,216	293,053
Adjustments for:						
—Depreciation		4,440	8,100	13,892	8,006	14,895
—Amortisation of leasehold land		225	233	396	220	546
—Interest income		(446)	(256)	(2,356)	(1,279)	(2,936)
—Interest expense		4,084	2,217	9,130	2,396	19,092
—Loss on disposal of fixed assets		1	1,959	169	168	1,105
—Loss on disposal of construction in progress		93	301	—	—	—
—Disposed to staff as staff benefit		—	—	3,775	—	—
—Unrealized foreign exchange loss		—	112	1,250	238	7,490
Operating profit before change in working capital		59,001	55,670	593,369	169,965	333,245
Increase in inventories		(458)	(218,479)	(391,774)	(387,340)	(493,419)
(Increase)/decrease in trade and other receivables		(6,950)	(154,608)	(531,727)	(149,502)	(504,087)
(Increase)/decrease in amounts due from related parties		(4,022)	(2,438)	2,271	(12,403)	(90,167)
(Increase)/decrease in restricted bank deposits		—	—	(107,875)	—	107,875
Decrease/(increase) in pledged deposits		991	(73,103)	20,461	(5,145)	(131,099)
(Decrease)/increase in trade and other payables		(10,902)	770,104	110,130	119,951	184,293
(Decrease)/increase in amounts due to related parties		(4,408)	252	47,479	7,814	240,787
Cash generated from/ (used in) operations		33,252	377,398	(257,666)	(256,660)	(352,572)
Income tax paid		(9,215)	(11,726)	(48,888)	(37,438)	(87,846)
Net cash generated from/(used in) operating activities		24,037	365,672	(306,554)	(294,098)	(440,418)
Investing activities						
Payment for addition of fixed assets		(12,986)	(30,000)	(82,688)	(53,567)	(27,980)
Proceeds from disposal of fixed assets		35	53	3,398	100	1,131
Payment for construction in progress		(11,006)	(31,535)	(50,717)	(27,687)	(24,768)
Deposit placed for acquisition of leasehold land		—	(11,066)	(10,105)	—	(19,968)
Payment for leasehold land		(775)	(5,536)	(9,280)	(1,385)	(12,119)
Acquisition of minority interests		—	—	(49,410)	(49,410)	—
Capital contribution of a jointly controlled entity		—	—	—	—	(45,091)
Interest received		446	256	2,356	1,279	2,936
Net cash used in investing activities		(24,286)	(77,828)	(196,446)	(130,670)	(125,859)
Financing activities						
Proceeds from bank loans		2,031	29,184	388,455	317,917	809,550
Repayment of bank loans		(17,315)	(52,900)	(67,083)	(23,303)	(400,827)
Proceeds from a loan from a financial institution		—	—	13,743	632	2,042
Payment for repurchase of shares	23(a)	—	—	(87,131)	(87,131)	—
Proceed from shareholders loan		—	—	—	—	76,850
Dividends paid		(2,164)	(1,638)	(19,533)	(11,736)	—
Interest paid		(4,084)	(2,217)	(9,130)	(2,396)	(15,877)
Loan from ultimate holding company		—	—	262,656	—	148,976
Appropriations to shareholders		—	—	(154,758)	—	—
Issue of share capital		—	—	40,150	40,150	—
Proceeds from capital injection by minority interest shareholders		—	7,696	—	—	—
Net cash (used in)/ generated from financing activities		(21,532)	(19,875)	367,369	234,133	620,714
Net (decrease)/ increase in cash and cash equivalents		(21,781)	267,969	(135,631)	(190,635)	54,437
Cash and cash equivalents at 1 January		47,794	26,013	293,982	293,982	158,351
Cash and cash equivalents at 31 December/ 31 August	17	26,013	293,982	158,351	103,347	212,788

The accompanying notes form part of the Financial Information.

C NOTES ON THE FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). The Financial Information also complies with the disclosure requirements of the Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The Group did not prepare any combined financial statements previously. This is the Group's first IFRS Financial Information and IFRS 1 has been applied.

The IASB issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after January 1, 2004. For the purposes of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the relevant period, except for any new standards or interpretations that are not yet effective for the relevant period. The new and revised accounting standards and interpretations issued but not yet effective for the accounting period beginning on March 1, 2007 are set out in note 31.

(b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries.

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is presented on the historical cost basis. Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency").

The preparation of the Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

The accounting policies set out below have been applied consistently to all periods presented.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Financial statements of a subsidiary are included in the Financial Information from the date that control commences until the date that control ceases. Merger accounting is adopted for common control combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the combined balance sheets and combined statements of changes in equity within equity, separately from equity attributable to equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the combined income statements as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Transactions with minority shareholders of the Group are at book value and classified as equity transactions. Accordingly, when the Group acquires minority interests of its subsidiaries, the difference between the amounts of consideration and carrying values of minority interests are recognized as reserve movement.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or company and other parties, where the contractual arrangement establishes that the Group or company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the combined financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale)

The combined income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entities recognised for the year.

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(e) Business combinations involving entities under common control

The combined Financial Information incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling interest.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined Financial Information are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives quality for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(g) Fixed assets and depreciation

Fixed assets are stated in the combined balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement combined income on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

—Freehold land	Not depreciated
—Buildings held for own use	20 - 35 years
—Plant and machinery	5 - 10 years
—Fixtures, fittings and equipment	5 - 10 years
—Motor vehicles	5 - 6 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(k)). Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(i) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost less accumulated amortisation and impairment loss (see note 1(k)). Amortisation is charged to income statement on a straight-line basis over the respective periods of the rights.

(j) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made.

(k) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are carried at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;

- Interest in jointly controlled entities;
- lease prepayments; and
- freehold land

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

  A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)), except where the receivables are

interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(k)).

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(r) Income tax

(i) Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from differences which arose on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will

arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in income statement as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the related risks and rewards of ownership. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and subsequently recognised as revenue in profit or loss on a systematic basis over the useful life of the related asset.

(iv) Rendering of repairing services

Revenue is recognised when the service has been rendered.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(v) Borrowing costs

Borrowing costs are expensed in the profit or loss in the period in which they are incurred.

(w) Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised as an expense in the period in which it is as incurred.

(x) Warranty costs

Provision for warranty costs is based on historical trends in product defect rates and the expected material and labour costs to provide warranty services. In case of new products, expert opinions and industry data are also taken into consideration in estimating the product warranty accruals. Provision is only made where a warranty claim is probable.

(y) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(z) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making finance and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(aa) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, cash and cash equivalents, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 SEGMENT REPORTING

Segment information is presented in the Financial Information in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly cash and cash equivalents, interest-bearing loans, borrowings and expenses and corporate assets and expenses.

Inter-segment transactions were eliminated up on combination. The inter-segment transactions mainly represented the sales of parts and components, between group companies.

Business segments

The Group consists of the following main business segments:

Drilling rigs — Manufacture and sale of drilling rigs

Parts and components — Manufacture and sale of parts and components of drilling rigs

	Year ended December 31, 2004			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	468,783	153,631	(83,149)	539,265
Cost of sales	(400,101)	(122,567)	82,640	(440,028)
Other income and expenses	(33,724)	(13,133)	—	(46,857)
Segment result	34,958	17,931	(509)	52,380
Unallocated				2,082
Net financing costs				(3,858)
Income tax				(10,488)
Profit for the year				40,116

	Year ended December 31, 2004			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	241,469	94,743	(20,631)	315,581
Unallocated assets				68,257
Total assets				383,838
Segment liabilities	232,376	44,113	(20,631)	255,858
Unallocated liabilities				21,449
Total liabilities				277,307
Capital expenditure	12,812	3,590	—	16,402
Depreciation and amortisation	2,691	813	—	3,504
Non-cash expenses other than depreciation and amortisation	71	23	—	94

	Year ended December 31, 2005			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	433,976	206,776	(139,182)	501,570
Cost of sales	(345,620)	(181,942)	134,569	(392,993)
Other income and expenses	(42,995)	(22,412)	—	(65,407)
Segment result	45,361	2,422	(4,613)	43,170
Unallocated				3,966
Net financing costs				(4,132)
Income tax				(10,749)
Profit for the year				32,255

	Year ended December 31, 2005			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	690,856	179,456	(130,060)	740,252
Unallocated assets				429,104
Total assets				1,169,356
Segment liabilities	938,970	182,988	(130,060)	991,898
Unallocated liabilities				32,612
Total liabilities				1,024,510
Capital expenditure	23,338	14,948	—	38,286
Depreciation and amortisation	4,873	1,634	—	6,507
Non-cash expenses other than depreciation and amortisation	1,871	892	—	2,763

	Year ended December 31, 2006			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	2,037,272	605,273	(306,597)	2,335,948
Cost of sales	(1,362,421)	(490,936)	295,236	(1,558,121)
Other income and expenses	(138,423)	(52,163)	—	(190,586)
Segment result	536,428	62,174	(11,361)	587,241
Unallocated				3,013
Net financing costs				(23,141)
Income tax				(103,203)
Profit for the year				463,910
Segment assets	1,480,684	295,628	(199,457)	1,576,855
Unallocated assets				605,539
Total assets				2,182,394
Segment liabilities	923,611	266,539	(199,457)	990,693
Unallocated liabilities				853,650
Total liabilities				1,844,343
Capital expenditure	66,037	65,687	—	131,724
Depreciation and amortisation	9,026	2,306	—	11,332
Non-cash expenses other than depreciation and amortisation	5,285	1,541	—	6,826

	Eight months ended August 31, 2007			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,253,349	762,468	(497,170)	1,518,647
Cost of sales	(997,801)	(494,756)	473,447	(1,019,110)
Other income and expenses	(134,265)	(66,575)	—	(200,840)
Segment result	121,283	201,137	(23,723)	298,697
Unallocated				6,788
Net financing costs				(12,432)
Income tax				(54,724)
Profit for the period				238,329
Segment assets	1,854,925	2,286,275	(1,349,210)	2,791,990
Unallocated assets				675,800
Total assets				3,467,790
Segment liabilities	1,430,183	1,550,310	(1,349,210)	1,631,283
Unallocated liabilities				1,254,057
Total liabilities				2,885,340
Capital expenditure	41,545	13,361	—	54,906
Depreciation and amortisation	(7,555)	(3,636)	—	(11,191)
Non-cash expenses other than depreciation and amortisation	5,195	3,161	—	8,356

	Eight months ended August 31, 2006 (unaudited)			
	Drilling rigs	Parts and components	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	718,432	386,975	(262,577)	842,830
Cost of sales	(532,445)	(309,398)	243,438	(598,405)
Other income and expenses	(51,455)	(29,900)	—	(81,355)
Segment result	134,532	47,677	(19,139)	163,070
Unallocated				3,158
Net financing costs				(6,012)
Income tax				(60,797)
Profit for the period				99,419
Capital expenditure	25,991	30,069	—	56,060
Depreciation and amortisation	(5,002)	(1,637)	—	(6,639)
Non-cash expenses other than depreciation and amortisation	875	472	—	1,347

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customers. Segment assets are based on the geographical location of the assets.

	Year ended December 31, 2004					
	PRC	North America	Middle East	Europe	Others	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	524,256	1,658	—	—	13,351	539,265
Segment assets	383,838	—	—	—	—	383,838
Segment liabilities	277,307	—	—	—	—	277,307
Capital expenditure	24,767	—	—	—	—	24,767

	Year ended December 31, 2005					
	PRC	North America	Middle East	Europe	Others	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	343,417	141,084	—	15,444	1,625	501,570
Segment assets	1,115,661	51,242	—	—	2,453	1,169,356
Segment liabilities	995,321	29,162	—	—	27	1,024,510
Capital expenditure	59,768	7,303	—	—	—	67,071

	Year ended December 31, 2006					
	PRC	North America	Middle East	Europe	Others	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	386,099	1,665,572	261,733	8,580	13,964	2,335,948
Segment assets	1,995,236	87,770	2,066	—	97,322	2,182,394
Segment liabilities	1,540,529	37,595	—	—	266,219	1,844,343
Capital expenditure	112,479	30,206	—	—	—	142,685

	Eight months ended August 31, 2007					
	PRC	North America	Middle East	Europe	Others	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	688,733	515,980	1,081	97,013	215,840	1,518,647
Segment assets	2,591,273	184,007	2,844	—	689,666	3,467,790
Segment liabilities	2,137,570	154,832	2,642	—	590,296	2,885,340
Capital expenditures	61,035	3,491	341	—	—	64,867

	Eight months ended August 31, 2006 (unaudited)					
	PRC	North America	Middle East	Europe	Others	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	163,499	671,930	—	7,099	302	842,830
Segment assets	1,532,778	63,643	—	—	25,037	1,621,458
Segment liabilities	1,438,369	34,215	—	—	20,540	1,493,124
Capital expenditures	48,935	19,436	—	—	—	68,371

3 REVENUE

The principal activities of the Group are the manufacturing, sale and trading of drilling rigs and related parts and components. Revenue represents the sales value of goods supplied to customers.

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	(unaudited) RMB'000	RMB'000
Sale of drilling rigs	468,783	433,976	2,037,272	718,432	1,253,349
Sale of parts and components	70,482	67,594	298,676	124,398	265,298
	539,265	501,570	2,335,948	842,830	1,518,647

4 OTHER OPERATING REVENUE, OTHER OPERATING EXPENSES AND OTHER NET INCOME

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	(unaudited) RMB'000	RMB'000
Other operating revenue					
Rendering of repairing services	2,201	3,161	4,526	2,355	4,490
Others	13	26	94	57	11
	2,214	3,187	4,620	2,412	4,501
Other operating expenses					
Others	572	648	917	84	101
Other net income					
Government grants	—	3,179	2,252	—	3,817
Donations	(20)	—	(460)	(220)	(165)
Loss on disposal of fixed assets	(1)	(1,959)	(169)	(168)	(1,105)
Loss on disposal of construction in progress	(93)	(301)	—	—	—
Others	554	508	1,462	1,218	(159)
	440	1,427	3,085	830	2,388

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging / (crediting):

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	(unaudited) RMB'000	RMB'000
(a) Net financing costs					
Exchange loss, net	40	1,720	15,359	4,402	(4,692)
Interest income	(446)	(256)	(2,356)	(1,279)	(2,936)
Interest expense	4,084	2,217	9,130	2,396	19,092
Banks charges	180	451	1,008	493	968
	3,858	4,132	23,141	6,012	12,432
(b) Staff costs					
Contributions to defined contribution retirement plan	708	1,485	3,159	1,825	5,306
Salaries, wages and other benefits	33,365	45,371	113,799	45,820	82,404
	34,073	46,856	116,958	47,645	87,710
(c) Other items					
Depreciation					
—assets held for use under operating leases	225	233	396	220	546
—other assets	4,440	8,100	13,892	8,006	14,895
Impairment losses of trade and other receivables	—	394	1,637	—	—
Auditors' remuneration	148	251	2,042	1,585	2,676
Operating lease charges: minimum lease payments	95	440	490	535	687
(Written back)/ provision for product warranty	(4,238)	(1,331)	11,826	3,741	5,736
Research and development costs *	1,172	5,233	16,208	8,230	14,069

* The amounts included staff costs of employees in the Research and Development Department, which are included in the total staff costs as disclosed in note 5(b).

6 INCOME TAX

(a) Taxation in the combined income statements

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	(unaudited) RMB'000	RMB'000
Current tax					
Provision for the year/period	11,898	12,289	104,503	60,797	63,954
Under-provision in respect of prior years	—	—	601	—	—
Current tax — Overseas					
Provision for the year/period	—	—	3,978	—	—
Deferred tax					
Origination and reversal of temporary differences	(1,410)	(1,540)	(5,879)	—	(9,230)
	10,488	10,749	103,203	60,797	54,724

(b) Taxation in the combined income statements represents:

(i) Hong Kong profits tax

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the relevant period.

(ii) Cayman Islands

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from payment of Cayman Islands income tax.

(iii) British Virgin Islands

Pursuant to the rule and regulations of the British Virgin Islands, the Group is not subject to any tax in the British Virgin Islands.

(iv) United States of America

Taxation for Honghua America is charged at the appropriate current rates of taxation ruling in the relevant state. The applicable tax rate for the relevant period was 26%.

(v) United Arab Emirates

Golden Coast Company is not subject to income tax in accordance with the relevant United Arab Emirates income tax laws and regulations.

(vi) PRC enterprise income tax

In accordance with the relevant PRC income tax laws and regulations, the applicable income tax rates of the Company's subsidiaries are as follows:

(a) Honghua Company

For the year ended 2004 and 2005

Pursuant to the approvals obtained from the relevant PRC tax authorities, Honghua Company will be recognised as established in the western regions of PRC with principal revenue of over 70% being accounted for by encouraged business activities. Honghua Company was entitled to a preferential income tax rate of 15% in the years 2004 and 2005.

For the period from January to September 2006

Honghua Company was subject to an income tax rate of 33% as it failed to make an application for a reduced rate.

For the period from October to December 2006 and for the eight months ended August 31, 2007

On September 15, 2006, Honghua Company changed from being a domestic enterprise to a wholly owned foreign invested enterprise, and was entitled to tax concessions from October 1, 2006 whereby the profit for the first two financial years commencing on the profit-making year (after netting off tax losses carried forward from prior years) is exempt from national income tax in the PRC and the profit for each of the subsequent three financial years is taxed at 50% of the prevailing tax rates set by the relevant authorities. All income earned since October 1, 2006 to December 31, 2006 and for the year ended December 31, 2007 are exempt from national income tax. Honghua Company was still subject to a local income tax at rate of 3%. The income tax for the period from January 1, 2008 to December 31, 2010 is discussed below.

(b) Hongtian Company and Youxin Company

Pursuant to the approvals obtained from the relevant PRC tax authorities, for recognition as established in the western regions of PRC with principal revenue of over 70% being accounted for by encouraged business activities, Hongtian Company and Youxin Company are entitled to a preferential income tax rate of 15%.

(c) Honghua International

Honghua International was newly established as a domestic enterprises in 2004 engaging in overseas trading and was exempt from enterprise income tax for the year 2004 under Caishuizi 1994 No.1.

Pursuant to the income tax rules and regulations of the PRC, the income tax rate applicable to Honghua International is 33% with effect from the year 2005.

(d) Changes to the PRC tax legislation

On March 16, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("New Tax Law") which will take effect on January 1, 2008. For Honghua Company, upon the end of the tax relief period on December 31, 2010, the PRC Enterprise Income Tax will be adjusted to the standard rate of 25%.

The State Council of the PRC passed an implementation guidance note ("Implementation Guidance") on December 26, 2007, which sets out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%. According to the Implementation Guidance, Honghua Company, which is eligible for 100% or 50% relief from PRC Enterprise Income Tax, will continue to enjoy a preferential rate of income tax rate until the New Tax Law comes into force, after which, the 25% standard rate will apply.

Pursuant to the Notice on the Implementation Rules for Grandfathering Relief under the New Tax Law ("Notice 39") issued by The State Council on December 26, 2007, effective from January 1, 2008, the existing preferential income tax policy pertaining to enterprises established in western regions of PRC will continue to be effective until December 31, 2010. According to Notice 39, Honghua Company can still enjoy its tax holiday relief for a 5-year transitional period. The tax rate applicable to Honghua Company is subject to approval by the tax authority.

The existing preferential tax policy pertaining to the development of western China shall continue to be effective. Subject to approval by the relevant PRC tax authorities, the preferential income tax rate applicable to Hongtian Company and Youxin Company shall continue to be effective. The enactment of the New Tax Law is not expected to have any financial effect on the amounts accrued in the combined balance sheet in respect of current tax recoverable or payable.

Honghua International is currently subject to PRC enterprise income tax at a rate of 33%. As a result of the New Tax Law, it is expected that the income tax rate applicable to Honghua International will be reduced from 33% to 25% from January 1, 2008. The new tax rate of 25% has been applied in the measurement of this subsidiary's deferred tax assets and liabilities as at August 31, 2007, which is expected to be utilised subsequent to January 1, 2008.

Further under the New Tax Law, from January 1, 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from sources within the PRC. The Group has already commenced an assessment on the impact of the New Tax Law regarding this withholding tax but is not yet in a position to state whether the New Tax Law will have a significant impact on the Group's results of operations and financial position.

(c) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	(unaudited) RMB'000	RMB'000
Profit before taxation	50,604	43,004	567,113	160,216	293,053
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	7,260	7,647	149,663	40,418	91,654
Tax effect of non-deductible expenses	3,228	3,102	23,109	20,379	8,005
Effect on deferred tax balances resulting from a change in tax rate	—	—	—	—	706
Under-provision in prior years	—	—	601	—	—
Tax concessions	—	—	(70,170)	—	(45,641)
Income tax expense	10,488	10,749	103,203	60,797	54,724

7 DIRECTORS' REMUNERATION

Details of directors' remuneration are set out below:

Year ended December 31, 2004

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Zhang Mi	—	279	6	—	285
Ren Jie	—	197	4	—	201
Zhang Xu	—	168	5	—	173
Total	—	644	15	—	659

Year ended December 31, 2005

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zhang Mi	—	301	9	329	639
Ren Jie	—	204	6	215	425
Zhang Xu	—	149	6	107	262
Total	—	654	21	651	1,326

Year ended December 31, 2006

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zhang Mi	—	538	12	665	1,215
Ren Jie	—	350	8	440	798
Zhang Xu	—	211	9	126	346
Total	—	1,099	29	1,231	2,359

Eight months ended August 31, 2007

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zhang Mi	—	500	10	—	510
Ren Jie	—	210	7	—	217
Zhang Xu	—	150	8	—	158
Total	—	860	25	—	885

Eight months ended August 31, 2006 (unaudited)

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zhang Mi	—	338	8	—	346
Ren Jie	—	233	6	—	239
Zhang Xu	—	120	6	—	126
Total	—	691	20	—	711

During the relevant period, no amount was paid or payable to the directors or any of the highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the relevant period.

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include two, two, two, three and two directors during the years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2006 and 2007 whose emoluments are disclosed in note 7. Details of remuneration paid to the remaining highest individuals of the Group are as follows:

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	(unaudited) RMB'000	RMB'000
Basic salaries, allowances and benefits in kind	433	462	819	341	684
Discretionary bonuses	349	983	3,316	—	—
Retirement scheme contributions	4	5	5	4	—
Other benefits	—	—	—	—	—
	786	1,450	4,140	345	684

The emoluments of these individuals are within the following band:

	Year ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
RMB Nil to RMB1,000,000	3	3	2	2	3
RMB1,000,000 to RMB2,000,000	—	—	—	—	—
RMB2,000,000 to RMB3,000,000	—	—	1	—	—

9 DIVIDENDS

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	(unaudited) RMB'000	RMB'000
Final dividend declared during the year	2,164	1,638	19,533	19,533	—

Pursuant to the resolutions passed at the Board meeting on February 20, 2004, April 1, 2005, and August 16, 2006 dividends of RMB2,164,000, RMB1,638,000 and RMB19,533,000 were declared by Honghua Company to its then respective equity holders.

The directors consider the dividend payments made during the relevant period are not indicative of the future dividend policy of the Group.

10 EARNINGS PER SHARE

The calculation of basic earnings per share for the relevant period is based on the net profit attributable to equity shareholders of the Company for each of the years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007 and on the number of shares in issue as at the date of this report as if the shares were outstanding throughout the entire relevant period.

There were no dilutive potential ordinary shares during the relevant period and, therefore, diluted earnings per share are not presented.

11 FIXED ASSETS

	Freehold land	Interests in leasehold land held for own use under operating leases	Buildings held for own use carried at cost	Plant and machinery	Fixtures, fittings and equipments	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At January 1, 2004	—	7,876	21,419	9,842	7,926	5,385	52,448
Additions	—	775	6	7,297	3,535	2,148	13,761
Transfer from construction in progress (note 12)	—	2,708	3,675	1,092	—	—	7,475
Disposals	—	—	—	(2)	(70)	(60)	(132)
At December 31, 2004	—	11,359	25,100	18,229	11,391	7,473	73,552
At January 1, 2005	—	11,359	25,100	18,229	11,391	7,473	73,552
Additions	6,607	5,536	457	10,584	7,383	4,969	35,536
Transfer from construction in progress (note 12)		—	14,656	14,875	1,719	—	31,250
Disposals		—	(2,343)	(18)	(81)	(44)	(2,486)
Exchange difference	(101)	—	—	—	(4)	(7)	(112)
At December 31, 2005	6,506	16,895	37,870	43,670	20,408	12,391	137,740
At January 1, 2006	6,506	16,895	37,870	43,670	20,408	12,391	137,740
Additions	—	9,280	23,404	27,759	24,317	7,208	91,968
Transfer from construction in progress (note 12)	—	—	49,371	240	—	—	49,611
Disposals	—	—	(3,736)	(122)	(116)	(475)	(4,449)
Exchange difference	(211)	—	(873)	(43)	(114)	(57)	(1,298)
At December 31, 2006	6,295	26,175	106,036	71,504	44,495	19,067	273,572
At January 1, 2007	6,295	26,175	106,036	71,504	44,495	19,067	273,572
Additions	—	12,119	182	7,308	15,323	5,167	40,099
Transfer from construction in progress	—	—	19,066	—	450	—	19,516
Disposals	—	—	—	(25)	(2,118)	(289)	(2,432)
Exchange difference	(236)	—	(965)	(48)	(126)	(63)	(1,438)
At August 31, 2007	6,059	38,294	124,319	78,739	58,024	23,882	329,317
Accumulated depreciation:							
At January 1, 2004	—	(705)	(2,141)	(699)	(1,862)	(1,029)	(6,436)
Charge for the year	—	(225)	(1,053)	(1,081)	(1,586)	(720)	(4,665)
Written back on disposal	—	—	—	2	62	32	96
At December 31, 2004	—	(930)	(3,194)	(1,778)	(3,386)	(1,717)	(11,005)
At January 1, 2005	—	(930)	(3,194)	(1,778)	(3,386)	(1,717)	(11,005)
Charge for the year	—	(233)	(1,584)	(3,223)	(2,314)	(979)	(8,333)
Written back on disposal	—	—	421	10	43	—	474
Exchange difference	—	—	—	—	1	1	2
At December 31, 2005	—	(1,163)	(4,357)	(4,991)	(5,656)	(2,695)	(18,862)
At January 1, 2006	—	(1,163)	(4,357)	(4,991)	(5,656)	(2,695)	(18,862)
Charge for the year	—	(396)	(2,548)	(5,728)	(3,952)	(1,664)	(14,288)
Written back on disposal	—	—	298	115	101	368	882
Exchange difference	—	—	7	1	11	6	25
At December 31, 2006	—	(1,559)	(6,600)	(10,603)	(9,496)	(3,985)	(32,243)
At January 1, 2007	—	(1,559)	(6,600)	(10,603)	(9,496)	(3,985)	(32,243)
Charge for the period	—	(546)	(3,752)	(3,766)	(5,366)	(2,011)	(15,441)
Written back on disposals	—	—	—	20	2	174	196
Exchange difference	—	—	8	1	5	6	20
At August 31, 2007	—	(2,105)	(10,344)	(14,348)	(14,855)	(5,816)	(47,468)
Net book value:							
At December 31, 2004	—	10,429	21,906	16,451	8,005	5,756	62,547
At December 31, 2005	6,506	15,732	33,513	38,679	14,752	9,696	118,878
At December 31, 2006	6,295	24,616	99,436	60,901	34,999	15,082	241,329
At August 31, 2007	6,059	36,189	113,975	64,391	43,169	18,066	281,849

12 CONSTRUCTION IN PROGRESS

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January	10,318	13,756	13,740	11,071
Additions	11,006	31,535	50,717	24,768
Disposals	(93)	(301)	(3,775)	—
Transferred to fixed assets (note 11)	(7,475)	(31,250)	(49,611)	(19,516)
Balance at 31 December	13,756	13,740	11,071	16,323

Construction in progress comprises costs incurred on buildings and plant and equipment not yet completed at the respective balance sheet dates.

13 INVENTORIES

(a) Inventories in the combined balance sheets comprise:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	42,801	135,076	241,395	286,489
Work in progress	22,022	115,935	188,667	348,387
Goods in transit	1,125	38,505	41,688	136,031
Finished goods	14,190	9,101	218,641	412,903
	80,138	298,617	690,391	1,183,810

(b) An analysis of the amount of inventories recognized as an expense is as follows:

	Years ended 31 December			Eight months ended
	2004	2005	2006	31 August
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of inventories sold	437,441	379,488	1,542,970	1,019,110
Write down of inventories	604	11,165	8,168	31,183
	438,045	390,653	1,551,138	1,050,293

14 TRADE AND OTHER RECEIVABLES

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	146,250	175,492	564,687	1,014,937
Bills receivable	—	1,966	12,550	4,000
Less: allowance for doubtful debts (note 14(b))	(1,520)	(1,914)	(3,551)	(3,551)
	144,730	175,544	573,686	1,015,386
Value-added-tax receivable	—	19,605	54,046	107,064
Other receivables	6,870	14,801	64,958	52,194
Prepayments	31,439	127,697	176,684	198,817
	183,039	337,647	869,374	1,373,461

Other receivables include advances to staff and insurance prepayments.

All of the trade and other receivables are expected to be recovered within one year.

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	'000	'000	'000	'000
United States dollars	US$ —	US$ 3,764	US$ 43,031	US$ 72,736
UAE Dirham	AED—	AED —	AED —	AED 15

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheets date:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Current	56,093	142,222	545,874	383,291
Less than 1 month past due	3,804	3,499	649	192,257
1 to 3 months past due	63,681	19,703	17,957	367,959
More than 3 months but less than 12 months past due	21,152	10,120	9,206	71,879
	144,730	175,544	573,686	1,015,386

The Group normally grants an average credit period of 30 to 90 days from the date of billing to its trade customers. Despite some of the accounts receivables being settled after the credit period, management expects that the balances are recoverable within one year; therefore, these balances are classified as current assets.

(b) Impairment of trade and bills receivable

Impairment loss in respect of trade and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivable directly (see note 1(k)).

The movement in the allowance for doubtful debts during the year , including both specific and collective loss components, is as follows:

	Years ended 31 December			Eight months ended August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	1,520	1,520	1,914	3,551
Impairment loss recognised	—	394	1,637	—
At 31 December / 31 August	1,520	1,914	3,551	3,551

The individually impaired receivables relate to customers that are in financial difficulties and management assesses that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

15 RESTRICTED BANK DEPOSIT

As part of the financial covenants to the convertible note holder of Ally Giant Limited, an intermediate holding company, the Group agreed to set up an escrow account, whereby the escrow fund is restrictive in usage. The restricted deposit can only be released upon the receipt of a written notice from the representative of the convertible note holder. The restricted bank deposit was released by end of June 2007.

16 PLEDGED BANK DEPOSITS

The deposits are pledged to banks as security against certain banking facilities granted to the Group (See note 18).

17 CASH AND CASH EQUIVALENTS

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank	25,962	293,489	157,796	211,641
Cash in hand	51	493	555	1,147
	26,013	293,982	158,351	212,788

As at December 31, 2004, 2005 and 2006 and August 31, 2007, deposits that were placed with banks in the PRC and included in the cash and cash equivalents above amounted to RMB26,013,232, RMB279,549,322 and RMB83,383,002 and RMB182,466,506 respectively. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Included in cash and cash equivalents in the combined balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	'000	'000	'000	'000
United States dollars	US$ 8	US$ 22,116	US$ 8,350	US$ 9,929
Euro	EUR—	EUR —	EUR —	EUR 276
UAE Dirham	AED—	AED —	AED —	AED 116

18 INTEREST-BEARING BORROWINGS

The bank loans and the loan from a financial institution were secured and repayable as follows:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans				
—secured	—	5,000	72,556	27,729
—unsecured	54,900	26,184	280,000	733,550
Loan from a financial institution	—	—	13,743	15,783
Total	54,900	31,184	366,299	777,062

The bank loans were repayable as follows:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	54,900	31,184	345,000	758,550
After 1 year but within 2 years	—	—	4,685	—
After 2 years but within 5 years	—	—	—	—
After 5 years	—	—	2,871	2,729
	—	—	7,556	2,729
Total	54,900	31,184	352,556	761,279

The loan from a financial institution was repayable as follows:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	—	—	—	—
After 1 year but within 2 years	—	—	—	—
After 2 years but within 5 years	—	—	13,743	13,153
After 5 years	—	—	—	2,630
	—	—	13,743	15,783
Total	—	—	13,743	15,783

Included in the interest-bearing borrowings is the following amount denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	'000	'000	'000	'000
United States dollars	US$—	US$—	US$2,718	US$2,463

Bank loans of certain subsidiaries amounted to RMB5,000,000, RMB72,556,000 and RMB25,000,000 as of December 31, 2005 and 2006 and August 31, 2007 respectively were secured by their leasehold land with an aggregate carrying value of RMB 5,284,000, RMB24,540,000 and RMB22,500,000 as of December 31, 2005, 2006 and August 31, 2007.

The bank loans as at December 31, 2004, 2005 and 2006 and August 31, 2007 bear interest at 4.80% to 7.96%, 4.80% to 9.68%, 5.28% to 9.68% and 4.86% to 9.38% per annum respectively.

The loan from a financial institution as at December 31, 2006 and August 31, 2007 amounted to RMB13,743,000 and RMB16,026,000 respectively were secured by the equipment with an aggregate carrying value of RMB48,345,485 and RMB117,965,042.

The loan from a financial institution as at December 31, 2006 and August 31, 2007 bears interest at 6.50% per annum.

19 TRADE AND OTHER PAYABLES

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	106,651	101,412	408,152	610,192
Bills payables	25,008	98,329	82,147	99,225
Receipts in advance	43,516	740,924	485,266	459,094
Other payables	36,238	40,852	116,082	110,644
	211,413	981,517	1,091,647	1,279,155

Bills payable as at December 31, 2004, 2005 and 2006 and at August 31, 2007 were secured by pledged bank deposits as disclosed in note 16.

An ageing analysis of the trade and bills payables is as follows:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	93,749	162,032	379,263	480,066
3 months to 6 months	11,503	7,020	48,569	98,639
6 months to 1 year	11,907	9,072	31,547	104,806
Over 1 year	14,500	21,617	30,920	25,906
	131,659	199,741	490,299	709,417

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	'000	'000	'000	'000
Euro	EUR—	EUR —	EUR —	EUR —
UAE Dirhem	AED—	AED —	AED —	AED 78
United States dollars	US$ —	US$ 1,668	US$ 15,952	US$ 46,301

20 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries now comprising the Group participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in Sichuan province whereby the Group is required to make contributions to the Scheme at the rate of 20% of the eligible employees' salaries. The local government authority is responsible for the entire pension obligations payable to retired employees.

The Group has no other material obligation for the payment of pension benefits associated with the Scheme beyond the annual contributions described above.

21 DEFERRED TAXATION

The components of deferred tax assets/(liabilities) recognised in the combined balance sheets and the movements during the year are as follows:

	Write down of inventories	Provision for product warranty	Insurance premium paid*	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:				
At January 1, 2004	—	1,330	—	1,330
Credited/(charged) to profit or loss	715	(635)	—	80
At December 31, 2004	715	695	—	1,410
At January 1, 2005	715	695	—	1,410
Credited/(charged) to profit or loss	1,739	(199)	—	1,540
At December 31, 2005	2,454	496	—	2,950
At January 1, 2006	2,454	496	—	2,950
Credited/(charged) to profit or loss	5,642	4,496	(4,259)	5,879
At December 31, 2006	8,096	4,992	(4,259)	8,829
At January 1, 2007	8,096	4,992	(4,259)	8,829
Credited to profit and loss	7,796	1,434	—	9,230
Exchange difference	—	—	155	155
At August 31, 2007	15,892	6,426	(4,104)	18,214

* An insurance policy was arranged to cover certain business uncertainties, including standard risks associated with doing business in the United States, including potential loss of significant customers, market price volatility, loss of key employees, change of US federal laws, strikes, civil unrest, terrorism, unexpected shipping changes, and changes in immigration laws. However, the insurance premiums paid are refundable under the terms as set forth in the insurance policy. The refund received is subject to US income tax and therefore, the related tax effect is treated as a deferred tax liability.

	As at 31 December			As at August 31
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Represented by:				
Deferred tax asset	1,410	2,950	13,088	22,318
Deferred tax liability	—	—	(4,259)	(4,104)
	1,410	2,950	8,829	18,214

There were no significant unrecognised deferred tax assets and liabilities as at December 31, 2004, 2005, 2006 and August 31, 2007.

22 INTEREST IN A JOINTLY CONTROLLED ENTITY

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	—	—	—	45,091

Details of the Group's interest in the jointly controlled equity are as follows:

Name of company	Place and date of establishment	Issued and fully paid-up/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Egyptian Petroleum HH Rigs Manufacturing Co.	Egypt, April 24, 2007	US$12,000,000	—	50%	Manufacture and sale of drilling rig parts and components

Summary financial information on the jointly controlled entity — Group's effective interest

	As at 31 December			As at August 31
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	—	—	—	6,401
Current assets	—	—	—	101,967
Current liabilities	—	—	—	(4,098)
Non-current liabilities	—	—	—	(59,179)
Net assets	—	—	—	(45,091)
Income	—	—	—	—
Expenses	—	—	—	(114)
Profit for the year/period	—	—	—	—
	—	—	—	(114)

23 SHARE CAPITAL

Share capital in the combined balance sheets as at December 31, 2004 and 2005 represents the registered issued share capital of Honghua Company comprising RMB21,011,100. Share capital in the Group's combined balance sheets as at December 31, 2006 represents the issued capital of Asia Harbour comprising 1 share of US$1 each. Share capital in the Group's combined balance sheets as at August 31, 2007 represents the issued capital of the company, comprising 1 share of US$1 each.

(a) Capital reduction

On January 7, 2006, a shareholders' resolution was passed to reduce the registered capital of Honghua Company, from RMB21,011,100 to RMB13,944,485. Further to the said shareholders' resolution, Honghua Company entered into an equity repurchase agreement with the then 11 individual shareholders, on January 12, 2006, pursuant to which Honghua Company repurchased all equity interests held by these

shareholders at a consideration of RMB55,203,000 which was determined with reference to a valuer's report of the net asset value of Honghua Company as of June 30 2005, issued by Beijing Zhongkehua Certified Public Accountants Co., Ltd (北京中科華會計師事務所有限公司) plus a premium of approximately 57.27%.

On April 25, 2006, shareholders' resolutions were passed to reduce the registered capital of Honghua Company, from RMB13,944,485 to RMB8,070,305, to further consolidate the control and ownership of the Concert Group in Honghua Company. Further to the said shareholders' resolution, Honghua Company entered into an equity buy-out agreement with Huasheng Oil Company, Deng Meng and Yuan Guiqi, on May 22, 2006, pursuant to which Honghua Company repurchased all of the equity interests held by Huasheng Oil Company, Deng Meng and Yuan Guiqi (i.e., approximately 24.615%, 8.755% and 8.755% equity interests, respectively) in Honghua Company, at a consideration of RMB31,928,000, which was determined with reference to a valuation report of the net asset value of Honghua Company as of March 31, 2006, issued by Beijing Zhongkehua Certified Public Accountants Co., Ltd (北京中科華會計師事務所有限公司).

The difference between the share capital redeemed and the consideration was debited to the retained profits and surplus reserve.

(b) Capital injection

On August 17, 2006, the equity holders of Honghua Company injected capital amounting to RMB10,680,000 to the entity. The capital was issued at a consideration of RMB40,150,000. The difference between the consideration and capital injected represents the share premium.

(c) Reorganisation

(i) On September 15, 2006, Asia Harbour acquired all the capital of Honghua Company from the Controlling Shareholders for a consideration of RMB154,758,000. The difference between the historical carrying value of the shares acquired and the acquisition consideration is treated as an equity movement, and recorded in "Other reserve".

On the even date, Asia Harbour injected capital amounting to RMB53,250,000 to Honghua Company. The capital was issued at par.

As a result of the acquisition, Honghua Company became a wholly-owned subsidiary of Asia Harbour. Accordingly, this was reflected as a reduction of capital in the combined statements of changes in equity for the year ended December 31, 2006.

(ii) The Company acquired the entire interest of the subsidiaries, including Asia Harbour and Honghua Company and became the holding company on October 16, 2007.

Share capital in the combined balance sheets as at August 31, 2007 represents the issued capital of the Company comprising 1 share of HK$1 each.

24 RESERVES

(a) Statutory reserve

Pursuant to applicable PRC regulations, PRC entity is required to appropriate 5% of its profit-after-tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The statutory

reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the Company, provided that the balance after such issue is not less than 50% of its registered capital.

(b) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which are dealt with in accordance with the accounting policies as set out in note 1(u).

(c) Distributable reserve

The Company was incorporated on June 15, 2007 and has not carried out any business since the date of its incorporation. Accordingly, there was no reserve available for distribution to shareholders as at August 31, 2007.

On the basis set out in Section A above, the aggregate amount of distributable reserves at December 31, 2004, 2005 and 2006 and August 31, 2007 of the companies comprising the Group were RMB47,088,000, RMB55,940,000 and RMB196,273,000 and RMB405,169,000 respectively.

(d) Other reserve

The other reserve of the Group represents the difference between the nominal value of share of the subsidiaries acquired over the nominal value of the shares issued by the Company in exchange therefore.

(i) On July 16, 2006, the Group acquired additional equity interest from the minority equity holders of Honghua International, a company under common control by the Controlling Shareholders, for RMB7,045,000. The difference between the carrying value and acquisition consideration is treated as an equity movement and recorded in "Other reserve".

(ii) On July 18, 2006, Honghua Company acquired a 80% equity interest of each of Hongtian Company and Youxin Company, SPEs of Honghua Company, and Hongtian Company and Youxin Company legally became subsidiaries of the Group. The relevant assets and liabilities of the SPEs acquired by the Group have been recognised at historical cost. The difference between the historical carrying value of the shares acquired and the acquisition consideration is treated as an equity movement, and recorded in "Other reserve".

25 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board has established a credit policy under which credit evaluations are performed on all customers requiring credit. These receivables are due within 30 to 90 days from the date of billing.

Debtors with balance that are more than 24 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk 18% and 64%, 16% and 60%, 52% and 76%, 45% and 77% of the total trade receivables was due from the Group's largest customer and top five largest customers respectively as of December 31, 2004, 2005 and 2006 and August 31, 2007.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of combined balance sheets. The Group does not provide any guarantee which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other trade receivable are set out in note 14.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surplus and the raising of loans to cover expected cash demands, subjected to approval by the Company's Board when the borrowings exceed certain predetermined levels of authority.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily marketable securities and adequate committed lines of funding from major financial institutes to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date during which contractual payments, presented on an undiscounted basis, are due to be made. These payments include, among others, interest payments computed using contractual rates (for fixed rate instruments) under the Group's non-derivative financial liabilities which are due to be paid.

	As at 31 December										As at 31 August			
	2004			2005			2006				2007			
	Carrying amount	Total undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total undiscounted cash flow	Within 1 year or on demand	More than 1 year	Carrying amount	Total undiscounted cash flow	Within 1 year or on demand	More than 1 year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	211,413	(211,413)	(211,413)	981,517	(981,517)	(981,517)	1,091,647	(1,091,647)	(1,091,647)	—	1,279,155	(1,279,155)	(1,279,155)	—
Interest-bearing borrowings	54,900	(58,386)	(58,386)	31,184	(33,442)	(33,442)	366,299	(393,698)	(370,806)	(22,892)	777,062	(832,389)	(812,559)	(19,830)
Amount due to related companies	7,128	(7,128)	(7,128)	7,380	(7,380)	(7,380)	54,869	(54,869)	(54,869)	—	295,646	(295,646)	(295,646)	—
Loan from ultimate holding company	—	—	—	—	—	—	262,656	(262,656)	(262,656)	—	411,632	(411,632)	(411,632)	—
Loan from shareholders	—	—	—	—	—	—	—	—	—	—	76,850	(76,850)	(76,850)	—
	273,441	(276,927)	(276,927)	1,020,081	(1,022,339)	(1,022,339)	1,775,471	(1,802,870)	(1,779,978)	(22,892)	2,840,345	(2,895,672)	(2,875,842)	(19,830)

(c) Interest rate risk

The interest rates and maturity information of the Group's bank loans and loans from a financial institution are disclosed in note 18. The Group's policy is to manage its interest rate risk to ensure there are no undue exposure to significant interest rate movements and rates are approximately fixed. The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not use derivative financial instruments to hedge its debt obligations. Therefore, a change in interest rates at the balance sheet date would not affect profit or loss.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing borrowings, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

	Year ended December 31, 2004			
	Effective interest rate	Total	Within one year	More than one year and less than five years
	%	RMB'000	RMB'000	RMB'000
Repricing dates for assets which reprice before maturity				
Pledged bank deposit	2.02%-2.27%	15,104	15,104	—
Cash and cash equivalents	0.72%-1.15%	26,013	26,013	—
		41,117	41,117	—
Repricing dates for liabilities which do not reprice before maturity				
Interest-bearing borrowings	4.80%-7.96%	54,900	54,900	—

	Year ended December 31, 2005			
	Effective interest rate	Total	Within one year	More than one year and less than five years
	%	RMB'000	RMB'000	RMB'000
Repricing dates for assets which reprice before maturity				
Pledged bank deposit	2.02%-2.27%	88,207	88,207	—
Cash and cash equivalents	0.72%-1.15%	293,982	293,982	—
		382,189	382,189	—
Repricing dates for liabilities which do not reprice before maturity				
Interest-bearing borrowings	4.80%-9.68%	31,184	31,184	—

	Year ended December 31, 2006			
	Effective interest rate	Total	Within one year	More than one year and less than five years
	%	RMB'000	RMB'000	RMB'000
Repricing dates for assets which reprice before maturity				
Restricted bank deposit	0.72%-2.50%	107,875	107,875	
Pledged bank deposit	2.02%-2.27%	67,746	67,746	—
Cash and cash equivalents	0.72%-1.15%	158,351	158,351	—
		333,972	333,972	—
Repricing dates for liabilities which do not reprice before maturity				
Interest-bearing borrowings	5.28%-9.68%	366,299	345,000	21,299

	Eight months ended August 31, 2007			
	Effective interest rate	Total	Within one year	More than one year and less than five years
	%	RMB'000	RMB'000	RMB'000
Repricing dates for assets which reprice before maturity				
Restricted bank deposit	0.72%-2.5%	—	—	—
Pledged bank deposit	2.02%-2.27%	198,845	198,845	—
Cash and cash equivalents	0.72%-1.15%	212,788	212,788	—
		411,633	411,633	—
Repricing dates for liabilities which do not reprice before maturity				
Interest-bearing borrowings	4.86%-9.38%	777,062	758,550	18,512

Fair value sensitivity analysis for fixed rate borrowings

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(d) Foreign currency risk

The Group is exposed to foreign currency risk through sales and purchases that are denominated in United States Dollars ("US$"). The movements of US$ will affect the revenue and costs of some production materials, spare parts and equipment purchases. The Group minimize the currency risk by receiving deposits from customers.

The Group's investments in certain companies incorporated outside China also expose the Group to foreign currency risk resulting from fluctuation of US$.

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand. Changes in exchange rate affect the RMB value of sales proceeds of products that are denominated in foreign currencies. In addition, an appreciation of RMB against US$ may have the effect of rendering exports from the Group in China more expensive and less competitive than products from other countries

The following table details the Group's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	As at 31 December			As at 31 August		
	2004	2005	2006	2007		
	US$'000	US$'000	US$'000	US$'000	EUR'000	AED
Cash and cash equivalents	8	22,116	8,350	9,929	276	116
Trade and other receivables	—	3,764	43,031	72,736	—	15
Interest bearing borrowings	—	—	(1,750)	(2,463)	—	—
Trade and other payables	—	(1,668)	(15,952)	(46,301)	—	(78)
Gross balance sheet exposure	8	24,212	33,679	33,901	276	53

The Group is not subject to currency risk on the forecasted transactions as the Group does not hedge its foreign currency risk.

The Group is only subject to foreign currency risk associated with its trade and other receivables, trade and other payables which denominated in US$.

The following significant exchange rates applied during the relevant period:

	Average rate				Reporting date mid-spot rate			
	Years ended 31 December			Eight months ended August 31	Years ended 31 December			Eight months ended August 31,
	2004	2005	2006	2007	2004	2005	2006	2007
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
US$1	8.2765	8.1950	7.9730	7.6577	8.2765	8.0700	7.8087	7.5157
EUR1	—	—	—	10.2512	—	—	—	10.3068
AED1	—	—	—	2.0838	—	—	—	2.0590

Sensitivity analysis

A 10 percent strengthening of the RMB against the following currencies at December 31 2004, 2005, 2006 and August 31 2007 would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis throughout the relevant period.

	Years ended 31 December			Eight months ended August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Profit or (loss)				
United States dollars	(6)	(17,763)	(23,221)	(23,163)
Euro	—	—	—	(268)
UAE Dirham	—	—	—	(468)
	(6)	(17,763)	(23,221)	(23,899)

A 10 percent weakening of the RMB against the above currencies at December 31, 2004, 2005, 2006 and August 31 2007 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e) Fair values

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at December 31, 2004, 2006 and 2006 and August 31, 2007.

The following methods and assumptions were used to estimate the fair value for each of following classes of financial assets and liabilities:

(i) Cash and cash equivalents, restricted bank deposits, pledged deposits, trade and other receivables and trade and other payables.

The carrying values of these financial assets and liabilities approximate their fair value because of their short maturities.

(ii) Interest-bearing borrowings

The carrying amounts of interest-bearing borrowings approximate their fair value because the borrowing rates were similar to rates currently available for bank loans with similar terms and maturity.

The amount due from/to related companies, loan from ultimate holding company and loan from shareholders are interest-free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose fair values.

(f) Business risk

The Group's revenue is generated entirely from the sale of drilling rigs and related parts and components. The revenue from the sale of drilling rigs and related parts and components used in the oil and gas exploration and production industry is dependent on the exploration and development capital expenditures of oil and gas producers, which in turn is largely dependent on current prices of, and future trends in, global oil and gas prices. The demand for oil and gas exploration and development related services and the number of worldwide active rigs increase and decrease with fluctuations in the price of oil and gas. Given the Group's heavy reliance on the customers in the oil and gas drilling industry, the Group's revenue could be highly sensitive to fluctuations in global oil and gas prices.

(g) Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Group defines the capital of the Group as the total shareholders' equity.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26 COMMITMENTS

Capital commitments

Capital commitments outstanding at December 31 2004, 2005 and 2006 and the eight months ended August 31 2007 not provided for in the Financial Information were as follows:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for	—	14,804	293,275	171,507
Authorised but not contracted for	—	—	38,820	202,960
	—	14,804	332,095	374,467

27 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the Financial Information, the Group entered into the following material related party transactions.

During the relevant period, the directors are of the view that the following companies are related parties of the Group:

Name of party	Relationship
Guanghan Hongtai Business Trading Co., Ltd. (廣漢市宏泰商貿有限公司) ("Hongtai Company")	Hongtai Company is a party which spouses of certain directors and management has equity interest.
Luzhou Changjiang Petroleum Engineering Equipment Co., Ltd (瀘州長江石油工程機械有限公司) ("Luzhou Changjiang Company")	Luzhou Changjiang Company is a party which the father-in-law of a director, Mr. Zhang Mi, has equity interest.
Chendu Haitaike Electric Motor System L.L.C (成都海泰科電氣傳動系統有限責任公司) ("Haitaike Company")	Haitaike Company is a party which the brother of a director, Mr. Zhang Mi and a director of a subsidiary has equity interest.
Luzhou Tuojiang Hydraulic Pressure Equipment Company Limited (瀘州沱江液壓件有限公司) ("Luzhou Tuojiang Company")	Luzhou Tuojiang Company is a party which the sister's husband of the spouse of a director, Mr. Zhang Mi, has equity interest.
NCE Management	NCE Management is a party which certain management of Honghua America has equity interest.
Luzhou City Jianming Decorating Design Company (瀘州市劍鳴裝飾設計公司) ("Luzhou Jianming Company")	Luzhou Jianming Company is a party which the brother of the spouse of a director of the Group's subsidiary is the legal representative.
Guanghan Huite Fluid Appendix Co., Ltd (廣漢市惠特液壓附件有限公司) ("Guanghan Huite Company")	Guanghan Huite Company is a party which the brother of a director of the Group's subsidiary has equity interest.
Chengdu Juzhong Technology Co., Ltd (成都巨中科技有限公司) ("Chengdu Juzhong Company")	Chengdu Juzhong Company is a party which the brother-in-law and brother-in-law's wife of a director of the Group's subsidiary has equity interest.
Honghua - Ural Equipment Manufacture Joint Stock Co., Ltd (宏華-烏拉爾機械製造股份公司) ("Honghua - Ural")	Honghua - Ural is jointly owned by several directors and management of the Group's subsidiaries and Russian investors. The interest in the company of several directors and management was disposed of on November 15, 2007.
Izhdrill - Honghua Co., Ltd 伊日德利爾宏華股份有限公司 ("Izhdrill - Honghua")	Izhdrill - Honghua is a party which is owned by a management of the Group's subsidiary and Russian investors. The interest in the Company of a senior management was disposed of on October 11, 2007.
Egyptian Petroleum Honghua Rig Manufacturing Shareholder Co. ("HH Egyptian Company")	HH Egyptian Company is a corporate incorporated in Egypt with limited liability on April 24, 2007, and is 50% owned by Asia Harbour.

(a) Recurring transactions

Particulars of significant transactions between the Group and the above related parties during the relevant period are as follows:

	Years ended 31 December			Eight months ended 31 August	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Purchases of parts and components of drilling rigs					
—Hongtai Company	6,395	11,983	34,393	25,233	27,698
—Lushou Changjiang Company	6,642	12,578	19,219	8,531	18,029
—Haitaike Company	—	—	32,507	—	24,359
—Luzhou Tuojiang Company	1,600	1,141	2,904	1,635	2,738
—Chengdu Juzhong Company	—	—	850	—	666
	14,637	25,702	89,873	35,399	73,490
Decoration services received					
—Luzhou Jianming Company	126	148	898	280	674
Sub-contracting services received					
—Guanghan Huite Company	195	511	1,266	569	1,045
	321	659	2,164	849	1,719
Sale of drilling rigs, parts and components					
—Honghua-Ural	—	—	667	—	—
—Izhdrill-Honghua	—	—	—	—	92,212

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business. The directors have confirmed that the above transactions will continue in the future after the listing of the Company's shares on the Stock Exchange.

(b) Balances with related parties

As at the balance sheet dates, the Group had the following balances with related parties:

	As at 31 December			As at August 31,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related companies				
—Hongtai Company	1,831	1,831	1,960	—
—NCE management	—	—	38	—
—Haitaike Company	—	1,998	—	17,207
—Luzhou Tuojiang Company	—	440	—	9
—Izhdrill-Honghua	—	—	—	74,895
Others	—	—	—	54
	1,831	4,269	1,998	92,165
Loan from ultimate holding company	—	—	262,656	411,632
Loan from shareholders	—	—	—	76,850
Amounts due to related companies				
—Hongtai Company	2,520	1,390	9,516	10,738
—Luzhou Changjiang Company	3,751	5,825	3,374	11,096
—Luzhou Tuojiang Company	857	—	1,180	512
—Haitaike Company	—	165	25,025	26,450
—Luzhou City Jianming Decorating Design Company	—	—	—	380
—Guanghan Huite Company	—	—	—	901
—Honghua-Ural	—	—	15,764	29,472
—Izhdrill-Honghua	—	—	—	96,946
—HH Egyptian Company	—	—	—	119,151
	7,128	7,380	54,859	295,646

The balances with related parties are unsecured, interest free and are expected to be recovered/repaid within one year. There was no provision made against these amounts at December 31, 2004, 2005, 2006 and August 31, 2007.

28 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company of the Company as at December 31, 2006 to be Ample Chance, which is incorporated in the BVI. This entity does not produce financial statements available for public use.

29 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Impairments

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, revenue and amount of operating costs.

(b) Write down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are made with reference to aged inventories analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(c) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets are amortised on a straight-line basis

over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(d) Warranty provision

The Group makes provisions under the warranties it gives on sale of its drilling rigs taking into account the Group's recent claim experience. Any increase or decrease in the provision would affect profit or loss in future years.

30 CONTINGENT LIABILITIES

Dispute with 64 natural persons

As of December 31 2005, 728 employees of Oil Drilling Plant (the "original investors"), through 11 representatives, held, collectively, 33.63% of Honghua Company's share capital. These 11 representatives were registered as shareholders of Honghua Company with the competent PRC government authority. On January 7, 2006, Honghua Company passed a shareholders' resolution to reduce its registered capital and buy-out equity interests from these 11 registered shareholders.

Honghua Company entered into a share purchase agreement with the 11 registered shareholders on January 12, 2006, under which, with the written consent of the 11 registered shareholders, it agreed to pay the share purchase price directly to the 728 original investors. The capital reduction process with the competent PRC government authority was completed on April 26, 2006. As of the Latest Practical Date, 664 of the 728 original investors has agreed to the buy-out arrangement and had accepted payment from Honghua Company. The remaining 64 investors, who, collectively, invested RMB651,385, claimed that they were still shareholders and refused to accept the buy-out arrangement and payment from Honghua Company.

On December 12, 2007, the Company learned that 57 out of the 64 initiated legal proceedings at the Intermediate Peoples' Court of Chengdu City, Sichuan Province (Action No.: (2008) Cheng Min Chu Zi No.53)) on December 11, 2007. The 57 individuals joined as plaintiffs to the legal proceedings against Honghua Company as the 1st defendant, Asia Harbour as the 2nd defendant and 14 individuals including Shi Shuming (3rd defendant); Huang Dequan (4th defendant), Li Yan (5th defendant), Wang Yaoxin (6th defendant), Zhou Tao (7th defendant), Wang Wei (8th defendant), Chen Zhenghua (9th defendant), Yang Xuefeng (10th defendant), Yang Yuanchun (11th defendant), Ni Xiurong (12th defendant), Yu Zhenghua (13th defendant), Xing Manrong (14th defendant), Zhi Rongmu (15th defendant) and Liu Chuanjun (16th defendant) as the 3rd to 16th defendants. There are a total of 16 defendants.

The relief sought by the 57 plaintiffs include:-

(1) An adjudication by the court that the 592,250 shares held by the 3rd to 16th defendants were actually owned by the 57 plaintiffs, and all the benefits and rights in such equity interests be restored to the 57 plaintiffs and the names of the 57 plaintiffs be entered into the register of members of Honghua Company;

(2) An adjudication by the court that Honghua Company be ordered to pay to the 57 plaintiffs a total sum of RMB296,125, being the 2003 dividends;

(3) An adjudication that the repurchase of the 592,250 shares of Honghua Company be declared null and void;

(4) An adjudication that Asia Harbour be jointly and severally liable for the above mentioned relief sought by the 57 plaintiffs and the consequential liabilities thereof, and that Asia Harbour together with Honghua Company be ordered to apply to the relevant Administration of Industry and Commerce to register the 57 plaintiffs as shareholders of Honghua Company; and

(5) An adjudication that all the defendants be jointly liable for the legal costs arising from these legal proceedings.

Ally Giant Limited, Ample Chance International Limited, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Ally Smooth Investments Limited, Charm Moral International Limited, Beauty Clear Holding Limited, Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises Inc, Dobson Global Inc, Darius Enterprises Limited, Believe Power International Limited, Benefit Way International Limited, Birdview Limited and the Existing Shareholders of the Company have executed a deed of indemnity in respect of dispute and risk dated February 15, 2008 in favour of the Group under which they agree to jointly and severally indemnify any members of the Group for any potential damages that the Company may suffer as a result of the legal proceedings initiated by the 57 plaintiffs.

The directors, based on the PRC legal advisor's opinion, considered that these 64 original investors had never been properly registered as shareholders of Honghua Company with the competent PRC government authority, there is no legal basis under the PRC law for them to be regarded as shareholders of Honghua Company, and the Group does not consider a provision in legal costs in respect of the dispute is required.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of this Accountants' Report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the relevant period and which have not been adopted in this Accountants' Report.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
IFRS 8	Operating Segments	January 1, 2009
IAS 23 (revised)	Borrowing costs	January 1, 2009
IFRIC 11	IFRS 2-Group and treasury share transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2008
IFRIC 13	Customer loyalty programmes	July 1, 2008
IFRIC 14	IAS 19-The limit on a defined benefit asset, minimum funding requirements and their interaction	January 1, 2008

The directors have confirmed that the Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D BALANCE SHEET OF THE COMPANY

The Company was incorporated on June 15, 2007 with an authorised share capital of HK$380,000. The Company has not carried on any business since its date of incorporation.

One share was allotted and issued nil paid to Reid Services Limited, as subscriber on June 15, 2007 and was subsequently transferred to Ally Giant on June 15, 2007. On October 16, 2007, the Company acquired Asia Harbour from Ally Giant. In consideration of the said transfer, the Company credited the one nil paid share in the Company issued to Ally Giant, as fully paid; and allotted and issued 2,499,999,999 shares, credited as fully paid, to Ally Giant on August October 16, 2007. The Company became the holding company of the Group on October 16, 2007.

E SUBSEQUENT EVENTS

The Directors have confirmed that all material events which took place subsequent to August 31, 2007 are set out as follows:-

(a) Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Company's shares on the Stock Exchange. Details of the Reorganisation are set out in the section headed "History and Corporate Structure" in the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group on October 16, 2007.

(b) Valuation of properties

For the purpose of the listing of the Company's shares on the Main Board of the Stock Exchange, the Group's properties were valued as at December 31, 2007 by Sallmanns (Far East) Limited, an independent firm of surveyors.

The valuation gave rise to a revaluation surplus of approximately RMB48,588,000 from the carrying amount of the relevant assets at that date. Such revaluation surplus will not be incorporated in the financial statements subsequently prepared for the year ended December 31, 2007. Details of the valuation are set out in Appendix IV to the Prospectus.

(c) Share option scheme

Pursuant to the written resolution of the shareholders of the Company passed on January 21, 2008, the Company has adopted the Pre-IPO Share Option Scheme and conditionally adopted the Share Option Scheme. The principal terms of the Share Option Schemes are set out in Appendix VII to the Prospectus.

(d) Disputes with Nabors

Honghua Company and Nabors International entered into a series of agreements by which the parties pursued a strategic business relationship, including in particular the confidentiality agreement dated April 24, 2005, the memorandum of agreement dated April 24, 2005, the master sales agreement dated May 18, 2005, heads of agreement dated August 9, 2005, the representative agreement dated November 7, 2005, and several purchase orders related thereto (collectively "the Previous Agreements").

Several disputes arose between the parties as to the performance of and/or understandings reached in and discussion relating to the Previous Agreements and the transactions contemplated thereunder. In June 2007, an arbitration was initiated between Nabors International and Honghua Company before the International Court of Arbitration of the International Chamber of Commerce (the "Arbitration") in which they had pending claims and counterclaims against one another. For the purpose of settling disputes amicably and moving forward to continue to build a strategic business relationship between them,

Honghua Company and Nabors International entered into a settlement agreement (the "Settlement Agreement") on October 17, 2007. Under the Settlement Agreement, the parties agreed to release and discharge the other all causes of action, suits, claims, demand, liabilities and obligations arising out of or related to their commercial relationship and the Agreements.

As a resumption of the strategic business relationship, Ally Giant, the Company and Nabors International have entered into a Share Transfer Agreement on October 17, 2007. Pursuant to the Share Transfer Agreement, Ally Giant transferred an 18% of the issued 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 shares to be issued pursuant to the IPO, to Nabors International in consideration of license of the technology granted from Nabors Global to Honghua Company pursuant to the terms and conditions of a technology license agreement (the "Technology License Agreement") dated October 17, 2007 between Nabors Global and Honghua Company and the premises and promises, covenants and agreements contained in the Share Transfer Agreement. The share transfer was completed on October 17, 2007.

Directors consider that the technical know-how is an intangible asset to the Company as it provides economic benefits to the Group in future years. A valuation report will be issued by an independent valuer, Salimens to quantify the valuation of the intangibles.

Directors choose the cost model for the measurement of the technical know-how, and the technical know-how is amortised over a period of 10 years which reflect the pattern of consumption of the economic benefits.

As a result of the above share transfer, Nabors International became one of the Company's shareholders holding an aggregate of 18% of the issued share capital of the Company up to immediately before completion of the Global Offering and 13.5% immediately upon completion of the Global Offering assuming that the Over-allotment Option is not exercised. Ally Giant remained a shareholder of 64.7% of the issued share capital up to immediately before completion of the Global. Offering and 49% immediately upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

(e) Dispute with 64 natural persons

On December 12, 2007, the Company learned that 57 out of the 64 initiated legal proceedings at the Peoples Court of Chengdu City, Sichuan Province on December 11, 2007. Details of the legal proceedings have been set out in note 30.

F SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to August 31, 2007.

Yours faithfully,

Certified Public Accountants
Hong Kong

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to provide the prospective investors with further information on (i) how the proposed listing might have affected the financial position of the Group after the completion of the Global Offering; (ii) how the proposed listing might have affected the unaudited pro forma estimated earnings per share for the year ended December 31, 2007.

The unaudited pro forma financial information is derived according to a number of adjustments. Although reasonable care has been exercised in preparing such information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial performance and condition of the Group during the Relevant Period or any further date.

The information set forth in this appendix does not form part of the accountants' report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the accountants' report set forth in Appendix I to this Prospectus.

(A) UNAUDITED PRO FORMA FULLY DILUTED ESTIMATE EARNINGS PER SHARE

The following unaudited pro forma fully diluted estimate earnings per share for the year ended December 31, 2007 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2007. This unaudited pro forma fully diluted estimate earnings per share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial results of the Group following the Global Offering.

Estimate combined net profit attributable to shareholders of the Company for the year ended December 31, 2007 (Note 2)	Not less than RMB538.3 million (approximately HK$579.0 million)
Pro-forma estimate earnings per share—fully diluted (Note 3)	Not less than RMB0.16 (approximately HK$0.17)

Notes:

(1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

(2) The unaudited estimated combined net profit attributable to shareholders of the Company for the year ended December 31, 2007 is extracted from the section headed "Financial Information—Profit Estimate for the Year Ended December 31,2007." The bases and assumptions on which the profit estimate has been prepared are set out in Appendix III to this Prospectus.

(3) The calculation of the unaudited estimate earnings per share on a pro forma fully diluted basis is based on the estimate combined profit attributable to our shareholders for the year ended December 31, 2007 assuming that we had been listed since January 1, 2007 and a total of 3,333,360,000 shares were issued and outstanding during the entire year. This calculation assumes that the 833,360,000 shares to be issued pursuant to the Global Offering had been issued on January 1, 2007 (assuming the over-allotment option is not exercised, no options that may be granted under the Share Option Scheme will be exercised and no Shares will be allotted and issued or repurchased by our Company pursuant to mandate set out in the paragraph headed "Resolutions in writing, passed by all the Shareholders of the Company on January 21, 2008" in Appendix VII to this Prospectus). The estimate combined net profit attributable to shareholders of the Company for the year ended December 31, 2007 is based on the combined results of the Group based on the audited financial results for the eight months ended August 31, 2007, unaudited management accounts of the Group for the four months ended December 31, 2007.

(B) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at August 31, 2007, as shown in the accountants' report, the text of which is set out in Appendix I to this Prospectus and adjusted as follows:

	Combined net tangible assets of the Group as at August 31, 2007	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma net tangible assets per Share
	RMB'000	*RMB'000 (Note 1)*	*RMB'000*	*RMB (Note 2)*	*(Equivalent to HK$)*
Based on the Offer Price of HK$3.16 per Share	582,450	2,264,885	2,847,435	0.85	0.92
Based on the Offer Price of HK$4.50 per Share	582,450	3,259,358	3,841,808	1.15	1.24

Notes:

(1) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$3.16 and HK$4.50 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may be allotted and issued upon exercise of the Over-allotment Option.

(2) The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraph and on the assumption of a total of 3,333,360,000 Shares being the number of shares in issue as at August 31, 2007, which takes no account any Shares which may be allotted and issued upon exercise of the Over-allotment Option, or which may be allotted and issued upon exercise of options that may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company pursuant to the mandates as set out in the paragraph headed "Resolutions in writing, passed by all the Shareholders of the Company on January 21, 2008" in Appendix VII to this Prospectus.

(3) With reference to the valuation of the property interests of the Group as set out in Appendix IV to this Prospectus. There was a revaluation surplus of the Group's properties approximately RMB48,588,000 and has not been included in the above adjusted net tangible assets of the Group. Such revaluation surplus has not been recorded in the Financial Information as set out in Appendix I and will not be recorded in the financial statements of the Group for the year ended December 31, 2007 as the Group's property interests are carried at cost model. If such revaluation surplus would be included to the financial statements of the Group for the year ended December 31, 2007, an additional depreciation of approximately RMB1,416,000 per annum would be incurred.

(C) COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE ADJUSTED COMBINED NET TANGIBLE ASSETS AND FULLY DILUTED ESTIMATE EARNINGS PER SHARE

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this Prospectus, in respect of the additional unaudited pro forma financial information of the Group.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

February 25, 2008

The Directors
Honghua Group Limited
Credit Suisse (Hong Kong) Limited
Morgan Stanley Asia Limited

Dear Sirs,

We report on the unaudited pro forma statement of adjusted net tangible assets and unaudited pro forma fully diluted estimate earnings per share ("the Unaudited Pro Forma Financial Information") of Honghua Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as set out in parts (A) and (B) of Appendix II to the Prospectus dated February 25, 2008 (the "Prospectus"), which has been prepared by the directors of the company solely for illustrative purposes to provide information about how the Global Offering might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in parts A and B of Appendix II to the Prospectus.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the

Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Additional Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29 (1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

— the financial position of the Group as at August 31, 2007 or any future date; or

— the earnings per share of the Group for the year ended December 31, 2007 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described under "Use of Proceeds" in the section headed "Future Plans and Use of Proceeds" set out in the Prospectus.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29 of the Listing Rules.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The estimated combined profit attributable to the equity holders of the parent for the financial year ended December 31, 2007 is set out in the section headed "Financial Information — Profit Estimate" in this Prospectus.

(A) Bases and Assumptions

The Directors have prepared the estimate of our combined profit attributable to the equity holders of the parent for the financial year ended December 31, 2007 based on our combined results based on our audited combined results for the eight months ended August 31, 2007, our unaudited results for the three months ended August 31, 2007 and an estimate of our combined results for the remaining four months ended December 31, 2007.

The profit estimate has been prepared on the basis of accounting policies consistent in all material respects with those currently adopted by us as summarized in the accountants' report, the text of which is set forth in Appendix I to this Prospectus.

The Directors have made the following principal assumptions in the preparation of the profit estimate:

- There will be no material changes in existing government policies or political, legal, including changes in legislations or rules, regulatory, fiscal, economic or market conditions in PRC.

- There will be no material changes in inflation. For exchange rate, we assume that exchange rate of US dollar to Renminbi is fixed at US$1:RMB7.5 for the four months ended December 31, 2007. For the four months ended December 31, 2007, the estimate loan rate will be 6.318% per annum, which is based on the annual interest rates specified in the signed loan contracts; and the annual interest rates for deposits are assumed to be the prevailing deposit interest rate.

- There will be no material changes in the PRC taxation basis or policies. The applicable tax rate to the Group is partially impacted (please refer to the relevant sections below for detail information).

- There will be no government actions, or any other unforeseen circumstances beyond the control of the Group which will have material adverse effect on the operation and results of the Group.

- The Group is not materially and adversely affected by any of the risk factors set out in the section headed "Risk factors" of the Prospectus.

- The contribution of the investment in Sino-Egyptian Joint Venture will be insignificant to the profit of 2007, therefore we assume that the there will be no contribution to our Group's profit by the joint venture.

- Total number of shares of the Company before IPO is 2,500,000,000 and is expected to be 3,333,360,000 after IPO. The IPO price is estimated at about HK$4 per share. We planned 60,000,000 shares will be granted to some staff of the Group. The expiry period will be 5 years and 20% of the total share options is expected to be exercised per year since IPO.

(B) Letters

The following is the text of a letter, prepared for inclusion in this Prospectus, received by our Directors from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in connection with the estimate of our combined net profit attributable to the Shareholders for the year ended December 31, 2007.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong
February 25, 2008

The Directors
Honghua Group Limited
Credit Suisse (Hong Kong) Limited
Morgan Stanley Asia Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the estimated combined profit attributable to the equity holders of Honghua Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended December 31, 2007 (the "Estimate"), for which the Directors of the Company (the "Directors") are solely responsible, as set forth under "Profit estimate for the financial year ended December 31, 2007" in the section headed "Financial Information — Profit estimate for the year ended December 31, 2007" in the Prospectus of the Company dated February 25, 2008 (the "Prospectus").

The Estimate has been prepared by the Directors based on the combined results of the Group based on the audited combined results for the eight months ended August 31, 2007, and the unaudited management accounts of the Group for the four months ended December 31, 2007.

In our opinion, so far as the accounting policies and calculations are concerned, the Estimate has been properly compiled on the bases and assumptions adopted by the Directors as set out in Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies adopted by the Group as set out in our accountants' report dated February 25, 2008, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The following is the text of a letter, prepared for inclusion in this Prospectus, received by our Directors from the Sponsors in connection with the estimate of our combined net profit attributable to the Shareholders for the year ended December 31, 2007.

Credit Suisse (Hong Kong) Limited
45/F, Two Exchange Square
8 Connaught Place, Central
Hong Kong

Morgan Stanley Asia Limited
30/F, Three Exchange Square
Central
Hong Kong

February 25, 2008

The Board of Directors
Honghua Group Limited

Dear Sirs,

We refer to the estimate of the combined net profit attributable to the shareholders of Honghua Group Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended December 31, 2007 (the "Estimate") as set out in the subsection headed "Profit Estimate for the Year Ended December 31, 2007" under the section headed "Financial Information" in the Prospectus of the Company dated February 25, 2008 (the "Prospectus").

We have discussed with you the bases and assumptions made by you as set out in Appendix III to the Prospectus upon which the Estimate has been made. We have also considered the letter dated today addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Estimate has been made.

On the basis of the foregoing and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Estimate, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Credit Suisse (Hong Kong) Limited

Paul Su
Managing Director

For and on behalf of
Morgan Stanley Asia Limited

Terence Keyes
Managing Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this Prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at 31 December 2007 of the property interests of the Group.

Sallmanns

Corporate valuation and consultancy
www.sallmanns.com

22nd Floor, Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

25 February 2008

The Board of Directors
Honghua Group Limited

Dear Sirs,

In accordance with your instructions to value the properties in which Honghua Group Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC") and the United States, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 December 2007 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interests of part of the properties in Groups I and II by the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of the properties, there are no market sales comparables readily available, the remaining part of the property interests in Groups I and II have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement costs of the property interests are subject to adequate potential profitability of the concerned business.

In valuing portion of the property interests in Group I which are currently under construction, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Group III, which are leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied considerably on the advice given by the Company's PRC legal advisers — King & Wood, concerning the validity of the Group's titles to the property interests in the PRC.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigations on site to determine the suitability of the ground conditions and services, etc, for any development thereon. Our valuation is prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB). The exchange rate adopted in our valuations is USD1 = RMB7.3046 which was approximately the prevailing exchange rate as at the date of valuation.

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,

for and on behalf of

SALLMANNS (FAR EAST) LIMITED
Paul L. Brown

B.Sc. FRICS FHKIS

Director

Note: Paul L. Brown is a Chartered Surveyor who has 25 years' experience in the valuation of properties in the PRC and 28 years of property valuation experience in Hong Kong, the United Kingdom, the United States and the Asia-Pacific region.

SUMMARY OF VALUES

No.	Property	Capital value in existing state as at 31 December 2007 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 31 December 2007 *RMB*
Group I — Property interests held and occupied by the Group in the PRC				
1.	9 parcels of land, various buildings and structures located at Zhong Shan Da Dao Nan Duan Guanghan Sichuan Province The PRC	110,562,000	100%	110,562,000
2.	46 units located at Honghuayuan Guang Dong Road Dong Yi Duan Guanghan Sichuan Province The PRC	4,869,000	100%	4,869,000
3.	12 units located at Guangyiuyuan Zhong Shan Da Dao Nan Er Duan Guanghan Sichuan Province The PRC	2,265,000	100%	2,265,000
4.	2 parcels of land, various buildings and structures located at Chuang Ye Bei Yi Road Jin Niu District Chengdu Sichuan Province The PRC	54,084,000	80%	43,267,000
5.	A unit located at No. 9 Tong De Jie Qing Yang District Chengdu Sichuan Province The PRC	334,000	80%	267,000
6.	2 parcels of land, various buildings and structures located at San Ya Road Yi Duan Guanghan Sichuan Province The PRC	21,971,000	80%	17,577,000
	Sub-total:			178,807,000

No.	Property	Capital value in existing state as at 31 December 2007 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 31 December 2007 *RMB*
Group II — Property interests owned and occupied by the Group in the United States				
7.	A parcel of land, various buildings and structures located at 8300 McHard Road, Houston TX 77053 The United States	25,566,000	80%	20,453,000
8.	3 houses located at Orchid Creek Drive, Pearland TX, 77584 The United States	6,939,000	80%	5,551,000
	Sub-total:			26,004,000
Group III — Property interest rented and occupied by the Group in the PRC				
9.	Portion of Hongtai Commercial Building No. 1 Guangdong Road Dong Yi Duan Guanghan Sichuan Province The PRC	No commercial value	100%	No commercial value
	Sub-total:			**Nil**
		Grand-total:		**204,811,000**

VALUATION CERTIFICATE

GROUP I — PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2007 *RMB*
1.	9 parcels of land, various buildings and structures located at Zhong Shan Da Dao Nan Duan Guanghan Sichuan Province The PRC	The property comprises 9 parcels of land with a total site area of approximately 278,940.43 sq.m. and 15 buildings and various ancillary structures erected thereon completed in various stages between 1990 and 2007. The buildings have a total gross floor area of approximately 63,908.94 sq.m. The buildings mainly include workshops, office buildings, canteens, etc. The structures mainly comprise boundary fences, roads, gates, etc. The property also comprises an industrial building which is under construction. The industrial building is scheduled to be completed in February 2008, and the total construction cost is estimated to be approximately RMB23,567,633.7, of which RMB16,850,351.7 has been spent up to the date of valuation. The total gross floor area of the industrial building will be approximately 23,660 sq.m. upon completion. The land use rights of 7 parcels of land were granted for terms of 50 years expiring between 31 December 2048 and 28 August 2057. The land use rights of the remaining 2 parcels of land are contracted to be granted to the Group for industrial use.	The property is currently occupied by the Group for production purpose, except for a parcel of land with a site area of approximately 43,975 sq.m. which is currently vacant.	110,562,000 100% interest attributable to the Group: RMB110,562,000

Notes:

1. Pursuant to 5 State-owned Land Use Rights Certificates — Guang Guo Yong (2003) Zi Di No.1114 dated 22 January 2003, Guang Guo Yong (2001) Zi Di No.245 dated 28 February 2001, Guang Guo Yong (2002) Zi Di No.3077 dated 18 June 2002, Guang Guo Yong (2001) Zi Di No.2601 dated 28 May 2001 and Guang Guo Yong (99) Zi Di No.0249 dated 9 March 1999, the land use rights of 5 parcels of land with a total site area of approximately 83,532.53 sq.m. were granted to Chuanyou Guanghan Honghua Co., Ltd. for terms of 50 years expiring between 31 December 2048 and 13 January 2053 for industrial use.

2. Chuanyou Guanghan Honghua Co., Ltd. is the predecessor of Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company"), a wholly-owned subsidiary of the Company.

3. Pursuant to a State-owned Land Use Rights Certificate - Guang Guo Yong (2007) Di No.16694 dated 12 June 2007, the land use rights of a parcel of land with a site area of approximately 56,508.9 sq.m. were granted to Honghua Company for a term of 50 years expiring on 23 August 2056 for industrial use.

4. Pursuant to an agreement entered into between the Granted Land Office of Guanghan and Chuanyou Guanghan Honghua Co., Ltd., the land use rights of a parcel of land with a site area of approximately 12,232 sq.m. will be granted to Chuanyou Guanghan Honghua Co., Ltd. at a consideration of RMB5,500,000. As informed by the Company, the purchase price of the land has been fully paid and the relevant land grant procedures are in process. Therefore, we have not attributed any commercial value to this parcel of land.

5. Pursuant to an agreement entered into between the Granted Land Office of Guanghan and Chuanyou Guanghan Honghua Co., Ltd., the land use rights of a parcel of land with a site area of approximately 126,667 sq.m. will be granted to Chuanyou Guanghan Honghua Co., Ltd. at a consideration of RMB22,480,000. As informed by the Company, the purchase price of the land has been fully paid. And pursuant to a State-owned Land Use Rights Certificate—Guang Guo Yong (2007) Di No. 18579 dated 25 September 2007, the land use rights of portions of the parcel of land with a site area of approximately 82,692 sq.m. were granted to Honghua Company for a term of 50 years expiring on 28 August 2057 for industrial use. For the remaining portion of the land with a site area of approximately 43,975 sq.m., we have not been provided with any Land Use Rights Certificate. As informed by the Company, the relevant land grant procedures are in process. Therefore, we have not attributed any commercial value to this parcel of land.

6. Pursuant to 3 Building Ownership Certificates—Fang Quan Zheng Guang Quan Zi Di No. 39910 dated 20 May 2005, Fang Quan Zheng Guang Quan Zi Di No. 42534 dated 27 September 2006 and Fang Quan Zheng Guang Quan Zi Di No. 1091-1 dated 31 December 1999, 3 buildings with a total gross floor area of approximately 27,249.63 sq.m. are owned by Chuanyou Guanghan Honghua Co., Ltd.

7. Pursuant to 5 Building Ownership Certificates—Fang Quan Zheng Guang Quan Zi Di No. 44544 dated 25 April 2007, Fang Quan Zheng Guang Quan Zi Di No. 39907-1 dated 20 April 2007, Fang Quan Zheng Guang Quan Zi Di No. 44545 dated 25 April 2007, Fang Quan Zheng Guang Quan Zi Di Nos. 46549 and 46550, 12 buildings with a total gross floor area of approximately 36,659.31 sq.m. are owned by Honghua Company.

8. Pursuant to a Construction Work Planning Permit—Guan Gui Jian No. 2007-70, in favour of Honghua Company, an industrial building with a gross floor area of approximately 23,660 sq.m. has been approved for construction. In the valuation of this industrial building, we have attributed no commercial value to it which has not obtained Construction Work Commencement Permit. However, for reference purpose, we are of the opinion that the capital value of the industrial building as at the date of valuation would be RMB17,000,000 assuming all relevant construction permits have been obtained and can be freely transferred.

9. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. For the land mentioned in note 1, note 3 and portions of the land mentioned in note 5 which have been obtained Land Use Rights Certificates with a total site area of approximately 222,733.43 sq.m., the Group legally has obtained the use rights of the land within the terms

stated in the Land Use Rights Certificates, and the land use rights of these parcels of land property can be transferred, sublet, mortgaged or otherwise handled by the Group legally;

b. For the land mentioned in note 4 and portions of the land mentioned in note 5 which have not been obtained Land Use Rights Certificate with a total site area of approximately 56,207 sq.m., the Group's occupancy and use of the land cannot be legally protected by the PRC law before the relevant Land Use Rights Certificates had been obtained;

c. For the buildings mentioned in note 6 and note 7, the buildings can be transferred, sublet, mortgaged or handled by the Group legally;

d. Chuanyou Guanghan Honghua Co., Ltd. is the predecessor of Sichuan Honghua Petroleum Equipment Co., Ltd. For all the Building Ownership Certificates and Land Use Rights Certificates registered under the name of Chuanyou Guanghan Honghua Co., Ltd., there is no material legal impediment for the Group to change the title registration.

e. The industrial building of the property is under construction, Honghua Company has obtained the Construction Work Planning Permit. The valid approval from relevant authorities to construct the building of the property has not been obtained. The relevant procedure is in process.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2007
				RMB
2.	46 units located at Honghuayuan Guang Dong Road Dong Yi Duan Guanghan Sichuan Province The PRC	The property comprises 46 units on Levels 1-6 of several 6-storey residential buildings completed between 1999 and 2004. The property has a total gross floor area of approximately 3,869.8125 sq.m. The land use rights of the property were granted for terms of 50 years expiring between 1 October 2043 and 30 May 2052.	The property is currently occupied by the Group for residential purpose.	4,869,000 100% interest attributable to the Group: RMB 4,869,000

Notes:

1. Pursuant to 7 State-owned Land Use Rights Certificates — Guang Guo Yong (2006) Di Nos.12190 and 12404 to 12407, Guang Guo Yong (2000) Zi Di No.054 and Guang Guo Yong (2005) Di No.7083, the land use rights of 7 parcels of land with a total apportioned site area of approximately 4,826.98 sq.m. were granted to Chuanyou Guanghan Honghua Co., Ltd. for terms of 50 years expiring between 1 October 2043 and 30 May 2052 for residential use.

2. Pursuant to 5 Building Ownership Certificates — Guang Quan Zi Di Nos.33893, 33894, 33895, 33897 and Fang Quan Zheng Guang Quan Zi Di No. 5922-1, 46 units with a total gross floor area of approximately 3,869.8125 sq.m. are owned by Chuanyou Guanghan Honghua Co., Ltd.

3. Chuanyou Guanghan Honghua Co., Ltd. is the predecessor of Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company"), a wholly-owned subsidiary of the Company.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The property can be transferred, sublet, mortgaged or otherwise handled by the Group legally;

   b. Chuanyou Guanghan Honghua Co., Ltd. is the predecessor of Honghua Company. For all the Building Ownership Certificates and Land Use Rights Certificates registered under the name of Chuanyou Guanghan Honghua Co., Ltd., there is no material legal impediment for the Group to change the title registration.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2007 *RMB*
3.	12 units located at Guangyiuyuan Zhong Shan Da Dao Nan Er Duan Guanghan Sichuan Province The PRC	The property comprises 12 units on Levels 1-6 of several 6-storey residential buildings completed in 2006. The property has a total gross floor area of approximately 1,641.58 sq.m. The land use rights of the property were granted for a term of 70 years expiring on 29 June 2074.	The property is currently occupied by the Group for residential purpose.	2,265,000 100% interest attributable to the Group: RMB2,265,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate — Guang Guo Yong (2007) Di No.16042, the land use rights of a parcel of land with an apportioned site area of approximately 269.05 sq.m. were granted to Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company") for a term of 70 years expiring on 29 June 2074 for residential use.

2. Pursuant to a Building Ownership Certificate — Fang Quan Zheng Guang Quan Zi Di No.44694, 12 units with a total gross floor area of approximately 1,641.58 sq.m. are owned by Honghua Company.

3. Honghua Company is a wholly-owned subsidiary of the Company.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   The property can be transferred, sublet, mortgaged or otherwise handled by the Group legally.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2007 *RMB*
4.	2 parcels of land, various buildings and structures located at Chuang Ye Bei Yi Road Jin Niu District Chengdu Sichuan Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 48,529.14 sq.m. and 4 buildings and various ancillary structures erected thereon completed in 2006. The buildings have a total gross floor area of approximately 11,236.85 sq.m. The buildings include a workshop, 2 office buildings and a gatehouse. The structures mainly comprise boundary fences, roads, gates, etc. The property also comprises an industrial building which is under construction. The industrial building is scheduled to be completed in May 2008, and the total construction cost is estimated to be approximately RMB 15,766,369, of which RMB 9,942,580.5 has been spent up to the date of valuation. The total gross floor area of the industrial building will be approximately 16,158.9 sq.m. upon completion. The land use rights of the property were granted for terms of 50 years expiring on 28 March 2055 and 30 December 2056.	The property is currently occupied by the Group for production purpose.	54,084,000 80% interest attributable to the Group: RMB 43,267,000

Notes:

1. Pursuant to 2 State-owned Land Use Rights Certificates — Cheng Guo Yong (2005) Di No.542 dated 17 May 2005 and Cheng Guo Yong (2007) Di No.122 dated 30 January 2007, the land use rights of 2 parcels of land with a total site area of approximately 48,529.14 sq.m. were granted to Chengdu Hongtian Electronic Drive Engineering Co., Ltd. ("Hongtian Company") for terms of 50 years expiring on 28 March 2055 and 30 December 2056 for industrial use.

2. Pursuant to 3 Building Ownership Certificates — Cheng Fang Quan Zheng Jian Zheng Zi Di Nos. 1565985, 1565973 and 1566992, 4 buildings with a total gross floor area of approximately 11,236.85 sq.m. are owned by Hongtian Company.

3. Hongtian Company is an indirectly 80% interest owned subsidiary of the Company.

4. Pursuant to a Tenancy Agreement entered into between Honghua International Co., Ltd., an indirectly 80% interest owned subsidiary of the Company, and Hongtian Company, portion of a building with a gross floor area of approximately 3,500 sq.m. is leased to Honghua International Co., Ltd. for a term of 5 years at an annual rental of RMB840,000, inclusive of management fees, water and electricity charges.

5. Pursuant to a Construction Work Planning Permit — Guan Gui Jian Zhu No.2007-310, in favour of Hongtian Company, a building with a gross floor area of approximately 16,158.9 sq.m. has been approved for construction.

6. Pursuant to a Construction Work Commencement Permit — No. 510100200709250201 in favour of Hongtian Company, permission by the relevant local authority has been given to commence the construction.

7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The Group legally has obtained the use rights of the land within the terms stated in the Land Use Rights Certificates, and the land use rights of the property can be transferred, sublet, mortgaged or otherwise handled by the Group legally;

   b. The buildings can be transferred, sublet, mortgaged or handled by the Group legally;

   c. Honghua International Co., Ltd. can legally use the property mentioned in note 4 within the terms stated in the tenancy agreement.

   d. The industrial building of the property is under construction, Hongtian Company has obtained the Construction Work Planning Permit and Construction Work Commencement Permit of the building of the property.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2007 *RMB*
5.	A unit located at No. 9 Tong De Jie Qing Yang District Chengdu Sichuan Province The PRC	The property comprises a unit on Level 7 of a 9-storey residential building completed in 2001. The property has a gross floor area of approximately 83.35 sq.m. The land use rights of the property were granted for a term expiring on 14 December 2070.	The property is currently occupied by the Group for residential purpose.	334,000 80% interest attributable to the Group: RMB267,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate — Qing Yang Guo Yong (2005) Di No.15200 dated 14 December 2005, the land use rights of a parcel of land with an apportioned site area of approximately 8.81 sq.m. were granted to Chengdu Hongtian Electronic Drive Engineering Co., Ltd. ("Hongtian Company") for a term of 65 years expiring on 14 December 2070 for residential use.

2. Pursuant to a Building Ownership Certificate — Cheng Fang Jian Zheng Zi Di No. 0963914, a unit with a gross floor area of approximately 83.35 sq.m. is owned by Hongtian Company.

3. Hongtian Company is an indirectly 80% interest owned subsidiary of the Company.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   The property can be transferred, sublet, mortgaged or otherwise handled by the Group legally.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2007 *RMB*
6.	2 parcels of land, various buildings and structures located at San Ya Road Yi Duan Guanghan Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 38,943.2 sq.m. and 5 buildings and various ancillary structures erected thereon completed in various stages between 2006 and 2007. The buildings have a total gross floor area of approximately 16,949.22 sq.m. The buildings mainly include 2 workshops, an office building, a composite building and a guardhouse. The structures mainly comprise boundary fences, roads, gates, etc. The land use rights of the property were granted for a term of 50 years expiring on 27 June 2057. The property also comprises a parcel of land with a site area of approximately 43,333 sq.m. which is vacant. The land use rights of the property were collectively-owned.	A parcel of land with a site area of approximately 38,943.2 sq.m. and 5 buildings erected thereon are currently occupied by the Group for production purposes. For the remaining parcel of land with a site area of approximately 43,333 sq.m. is currently vacant.	21,971,000 80% interest attributable to the Group: RMB 17,577,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract - No.2007-00614 dated 28 June 2007 entered into between the State-owned Land Resource Bureau of Guanghan City of Sichuan Province and Sichuan Honghua Youxin Petroleum Machinery Co., Ltd ("Youxin Company"), the land use rights of a parcel of land with a site area of approximately 38,940.2 sq.m. were contracted to be granted to Youxin Company for a term of 50 years commencing from the date of assigning the land for industrial use. The land use rights premium is RMB 32,709,600.

2. Pursuant to a State-owned Land Use Rights Certificate — Guang Guo Yong (2007) Di No.19819, the land use rights of a parcel of land with a site area of approximately 38,943.2 sq.m. were granted to Youxin Company for a term of 50 years expiring on 27 June 2057 for industrial use.

3. Pursuant to an Investment Agreement entered into between Guanghan Economic Development Zone Management Committee of Sichuan Province and Guanghan Youxin Co., Ltd., the land use rights of a parcel of land with a site area of approximately 65 mu (43,333 sq.m.) will be granted to Guanghan Youxin Co., Ltd. at a consideration of RMB110,000 per mu. As informed by the Company, the purchase price of the land has been fully paid and the relevant land grant procedures are in process.

4. As advised by the Company, the land use rights of a parcel of land with a site area of approximately 43,333 sq.m. were still collectively-owned as at the date of valuation. Therefore, we have not attributed any commercial value to this parcel of land.

5. Pursuant to 2 Building Ownership Certificates — Fang Quan Zheng Guang Quan Zi Di Nos. 47360 and 47361, 5 buildings with a total gross floor area of approximately 16,949.22 sq.m. are owned by Youxin Company.

6. Youxin Company is an indirectly 80% interest owned subsidiary of the Company.

7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. For the land mentioned in note 2, the Group legally has obtained the use rights of the land within the terms stated in the Land Use Rights Certificates, and the land use rights of this parcel of land can be transferred, sublet, mortgaged or handled by the Group legally;

   b. For the land mentioned in note 3, the Group's occupancy and use of the land cannot be legally protected by the PRC law before the relevant land use rights certificates had been obtained;

   c. The buildings mentioned in note 5 can be transferred, sublet, mortgaged, and otherwise handled by the Group legally.

VALUATION CERTIFICATE

GROUP II — PROPERTY INTERESTS OWNED AND OCCUPIED BY THE GROUP IN THE UNITED STATES

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2007 *RMB*
7.	A parcel of land, various buildings and structures located at 8300 McHard Road, Houston TX 77053 The United States	The property comprises a parcel of land with a site area of approximately 80,937 sq.m. (20 acre) and a building and various ancillary structures erected thereon completed in 2006. The building has a gross floor area of approximately 7,065 sq.m. (76,046 square feet). The building consists of office and warehousing areas. The structures mainly comprise boundary fences, roads, gates, etc. The property is currently held under a fee simple interest.	The property is currently occupied by the Group for office and warehousing purposes.	25,566,000 80% interest attributable to the Group: RMB20,453,000

Notes:

1. The registered owner of the property is Honghua America, LLC.

2. Honghua America, LLC is an indirectly 80% interest owned subsidiary of the Company.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2007 *RMB*
8.	3 houses located at Orchid Creek Drive, Pearland TX, 77584 The United States	The property comprises 3 houses completed in about 2006. The property has a total gross floor area of approximately 981 sq.m. (10,558 square feet). The property is currently held under a fee simple interest.	The property is currently occupied by the Group for residential purposes.	6,939,000 80% interest attributable to the Group: RMB5,551,000

Notes:

1. The registered owner of the property is New Continental Equipment Co., LLC.

2. New Continental Equipment Co., LLC is the predecessor of Honghua America, LLC, an indirectly 80% interest owned subsidiary of the Company.

VALUATION CERTIFICATE

GROUP III — PROPERTY INTEREST RENTED AND OCCUPIED BY THE GROUP IN THE PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 December 2007 *RMB*
9.	Portion of Hongtai Commercial Building No. 1 Guangdong Road Dong Yi Duan Guanghan Sichuan Province The PRC	The property comprises several units on the 1st and 2nd floor of a 7-storey composite building completed in about 2004. The property has a total gross floor area of approximately 1,698.11 sq.m. The property is leased to the Group for terms with the latest expiring date on 31 December 2008 from a connected party.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Guanghan Hongtai Business Trading Co., Ltd. and Sichuan Honghua Petroleum Equipment Co., Ltd. ("Honghua Company"), several units with a total gross floor area of approximately 1,040.94 sq.m. are leased to Honghua Company for a term of one year expiring on 30 November 2008 at an annual rental of RMB192,000, exclusive of town gas, water and electricity charges.

2. Pursuant to a Tenancy Agreement entered into between Guanghan Hongtai Business Trading Co., Ltd. and Honghua Company, several units with a total gross floor area of approximately 607.17 sq.m. are leased to Honghua Company for a term of one year expiring on 31 December 2008 at an annual rental of RMB91,200, exclusive of town gas, water and electricity charges.

3. Pursuant to a Tenancy Agreement entered into between Guanghan Hongtai Business Trading Co., Ltd. and Honghua Company, a unit with a gross floor area of approximately 50 sq.m. is leased to Honghua Company for a term of one year expiring on 30 April 2008 at an annual rental of RMB6,000, exclusive of town gas, water and electricity charges.

4. We have been provided with a legal opinion on the legality of the lease agreements to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   The Group can legally use the property within the terms stated in the tenancy agreements.

Spears and Associates, Inc.

February 25, 2008

The Directors
Honghua Group Limited

Re: Independent Market Review Report

Dear Sirs,

Spears and Associates, Inc. ("Spears") has been engaged by Honghua Group Limited (Honghua) to carry out an independent review of the global land drilling rig manufacturing market in preparation for Honghua Group Limited's Hong Kong Stock Exchange ("HKSE") listing and Initial Public Offering ("IPO"). The results of this review are summarized in the attached report.

Spears provides market research services to the global petroleum industry, including oilfield equipment manufacturers and service firms, oil and gas producers, financial institutions, and government entities. This review of the global land drilling rig manufacturing market was based on sources Spears considered appropriate for the preparation of this report, including Spears' in-house information on drilling activity and the land drilling rig manufacturing market, publicly available information on drilling activity and oil and gas demand/supply/price, input from industry experts, and data provided by Honghua. This analysis is based on information from these sources before 12 December, 2007. Spears has not forecast Honghua revenue generated from the manufacture and sale of land drilling rigs.

Spears is independent of Honghua and its related assets. Neither Spears nor any of its employees or associates involved in this project holds any share or has any direct or indirect pecuniary or contingent interests of any kind in Honghua or its related assets. Spears has and will receive a fee for its services (the work product of which includes this report) at its normal commercial rate and customary payment schedules. The payment of our professional fee is not contingent on the outcome of this report.

This report documents all the findings in our review of the global land drilling rig manufacturing market completed to the date of this cover letter. The sole purpose of this report is for use by the Directors of Honghua in connection with Honghua's IPO on the HKSE and this report should not be used or relied upon for any other purpose. Neither the whole, nor any part of this report, nor any reference thereto may be included in, with or attached to any document or used for any other purpose, without Spears written consent to the form and context in which it appears. Spears consents to the inclusion of this report in Honghua's IPO prospectus for the HKSE.

Yours faithfully

Spears & Associates, Inc.

John Spears
President

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EXECUTIVE SUMMARY

We estimate that in 2007 on average over 4,950 land rigs will be active around the world. Global onshore rig activity is projected to exceed 5,800 active drillings rigs by 2012, an increase of 19% from 2007, under the assumption that oil prices continue to trade in the US$70-$80 per barrel range.

Drilling activity has increased significantly resulting in high levels of capital spending

The five-year increase in global drilling activity has pushed up rig utilization to the point that in many countries commercial land rig fleets, i.e., those owned by public or privately-held drilling contractors, are currently at or near full utilization. In response, land rig day rates have risen over 30% since 2004 and capital spending for new drilling rigs has tripled.

New Rig demand is shifting away from North America to the emerging markets

Global construction of new land rigs more than doubled in 2006 from the prior year and has remained strong in 2007. After this year, with the near-term build-out of the North American market complete, global new land rig construction demand is expected to return to the 400 to 450 unit per year level during 2008 to 2010 with significant demand shifting to the emerging markets, especially to Russia and China. By 2012 global land rig demand is projected to near 500 new units. China and Russia are expected to be the leading markets for new land rig demand, combining to account for about 80% of total demand, or almost 1,600 new land rigs between 2008 and 2012.

The largest land rig manufactures are in the USA and China

In terms of revenues and units produced, the three leading rig manufacturers are National Oilwell Varco (USA), Honghua (China), and BOMCO (China). National Oilwell Varco is the world's largest drilling rig and rig component manufacturer. Honghua is the second-largest rig manufacturer in the world and is the fastest-growing Chinese rig manufacturer. It holds 20% to 30% of the Chinese market but sells the majority of its rigs abroad. BOMCO is a wholly-owned subsidiary of CNPC and is the largest Chinese petroleum equipment manufacturer; capturing about 40% of the Chinese rig market where it makes most of its sales.

Chinese land rig technology is approaching that of Western peers, but at materially lower prices

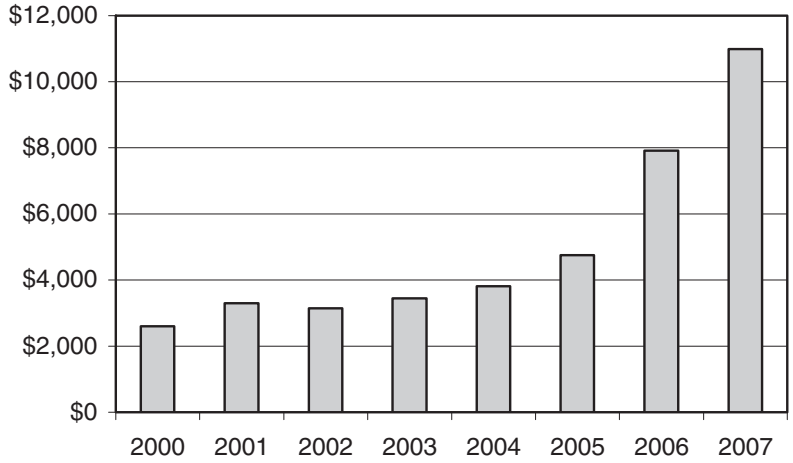
Having long trailed their Western counterparts in terms of rig technology, the quality of Chinese-built drilling rigs has improved dramatically in recent years, exceeding the level of Russian rig makers and approaching that of National Oilwell Varco and Bentec. Chinese rig manufacturers such as Honghua and BOMCO now manufacture a complete line of rigs rated for drilling depths of up to 9,000 meters deep, including the AC variable frequency drive units that have become standard in the industry in recent years. In today's market, land drilling rigs from BOMCO and Honghua are typically priced 20 to 25% less than comparable land rig classes built by National Oilwell Varco or Bentec (a unit of Abbot Group PLC).

NEW LAND RIG MARKET OVERVIEW

The global rig equipment market includes a broad spectrum of equipment, parts and fabrication that are required for the construction of new onshore and offshore drilling and well servicing rigs as well as component parts needed for the maintenance of the existing rig fleet, including:

- *New Rig Construction;*
- *Capital Equipment Components, such as drawworks, rotary tables, top drives, mud pumps, derricks, masts, carriers, substructures, and traveling blocks; and*
- *Pipe Handling Equipment, such as power tongs, spiders and elevators.*

Global Rig Equipment Spending (US$ Million)



Source: Spears

Global spending on rig equipment has doubled since 2005 largely because drilling contractors have increased their rig fleets in order to handle the increase in drilling activity.

Global Rig Equipment Revenue (US$ Million)

	1999	2000	2001	2002	2003	2004	2005	2006
National Oilwell Varco	$1,437	$1,311	$1,743	$1,649	$1,740	$1,907	$2,259	$3,443
Cameron International Corp.	$ 243	$ 251	$ 270	$ 264	$ 286	$ 305	$ 332	$ 510
Aker Kvaerner	$ 302	$ 205	$ 230	$ 232	$ 232	$ 220	$ 275	$ 450
Oil States International	$ 154	$ 116	$ 130	$ 191	$ 232	$ 207	$ 271	$ 390
Vetco International	$ 195	$ 135	$ 150	$ 163	$ 165	$ 160	$ 190	$ 250
Abbot Group	$ 50	$ 52	$ 56	$ 48	$ 104	$ 143	$ 177	$ 335
TESCO Corp.	$ 77	$ 105	$ 143	$ 93	$ 90	$ 88	$ 107	$ 219
Tenaris	$ 84	$ 85	$ 101	$ 114	$ 102	$ 101	$ 130	$ 206
Pason Systems, Inc.	$ 18	$ 31	$ 43	$ 37	$ 66	$ 95	$ 146	$ 206
Gardner Denver	$ 6	$ 18	$ 25	$ 20	$ 27	$ 82	$ 124	$ 228
Nabors Industries, Inc.	$ 16	$ 33	$ 55	$ 35	$ 45	$ 47	$ 80	$ 185
Stewart & Stevenson	$ 30	$ 55	$ 85	$ 55	$ 70	$ 80	$ 110	$ 150
Weatherford International	$ 9	$ 13	$ 20	$ 18	$ 19	$ 34	$ 53	$ 107
Rowan Companies	$ 12	$ 15	$ 16	$ 13	$ 15	$ 26	$ 46	$ 68
Taylor Rig LLC	$ 2	$ 3	$ 4	$ 3	$ 5	$ 20	$ 40	$ 75
IDM Equipment, Ltd.	$ 5	$ 10	$ 15	$ 10	$ 15	$ 25	$ 40	$ 75
Forum Oilfield Technologies	$ 5	$ 8	$ 13	$ 9	$ 15	$ 20	$ 30	$ 40
McCoy Corporation	$ 5	$ 6	$ 7	$ 10	$ 14	$ 22	$ 31	$ 38
Eckel Manufacturing Co., Inc.	$ 5	$ 7	$ 9	$ 8	$ 9	$ 11	$ 15	$ 20
Foremost Industries Income Fund	$ 0	$ 0	$ 0	$ 0	$ 10	$ 15	$ 25	$ 30
Cavins Oil Well Tools	$ 5	$ 9	$ 11	$ 9	$ 11	$ 13	$ 15	$ 18
Watson/Hopper	$ 2	$ 3	$ 4	$ 3	$ 3	$ 6	$ 10	$ 15
Other	$ 125	$ 125	$ 176	$ 159	$ 165	$ 185	$ 250	$ 850
Total Market	$2,787	$2,596	$3,304	$3,141	$3,440	$3,812	$4,756	$7,908
Annual Market Change		**-7%**	**27%**	**-5%**	**10%**	**11%**	**25%**	**66%**

Source: Spears

Note: The total or sub-total number in this chart is for illustrative purpose only; numbers may or may not add up due to rounding up, varied assumptions or other considerations.

We estimate that in 2007 on average over 4,950 onshore rigs will be active around the world, up 64% from the cyclical low recorded in 2002.

Global Average Active Rig Count — Onshore Rigs

	Emerging Markets										
Year	Russia	Other FSU	China	Africa	Latin America	Middle East	Asia (Excluding China)	Sub Total	Europe	North America	Total
2000 .	658	84	653	38	186	119	93	**1,830**	30	1,263	**3,123**
2001 .	717	145	637	47	215	127	105	**1,992**	31	1,497	**3,520**
2002 .	614	148	649	55	168	138	118	**1,890**	29	1,094	**3,013**
2003 .	628	148	799	61	188	147	116	**2,087**	32	1,403	**3,521**
2004 .	492	168	854	67	225	156	122	**2,083**	25	1,556	**3,664**
2005 .	530	201	1,058	76	251	167	128	**2,410**	21	1,838	**4,270**
2006 .	550	211	1,100	95	261	210	136	**2,562**	22	2,120	**4,704**
2007 .	676	221	1,144	110	285	233	142	**2,812**	23	2,116	**4,951**
2008 .	717	232	1,190	119	321	241	151	**2,970**	22	2,112	**5,104**
2009 .	753	244	1,237	124	351	251	154	**3,113**	23	2,147	**5,283**
2010 .	790	256	1,287	129	367	256	157	**3,242**	23	2,219	**5,483**
2011 .	830	269	1,338	136	374	259	160	**3,365**	22	2,294	**5,682**
2012 .	871	282	1,392	140	363	263	163	**3,475**	22	2,372	**5,869**

Source: MI Swaco, BHI, Spears

Note: The total or sub-total number in this chart is for illustrative purpose only; numbers may or may not add up due to rounding up, varied assumptions or other considerations.

On a regional basis, North America is expected to account for 43% of the active units in 2007, followed by China (23%) and Russia (14%). (Active rigs are those units engaged in drilling operations more than 15 days/month, excluding mobilization.) Overall onshore rig activity is projected to grow a total of 21% between 2007 and 2012 under the assumption that oil prices continue to trade in the US$70-$80 per barrel range throughout this timeframe. On a global basis, we estimate that onshore rig utilization will average 59% in 2007, up sharply from 37% in 2002.

Industry observers report that in many countries commercial rig fleets, i.e., those owned by public or privately-held drilling contractors are currently approaching full utilization for their onshore rig fleets — with the notable exception of Canada. (Full utilization — defined as active rigs as a percent of available units — for commercial fleets is generally considered to be utilization in excess of 70%.) Rig fleets owned by state oil companies typically have lower utilization levels.

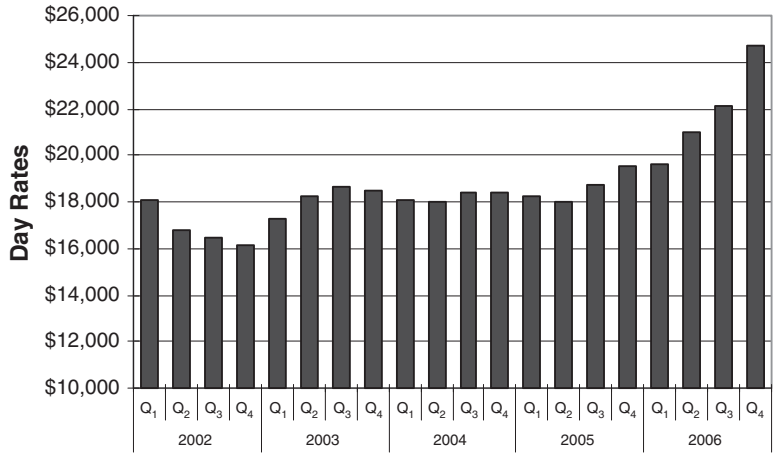
Global Onshore Rig Utilization

	Emerging Markets										
Year	Russia	Other FSU	China	Africa	Latin America	Middle East	Asia	Sub Total	Europe	North America	Total
2000	33%	13%	33%	15%	41%	48%	37%	**32%**	20%	55%	**38%**
2001	36%	23%	32%	19%	50%	53%	44%	**35%**	22%	65%	**43%**
2002	31%	24%	32%	23%	40%	58%	51%	**34%**	21%	46%	**37%**
2003	33%	25%	40%	27%	47%	63%	52%	**38%**	24%	59%	**44%**
2004	27%	30%	42%	30%	58%	67%	56%	**39%**	20%	66%	**46%**
2005	31%	37%	52%	35%	67%	72%	60%	**47%**	17%	69%	**53%**
2006	35%	41%	54%	43%	69%	86%	65%	**50%**	19%	77%	**58%**
2007	46%	44%	56%	50%	74%	85%	67%	**55%**	20%	68%	**59%**
2008	51%	47%	57%	52%	82%	81%	69%	**57%**	21%	57%	**57%**
2009	55%	51%	57%	53%	83%	82%	70%	**59%**	22%	57%	**59%**
2010	59%	54%	58%	54%	80%	82%	71%	**61%**	23%	60%	**61%**
2011	62%	57%	59%	55%	79%	81%	71%	**62%**	23%	63%	**63%**
2012	65%	60%	60%	56%	75%	80%	72%	**63%**	24%	67%	**65%**

Source: Spears

As drilling activity has increased and rig utilization has risen, day rates for land rigs working outside North America have soared. Average annual day rates for onshore rigs working outside North America (excluding Russia and China) have risen for four consecutive years: $17,075 (2002); $18,400 (2003); $18,425 (2004); $18,800 (2005); and $22,100 (2006). By the end of 2006 average day rates for onshore rigs working outside North America (excluding Russia and China) exceeded US$24,000, more than 30% higher than they were in mid-2005.

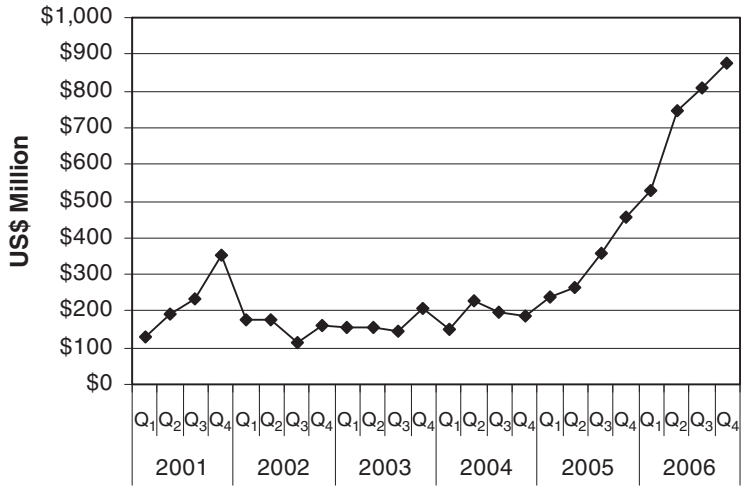
International Land Rig Market



Source: Spears

Capex spending by onshore drilling contractors has risen in tandem with land rig day rates. The accompanying chart indicates that by the end of 2006 capex for a select group of public US-based onshore drilling contractors had reached US$900 million per quarter, 4.5 times the level seen in Q4 2004

Land Rig Contractor Capex



Source: Spears

Global construction of new land rigs jumped sharply in 2006 — in response to the increased in rig capex that began in mid 2005 — and has remained strong in 2007. After this year, with the near-term build-out of the North American market complete, global new land rig construction demand is expected to return to the 400 to 450 unit per year level during 2008 to 2010 with significant demand shifting to the emerging markets, before beginning to grow again. By 2012 virtually all of the global demand for new rigs is expected to be linked to the need to replace worn-out or obsolete units.

Global Onshore Rig Fleet Status

Year	Active Rigs	Rig Fleet Jan 1	Newbuilds	Moved In or Assembled	Retirements	Rig Fleet Dec 31
2000	3,123	8,324	201	268	592	8,201
2001	3,520	8,201	204	378	600	8,183
2002	3,013	8,183	184	180	481	8,066
2003	3,521	8,066	211	293	621	7,949
2004	3,664	7,949	216	434	498	8,101
2005	4,270	8,101	226	296	570	8,053
2006	4,704	8,053	536	234	498	8,325
2007	4,951	8,325	751	318	462	8,932
2008	5,104	8,932	445	140	489	9,029
2009	5,283	9,029	391	95	484	9,030
2010	5,483	9,030	430	70	482	9,048
2011	5,682	9,048	455	60	483	9,080
2012	5,869	9,080	475	50	486	9,119

Sources: BHI, MI Swaco, Spears

Note: The total or sub-total number in this chart is for illustrative purpose only; numbers may or may not add up due to rounding up, varied assumptions or other considerations.

Note: "Retirements" refers to units that exit the fleet as worn out, destroyed, made obsolete, or via a move to another regional market. "Moved In or Assembled" refers to units that enter the fleet as re-activated, assembled from components, or via move from another regional market.

The global land rig construction market has been driven by the North American market in 2006 and 2007. We estimate that in order to sustain drilling activity by 2012, almost 475 new rigs per year will need to be built, assuming: (1) that global onshore drilling activity increases 25% from 2006 to 2012; (2) that rig utilization remains near current levels; and (3) that rigs have an average lifespan of 25 years. By the end of the forecast timeframe, China and Russia are expected to be the leading markets for new land rigs, combining to account for about 80% of total new land rig demand, or 1,585 new rigs from 2008 to 2012.

Global Onshore Rig Newbuild Demand (Rigs)

	Emerging Markets										
Year	Russia	Other FSU	China	Africa	Latin America	Middle East	Asia	Sub Total	Europe	North America	Total
2000	75	0	120	0	0	0	0	**195**	0	6	201
2001	75	0	120	0	0	0	0	**195**	0	9	204
2002	50	0	125	0	0	0	0	**175**	0	9	184
2003	20	0	125	0	0	0	0	**145**	0	66	211
2004	15	0	130	0	0	0	0	**145**	0	71	216
2005	5	0	135	5	5	10	0	**160**	0	66	226
2006	40	5	140	5	10	30	4	**235**	0	301	536
2007	70	10	175	10	10	30	10	**316**	0	435	751
2008	85	10	180	15	25	20	10	**345**	0	100	445
2009	100	10	185	15	25	20	11	**366**	0	25	391
2010	125	19	190	15	25	20	11	**405**	0	25	430
2011	150	19	195	15	20	20	11	**430**	0	25	455
2012	175	19	200	15	10	20	11	**450**	0	25	475

Source: Spears

Major Land Rig Manufacturers

National Oilwell Varco ("NOV") is the world's largest drilling rig and rig component manufacturer; its products are widely known and accepted by drilling contractors around the world. Its equipment is often priced at a premium. It formed a joint venture with Lanshi in China in 2001 to make drilling rigs and workover equipment.

Honghua is the largest Chinese rig manufacturer (by revenue). It holds 20% to 30% of the Chinese market but sells the majority of its rigs abroad, focusing on its key markets of Russia, North America, and the Middle East. In the current market its prices are about 20% to 25% below that of NOV.

BOMCO is the second largest Chinese petroleum equipment manufacturer; it captures about 40% of the Chinese rig market where it makes most of its sales, but it is increasingly focused on markets outside China, especially on the North America and Central Asia markets. At present its prices are about 20% to 25% below that of NOV.

Bentec (a unit of Abbot Group PLC) is increasingly oriented to the Russian market and will open a manufacturing facility in Tyumen in 2008. Its sister company, KCA Deutag, is a drilling contractor that operates several land rigs in Russia. Bentec's rigs are typically priced above Chinese units but below that of NOV.

Other drilling rig manufacturers primarily serving their domestic markets include Uralmash (Russia), Taylor Rig (USA), Shengli Gaoyuan (China), Liaohe (China), Zhongyuan Mainrig (China), Zhongyuan Zuansan (China), and Shanghai Sangao (China).

Major Land Drilling Rig Manufacturers

Company	Location	Key Markets	2006 Revenues (US$ Million)	2006 Percent
National Oilwell Varco	US	Global	$3,443	76%
Honghua	China	China, Russia	$ 311	7%
BOMCO	China	China, Russia	$ 293	6%
Nanyang	China	China	$ 149	3%
Lanshi/NOV	China	China, US	$ 128	3%
Bentec	Germany	Russia, Middle East	$ 118	3%
Ganghan Xiji	China	China	$ 103	2%
Total			$4,545	100%

Source: Spears
Note: RMB:USD exchange rate of 7.5:1

Rig Technology

Drilling rigs are classified depending upon the type of power coupling used to provide motive force for the drilling operations. Mechanical rigs use dedicated diesel engines which are clutched to mechanically engage various aspects of the rigs machinery to perform the operations of drilling, pumping, and lifting the drill string. DC/DC rigs use dedicated diesel-electric motor/generator combinations to perform each of the necessary drilling functions in the same fashion as the mechanical-clutched rigs. Many AC/DC rigs use silicon controlled rectifier AC to DC converters, and hence have been referred to as "SCR" rigs. SCR rigs use a pool of diesel engine-AC generator sets to provide alternating current power to a rig bus from which DC motors or other AC or DC equipment draw power to perform various rig functions.

SCR rigs are more tolerant to the loss of a particular diesel engine due to a maintenance requirement or similar problem, are less prone to maintenance difficulties in general, are easily assembled on a drilling rig, and are generally less expensive to set up and operate than other types of rigs. Because of their inherent advantages over mechanical and DC/DC units, SCR rigs are preferred by Western drilling contractors over mechanical rigs.

In recent years some rig manufacturers have developed AC variable frequency drive (VFD) rigs which allow greater control of the drilling process and improve efficiency during tripping operations than SCR rigs.

RUSSIA

Drilling Activity

The total volume of oil and gas well exploration and production drilling in Russia is expected to increase from 40.3 million feet of hole in 2006 to 52.9 million feet in 2012, a gain of 31%. The number of wells drilled over this timeframe is expected to increase from 4,763 to 6,261.

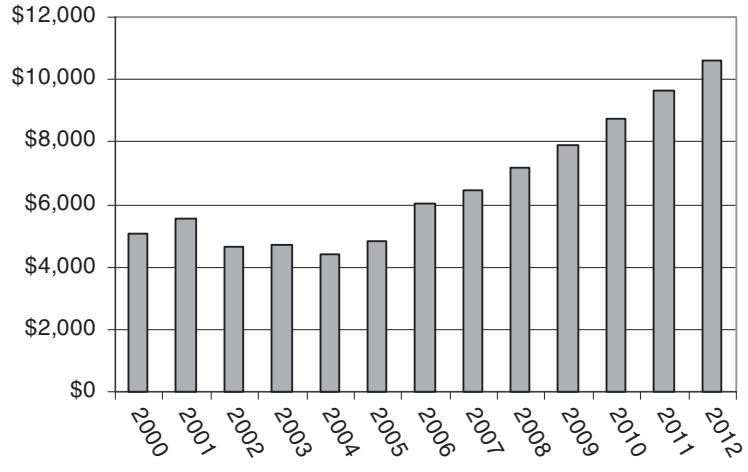
	WELLS			FOOTAGE (Million Feet)		
	Land	Off	Total	Land	Off	Total
2000	4,714	5	4,719	33.8	0.1	33.9
2001	5,140	5	5,145	36.9	0.1	36.9
2002	4,401	5	4,406	31.0	0.1	31.1
2003	4,505	5	4,510	31.5	0.1	31.6
2004	3,527	10	3,537	29.5	0.1	29.6
2005	3,802	10	3,812	32.1	0.1	32.2
2006	4,753	10	4,763	40.2	0.1	40.3
2007	4,848	10	4,858	41.0	0.1	41.1
2008	5,139	15	5,154	43.4	0.2	43.6
2009	5,395	15	5,410	45.6	0.2	45.7
2010	5,665	15	5,680	47.9	0.2	48.0
2011	5,949	15	5,964	50.3	0.2	50.4
2012	6,246	15	6,261	52.8	0.2	52.9

Sources: Spears

Note: The total or sub-total number in this chart is for illustrative purpose only; numbers may or may not add up due to rounding up, varied assumptions or other considerations.

We estimate that at present onshore drilling costs in Russia range from a low of about US$100/foot in Western Siberia to a high of about US$600/foot in Eastern Siberia; in all, onshore drilling costs are estimated to average US$150/foot such that total capital spending to drill and complete wells reached US$5.4 billion in 2006. Over time regional drilling activity is expected to shift away from mature areas where production is falling (Western Siberia and the Volga-Urals) toward Eastern Siberia and Timan-Pechora.

Russian Drilling and Completion Expenditures
(US$ Million)



Source: Spears

Major Field Development Projects

Gazprom plans to spend US$1 billion over the next few years to develop the Bovanankovskoye and Kharasaveyskoye gas fields on the Yamal peninsula. About US$800 million is to be spent on developing the South Russkoye gas field, and some US$650 million is to go toward developing the Shtokman gas and condensate field in the Barents Sea. Work is also expected on the Prirazlomnoye oilfield in the Barents Sea.

Rosneft is expected to spend about US$2.3 billion in 2007 and US$2.5 billion in 2008 on projects at Yuganskneftegaz in an attempt to boost output from 1.25 mmbbl/d at present to 1.5 mmbbl/d by 2010. Most of the work will involve drilling in the Priobskoye and Prirzalomnoye oilfields. The Purneftegaz subsidiary of Rosneft is developing the Vankor oilfield in west Siberia that is scheduled to come onstream in 2008, increasing to 280,000 bbl/d by 2012.

TNK-BP will spend US$270 million in 2007 for the pilot development of the Verkhnechonskoye oilfield in East Siberia. Plans call for 20 new wells (13 producers and seven injectors). Earlier this year TNK-BP purchased Oxy's 50% stake in the Vanyeganeft joint venture in West Siberia.

Rig Count

The number of active rigs (i.e., those engaged in drilling operations) in the Russian rig fleet is estimated by industry analysts to currently be around 550 units. The number of additional units currently engaged in completion activities (handling pipe in and out of the well during the well completion process) is unclear but may comprise another 150 to 300 rigs.

The largest number of active land rigs are employed by Lukoil, Gazprom, TNK-BP, Bashneft, Rosneft, Tatneft, and Surgutnefttegaz. Overall, industry analysts estimate that there are currently 1,500 to 1,600 rigs in the Russian rig fleet. However, of that number only about 1,000 rigs are believed to be "marketable", with the remainder cold-stacked or otherwise idle.

Rig Ownership

Historically, Russian operators have owned and operated drilling rigs using in-house crews. However, in the late 1990s some Russia operators began to divest their in-house drilling operations and use third-party drilling contractors. As a result, the Russian contract drilling market currently consists of in-house service firms, independent Russian drilling contractors, and international contract drillers.

In-house firms still dominate the market; the larger ones include RNGS (Rosneft), Burgaz (Gazprom), NvBN (TNK-BP), and Surgutneftegaz. Lukoil is the only large Russian oil company that outsources almost all of its drilling activity (primarily to BK Eurasia as terms of its spin-off from Lukoil); the only Lukoil subsidiary that drills its own wells is JSC Lukoil-Kaliningradmorneft.

Most independent Russian contract drillers serve a local region, although some have become multi-regional in scope. The larger independent Russian contract drillers include BK Eurasia (which accounts for about 13% of all footage drilled in Russia), Integra, and Siberian Service Company (SSK).

KCA Deutag (a unit of Abbot Group PLC) is one of the few international drilling contractors active in Russia at present. The firm currently has four units in its Russia rig fleet. Foreign land drilling contractors have largely stayed out of the Russian market given the limited E&P activity by foreign oil companies and limited demand from Russian oil companies having in-house service firms. Going forward, foreign land drilling contractors are expected to continue to conclude that opportunities outside Russia provide better ROI; as a result, we expect that few foreign rigs will be moved into Russia and that new rig demand will come about by rig purchases from Russian drillers.

New Land Rig Demand

Assuming that Russian onshore drilling activity increases 5% per year during the 2006 to 2012 timeframe, we estimate that in order to sustain drilling activity by 2012, a total of 175 new rigs will be needed to be constructed per year. The huge backlog of idle units that has allowed drilling contractors to assemble rigs from parts is being steadily worked off; incremental growth in the number of units in the rig fleet will increasingly depend on rig newbuilds.

About 200 new rigs were built in Russia between 2000 and 2002; however, demand fell to about 30 units over the 2003-2004 timeframe as drilling slowed.

With drilling activity once again on the increase starting in 2005, it is reported that Russian in-house and independent drilling contractors began to invest in new equipment after Q2 2006. Bentec, the land rig design, engineering, and fabrication subsidiary of Abbot Group PLC, was awarded a US$65 million contract by Eurasia Drilling in Q3 2006 for four 250 ton fast-moving hybrid rigs (1,500 HP, 5,000 meter depth rating being built to Russian GOST standards), derived from Bentec's original HR5000 design. The rigs will be delivered by the end of 2007. Eurasia Drilling is reported to be in the market to buy another eight rigs in 2007. Integra Group's Equipment Manufacturing Division completed construction of five heavy drilling rigs and modernized 16 rigs in 2006. In May 2007 Integra won an order for 11 heavy rigs from Gazprom. Rosneft is reported to be planning an 18 rig order in 2007.

Russian Onshore Rig Fleet Market

Year	Active Rigs	Rig Fleet Jan 1	Newbuilds	Assembled from Parts	Retirements	Rig Fleet Dec 31
2000	658	2,000	75	200	300	1,975
2001	717	1,975	75	200	298	1,953
2002	614	1,953	50	175	275	1,902
2003	628	1,902	20	150	250	1,822
2004	492	1,822	15	100	225	1,712
2005	530	1,712	5	50	199	1,569
2006	550	1,569	40	35	174	1,469
2007	676	1,469	70	25	159	1,405
2008	717	1,405	85	20	149	1,360
2009	753	1,360	100	15	143	1,333
2010	790	1,333	125	10	138	1,330
2011	830	1,330	150	5	136	1,349
2012	871	1,349	175	0	137	1,387

Source: Spears

Note: The total or sub-total number in this chart is for illustrative purpose only; numbers may or may not add up due to rounding up, varied assumptions or other considerations.

Arctic Land Rigs

About 80% of Russian drilling takes place in the Arctic regions of Western Siberia, Eastern Siberia, or Timan Pechora. Arctic conditions in Russia require highly specialized winterized drilling rigs which are operational at temperatures ranging from +45° to –45° Celsius. The units also need the capability to break down into modules designed to be transported by the rail or by truck.

Replacement/Upgrades/Refurbishments

According the Union of Manufacturers of Oil and Gas Equipment of Russia, approximately 32% of the current drilling rig fleet (491 rigs) was produced more than 15 years ago. These rigs are approaching the end of

their useful life and are expected to be replaced with new units in the coming years. As a result, rig upgrades, refurbishments, and replacements are increasing. TNK-BP, which currently has 31 in-house drilling crews, plans to spend US$500 million over the 2007 to 2011 timeframe to upgrade its existing drilling equipment and buy new mobile rigs.

Existing Rigs versus Needed Rigs

The demands of the Russian rig market include designs allowing for cluster drilling, low temperature housings, and easy dismantling for transportation via rail or truck. Industry analysts estimate that there are about 450 land rigs in Russia with hook load capacity of 175 tons or greater; about 70% of these units are at least 15 years old. These aging, mechanical rigs with chain-driven rotary tables and duplex pumps would each cost $7 million to upgrade. Nonproductive time is about 24% with Russian rigs; new or upgraded rigs would be far more efficient. The widely-used, all-mechanical Russian BU-3000 rig made by the Russian company Uralmash can drill shallow wells in 10 to 15 days but requires at least 45 to 50 days to move. Drilling contractors want new units to be able to move much more rapidly.

Sales Process

The drilling rig sales process in Russia is slow but reasonably transparent. Regulations pertaining to drilling rigs are set by Gosstandart, the national standards body, and Gosgortechnadzor, the mining authority.

Key New Rig/Major Component Suppliers

Traditionally the Russian drilling rig market has primarily been supplied by two domestic manufacturers: Uralmash Drilling Equipment Association (“URBO”) and the Volgograd Drilling Technology Plant (of “VZBT”).

Integra Group, a corporation formed to consolidate Russian oilfield service companies, acquired Uralmash-Drilling Equipment and VNIIBT-Drilling Tools ("Uralmash") from MNP Group. Customers include Gazprom, LUKoil, TNK-BP, Surgutneftegaz, Sibneft, Rosneft and Tatneft. The company's manufacturing is in the Volga-Urals with additional facilities in Ekaterinburg, Perm, Kotovo, Pavlovsk, and Moscow. This transaction, which closed on September, 2005, grew Integra’s 2005 revenues from ~US$120 million to ~US$200 million. Uralmash tried to use western-style manufacturing processes in the 1990s that included outsourcing rig components but found the price point increases unacceptable at the time to its domestic customers.

In recent years Chinese rig manufacturers also have begun to enter this market. The international rig manufacturers serving the Russian market are National Oilwell Varco (US), CPTDC (China), Honghua (China), Bentec (Germany), and Upetrom (Romania). To date, all of these firms have been exporting rigs to the Russian market.

Bentec (a unit of Abbot Group PLC) is opening in a fabrication facility in Tyumen, Siberia, which is scheduled to become operational in mid-2008. The company intends to employ 200-300 workers to build six to eight rigs/year. Construction work on substructures, masts, and tank systems will take place in Tyumen. The Russian-built Bentec rigs would include drilling components from Germany. Bentec has hopes that its HR-4000 rig will become a substitute for the Uralmash BU-3000 rig in the Russian market. The HR-4000 can be built at 15% lower cost than the HR-5000 and can move in 12 to 15 days, pad-to-pad, while the HR-5000 takes about 40 days pad-to-pad and the BU-3000 even longer.

National Oilwell Varco has a joint venture with Lanshi (China); the company markets rigs in Russia that are made in China.

Uralmash

Since the collapse of the Russian rig manufacturing market in the 1990s following the dissolution of the Soviet Union, Russian rig builders have lacked the capital to invest in new equipment or update their rig designs. For example, Uralmash's machinery and tools are 25 years old, cranes are 50 years old, and testing facilities are 40 years old. As a result, Russian-built rigs are generally characterized as having obsolete technology and low quality.

However, Uralmash recently produced its most advanced unit, the URALMASH 3200/200 DER-M, a mobile drilling rig built in accordance with technical requirements of KCA Deutag (Germany). This new drilling rig has a lifting capacity of 200 tons and has a rated depth capacity of 3,200 meters. It comes equipped with a variable speed drive and is certified to API standards.

Uralmash currently makes several types of drilling rigs ranging in depth from 2,900 to 8,000 meters. Over the past six years Uralmash has reportedly made about 100 rigs for use in Russia, the CIS, the Middle East, North Africa, South and Central America, and Asia.

VZBT

VZBT manufactures mobile drilling rigs which are characterized by antiquated design and a lack of technical sophistication.

Competitive Position of Honghua Rigs

From a technical perspective, Honghua's primary competition within the Russian market is believed to be other foreign rig manufacturers such as National Oilwell Varco or Bentec. Both make modern, well-built, drilling rigs with rated depths up to 8,000 meters.

Drilling rigs vary in price depending on depth rating, horsepower, lifting capacity, and the amount of associated specialized equipment. Prices also vary by manufacturer. In 2006 a 5,000 meter, AC rig made by Honghua for the Russian market had a sales price of about $9 million; similar rigs by NOV and Bentec are estimated to have carried sales prices of $18 million and $12 million, respectively.

OTHER FSU COUNTRIES

Drilling Activity

The total volume of oil and gas exploration and production drilling in "Other FSU Countries" (Former Soviet Union countries of Azerbaijan, Kazakhstan, Turkmenistan, Ukraine, and Uzbekistan) is expected to increase from 7.4 million feet of hole in 2007 to 9.5 million feet in 2012, a gain of 27%. The number of new wells drilled over the 2007 to 2012 timeframe is expected to increase from 1,145 to 1,465.

	WELLS			FOOTAGE (Million Feet)		
	Land	Off	Total	Land	Off	Total
2000	472	9	481	2.5	0.1	2.6
2001	723	12	735	4.2	0.1	4.3
2002	742	18	760	4.2	0.2	4.4
2003	740	15	755	4.0	0.2	4.2
2004	842	21	863	4.6	0.2	4.8
2005	1,003	24	1,027	6.4	0.2	6.6
2006	1,053	33	1,086	6.7	0.3	7.0
2007	1,106	39	1,145	7.0	0.4	7.4
2008	1,161	42	1,203	7.4	0.4	7.8
2009	1,219	45	1,264	7.7	0.5	8.2
2010	1,280	48	1,328	8.1	0.5	8.6
2011	1,344	51	1,395	8.5	0.5	9.0
2012	1,411	54	1,465	9.0	0.5	9.5

Sources: World Oil, Spears

Major Field Development Projects

Kazakhstan

TengizChevroil has indicated that a subsequent expansion phase of the Tengiz oilfield is possible and could take output to 1 million bpd by 2012.

BG's Karachaganak gas condensate project may see a third development phase that would include the drilling of 90 wells (25 horizontal). The timetable for phase three is undetermined.

ENI now estimates that its Kashagan project will cost $19 billion for phase one, in which two 150,000 bbl/d systems are to become operational. First oil is now expected in the 2010 to 2011 period.

Rig Fleet

Industry observers estimate that the other major oil and gas producing countries of the FSU currently have a combined total of about 500 rigs in their onshore rig fleets (as shown in the accompanying table). Almost all of these units are more than 20 years old and based on obsolete designs.

FSU-Others Rig Fleet

Country	Onshore Rig Fleet
Ukraine	195
Turkmenistan	95
Uzbekistan	90
Kazakhstan	100
Azerbaijan	25
Total	505

Source: Spears

Contract Drillers

In the countries of the former Soviet Union (excluding Russia), very few of the onshore drilling rigs in the current rig fleet are owned and operated by private or foreign drilling contractors, except for Kazakhstan. However, in Kazakhstan, foreign and private drilling contractors are estimated to comprise about 60 percent (62 of 100) of the available rig fleet. The largest of these contractors by far is Great Wall Drilling (35 rigs) from China, followed by Parker Drilling, Sun Drilling, Ascom, and Nabors.

New Land Rig Demand

Assuming that "Other FSU Countries" onshore drilling activity increases 5% per year during the 2006 to 2012 timeframe, we estimate that in order to sustain drilling activity around 15 to 20 new rigs will need to be constructed for this market annually by 2012.

A huge backlog of idle units is being steadily worked off, and eventually rig newbuilds will be needed to offset rig retirements.

"Other FSU" Onshore Rig Fleet Market

	Active Rigs	Rig Fleet Jan 1	Newbuilds	Assembled from Parts	Retirements	Rig Fleet Dec 31
2000	84	660	0	0	26	634
2001	145	634	0	0	25	608
2002	148	608	0	0	24	584
2003	148	584	0	0	23	561
2004	168	561	0	0	22	538
2005	201	538	0	0	22	517
2006	211	517	5	0	21	501
2007	221	501	10	0	20	492
2008	232	492	10	0	20	482
2009	244	482	10	0	19	473
2010	256	473	19	0	19	473
2011	269	473	19	0	19	473
2012	282	473	19	0	19	473

Source: Spears

CHINA

Drilling Activity

The total volume of oil and gas exploration and production drilling in China is expected to increase from 127.3 million feet of hole in 2007 to 160.7 million feet in 2012, a gain of 26%. A substantial increase in drilling activity is projected to take place as operators seek to develop recent large oil and gas discoveries. The number of new wells drilled over this timeframe is expected to increase from 17,095 to 21,594.

	WELLS			FOOTAGE (Million Feet)		
	Land	Off	Total	Land	Off	Total
2000	10,001	54	10,055	53.5	0.4	53.9
2001	9,751	63	9,814	51.7	0.5	52.2
2002	9,946	53	9,999	76.6	0.6	77.2
2003	12,234	59	12,293	93.0	0.7	93.7
2004	13,077	165	13,242	96.8	1.8	98.5
2005	16,202	220	16,422	119.9	2.3	122.2
2006	16,850	244	17,095	124.7	2.6	127.3
2007	17,525	259	17,783	129.7	2.8	132.4
2008	18,225	259	18,484	134.9	2.8	137.6
2009	18,955	259	19,213	140.3	2.8	143.0
2010	19,713	273	19,986	145.9	2.9	148.8
2011	20,501	273	20,774	151.7	2.9	154.6
2012	21,321	273	21,594	157.8	2.9	160.7

Sources: Spears

Major Field Development Projects

CNPC, the country's largest oil and natural gas producer, aims to boost gas production by 1.06 Tcf per year to 2.5 Tcf by 2010. In 2007, CNPC plans for drilling almost 500 development wells. The company is scheduled to develop five large, new gas fields over the next three years: the 140 bcf/year Longgang and 70 bcf/year Xujiahe fields (Sichuan province), the 300 bcf/year Sulige field (Ordos basin), and the 130 bcf/year Dinan

and 70 bcf/year Tazhong fields (Tarim basin). At Longgang — where reserves may be around 20 TCF — CNPC plans for drilling six wells by the end of 2008 and another eight wells by the end of 2009 under a pilot development program.

CNPC will begin large-scale development of its huge, newly discovered 7 billion barrel Nanpu oilfield in 2008. A total of 68 wells (most of them horizontal) are to be drilled there in the first half of 2007 using 45 rigs. The field lays onshore and offshore Tangshan province in Bohai Bay, with production is forecast to reach 200,000 bpd by 2012 and 500,000 bpd later on. A pilot production program to take place this year calls for drilling 16 horizontal wells. CNPC also plans to drill a minimum of 3,000 development wells annually at the Daqing oilfield starting in 2006 and increasing to 4,000 wells per year by 2010 in the hope of maintaining output from the country's largest field at 840,000 bbl/d until 2010 and at 800,000 bbl/d until 2020.

Sinopec plans to develop up to 10 new gas fields in the Sichuan province over the next four years and lift gas production to 250 bcf per year by 2010.

Sinopec's Puguang gas field has an accumulated proven gas reserve of 356.1 billion cubic meter (12.6 Tcf) and will build up an annual production capacity of 12 billion cubic meter (423.8 Bcf) of purified gas by end of 2010.

Rig Ownership

About 85% to 90% of the estimated 2,000 onshore drilling rigs in China are owned by subsidiaries of the two leading state-owned oil companies, the CNPC and Sinopec groups. At present CNPC is estimated to have over 1,000 onshore rigs in its rig fleet, while Sinopec is estimated to have over 600 rigs in its onshore fleet. In addition, an estimated 200 to 300 rigs are owned and operated by other Chinese operators and independent domestic drilling contractors.

We estimate that fewer than 20 foreign-owned onshore drilling rigs are in China at present. Foreign-owned equipment first entered the Chinese market several years ago to drill deep, exploratory wells in the Tarim desert at a time when Chinese drilling crews had little experience on deep wells and Chinese-made rigs were not capable of reaching below 5,000 meters. With the manufacture of deep-rated Chinese rigs, and the increased deep-well know-how of Chinese drilling contractors, any remaining technical advantage on the part of foreign drilling contractors has become insufficient to overcome their higher day-rate cost structure.

New Land Rig Demand

We estimate that in order to sustain drilling activity by 2012 a total of 200 new rigs per year will be needed to be built for this market, up from about 140 rigs that were built for the Chinese market in 2006, assuming: (1) that China's onshore drilling activity increases 5% per year during the 2006 to 2012 timeframe; (2) that rig utilization remains near current levels; and (3) that rigs have an average lifespan of 16 years, Over the 2006 to 2012 timeframe about 70% of the demand for new rigs is linked to the need to replace worn-out or obsolete units.

Chinese Onshore Rig Fleet Market

	Active Rigs	Rig Fleet Jan 1	Newbuilds	Assembled from Parts	Retirements	Rig Fleet Dec 31
2000	653	2,000	120	0	120	2,000
2001	637	2,000	120	0	120	2,000
2002	649	2,000	125	0	120	2,005
2003	799	2,005	125	0	120	2,010
2004	854	2,010	130	0	121	2,019
2005	1,058	2,019	135	0	121	2,033
2006	1,100	2,033	140	0	122	2,051
2007	1,144	2,051	175	0	123	2,103
2008	1,190	2,103	180	0	126	2,157
2009	1,237	2,157	185	0	129	2,212
2010	1,287	2,212	190	0	133	2,270
2011	1,338	2,270	195	0	136	2,328
2012	1,392	2,328	200	0	140	2,389

Source: Spears

Note: The total or sub-total number in this chart is for illustrative purpose only; numbers may or may not add up due to rounding up, varied assumptions or other considerations.

Key New Rig/Major Component Suppliers

The largest Chinese drilling rig manufacturers are BOMCO and Honghua.

It is estimated that over 90% of the new rigs for the Chinese market are mechanical rigs with rated depth capacities of 4,000 to 7,000 meters. Prices for these units currently range from RMB 10 to 20 million. A/C drive rigs are estimated to currently comprise less than 10% of the domestic market, and prices for these units range from RMB 30 to 50 million. Price differences between Chinese rig manufacturers are generally not significant. Vendors tend to compete on price, quality, availability, and past experience.

The leading international rig manufacturers — National Oilwell Varco and Bentec — have traditionally had little presence in the Chinese market due to the limited participation of foreign drilling contractors and their high price differentials.

Chinese Drilling Rig Manufacturers — 2006

Manufacturer	Drilling Rigs(1)	Mud Pumps(2)	Total Sales
			(Mil RMB)
Honghua	86	410	2,336
Bomco	86	506	2,200
NanYang	30	12	1,100
Lanshi/NOV	39	120	960
Ganghan Xiji	59	16	800
Others	68	83	2,020
Total	368	1,147	9,416

Source: Honghua, market data

(1) Number of drilling rigs produced, may be different to number of rigs sold

(2) Number of mud pumps produced, may be different to number of mud pumps sold

Honghua, based in Guanghan City, Sichuan Province, produces a line of drilling rigs that includes (1) mechanical, (2) DC electric (SCR), and (3) AC variable frequency drive with digitally controlled drilling rigs that range in depth from 1000 to 9000 meters (500HP-4000HP). Its innovative AC variable frequency drive technology allows greater control of the drilling process and improves efficiency during tripping operations.

BOMCO, based in Baoji, Shaanxi Province, is the largest petroleum equipment machinery manufacturer in the CNPC group. The company offers mechanical and electric drive drilling rigs, derricks and substructures, wellhead equipment, mud pumps, pumping units, and solids control equipment. BOMCO was the first Chinese rig manufacturer to develop AC variable frequency drive rigs and to produce a top drive drilling system (1995). The company offers 21 different rig designs, including AC-powered rigs, truck-mounted rigs and rigs for cluster drilling, slant hole drilling, and desert drilling, capable of drilling from 1,000 to 9,000 meters. Most of the BOMCO's past construction was focused on hydraulic drive or DC drive rigs, but new contracts call for AC variable frequency rigs. The company's newest design is an AC rig capable of drilling to 7,000 meters. The company is increasingly active outside China, and it distributes its rigs and equipment in Canada through Linggas.

Lanzhou Petroleum & Chemical Machinery Equipment Engineering Group, in Lanzhou City, Gansu Province, builds land and offshore drilling rigs rated from 1,500 to 9,000 meters, as well as pumps and related oilfield equipment. Lanzhou set up a joint venture with National Oilwell in 2001 to form the Lanzhou LS-National Oilwell Petroleum Engineering to make drilling and well servicing rigs.

MIDDLE EAST

Rig Count

We expect that overall (land and offshore) drilling activity in the Middle East will increase 9% in 2007 to an average of 262 active rigs, as measured by MI Swaco (Iran only) and Baker Hughes (all other countries). Onshore drilling accounts for about 90% of all active rigs in the region. With an estimated 270 to 280 rigs in the Middle East onshore rig fleet as of the end of 2006, we estimate that onshore rig utilization in the Middle East is currently about 90%, effectively full utilization.

Drilling Activity

We expect that drilling activity in the Middle East will increase 12% in 2007 to a total of 2,100 wells and 17.0 million feet of hole. Onshore activity is projected to be 1,936 new wells and 15.4 million feet of hole. Although the Middle East accounts for over 60% of the world's oil reserves and 40% of the world's gas reserves, the region accounts for less than 2% of global drilling activity due to the high productivity of its new wells.

MIDDLE EAST DRILLING ACTIVITY

	WELLS			FOOTAGE (Million Feet)		
Year	Land	Off	Total	Land	Off	Total
2000	1,196	106	1,303	7.8	0.8	8.6
2001	1,138	145	1,283	8.8	1.3	10.1
2002	1,236	166	1,402	9.5	1.8	11.3
2003	1,364	136	1,500	10.2	1.3	11.6
2004	1,334	147	1,481	10.5	1.5	12.0
2005	1,429	179	1,608	11.2	1.7	12.9
2006	1,710	164	1,874	13.5	1.6	15.1
2007	1,936	164	2,100	15.4	1.6	17.0
2008	2,040	182	2,222	16.2	1.8	18.0
2009	2,133	190	2,323	17.0	1.9	18.9
2010	2,189	199	2,388	17.5	2.0	19.5
2011	2,227	209	2,436	17.8	2.1	19.9
2012	2,267	220	2,486	18.1	2.2	20.3

Source: Spears
Note: Excludes Iraq

The primary driver of increased drilling in the coming years will be Saudi Arabia as the Kingdom starts to put in place a 15% increase in crude output capacity. By the end of 2007, it plans to increase its fleet of drilling rigs by 25% in order to address its major field development projects including Manifa, Khurais, Marjan, Zuluf, Safaniya, Abu Hadriyah, Harach, Shaybah, and Nuayyim. The other major oil exporters in the region will also remain active. In Oman, PDO is looking to enhanced oil recovery (EOR) projects to stabilize oil output, and may soon approve its first tight gas field development project. Abu Dhabi is seeking a major boost in gas output by 2008. Yemen has reworked contract terms and is poised to announce the winners of its most recent acreage tender round. Maersk is working on a large field expansion project in Qatar.

Rig Ownership

We were able to identify over 270 onshore rigs held by a total of 33 domestic and foreign drilling contractors in the Middle East. Nabors (38 rigs), National Iranian Drilling Company (NIDC) (37 rigs), and Arab Drilling Company (25 rigs) have the largest rig fleets in this region. NIDC claims that it only has half of the rig units it needs.

New Land Rig Demand

Assuming: (1) that the Middle East's onshore drilling activity increases 20% over the 2006 to 2012 timeframe; (2) that regional rig utilization remains near current levels; and (3) that rigs have an average lifespan of 25 years, we estimate that in order to sustain drilling activity by 2012 an average of 20 new rigs per year will be needed to be built.

Over the 2009 to 2012 timeframe about 70% of the demand for new rigs is linked to the need to replace worn-out or obsolete units.

NIDC (Iran) recently ordered four Chinese-built land rigs. In all, plans call for 14 units to be ordered in 2007. The four on order are to be delivered by the end of 2008.

Middle East Onshore Rig Fleet Market

Year	Active Rigs	Rig Fleet Jan 1	Newbuilds	Moved In or Assembled	Retirements	Rig Fleet Dec 31
2000	119	250	0	0	10	240
2001	127	240	0	5	10	235
2002	138	235	0	5	9	231
2003	147	231	0	10	9	232
2004	156	232	0	10	9	232
2005	167	232	10	10	9	243
2006	210	243	30	10	10	273
2007	233	273	30	5	11	298
2008	241	298	20	0	12	306
2009	251	306	20	0	12	313
2010	256	313	20	0	13	321
2011	259	321	20	0	13	328
2012	263	328	20	0	13	335

Sources: BHI, MI Swaco, Spears

Note: The total or sub-total number in this chart is for illustrative purpose only; numbers may or may not add up due to rounding up, varied assumptions or other considerations.

Key New Rig/Major Component Suppliers

The Middle East has few domestic manufacturers of onshore rig equipment, although there are several rig repair facilities in the region. One of the few local land rig fabricators is Sanaye Fajr, located in Shiraz, Iran.

In recent years Chinese rig equipment suppliers have begun to enter this market. The leading international rig manufacturers serving the Middle East market are National Oilwell Varco (USA), BOMCO (China), Honghua (China), Bentec (Germany), and Upetrom (Romania).

In 2005, Bentec opened a rig service yard in Gahla, an industrial area of Muscat, Oman to provide repair services and to complete rig upgrades and perform inspections for certifications. The yard is open to all drilling contractors and all makes of rigs.

LATIN AMERICA

Rig Count

We expect that overall (land and offshore) drilling activity in Latin America will rise 104% in 2007 to an average of 356 active rigs (as measured by Baker Hughes). By 2012 rig count is forecast to average 453 active land and offshore units, up 40% from the 2006 level. Onshore drilling accounts for about 85% of all active rigs in the region. With an estimated 380 to 390 rigs in the Latin America onshore rig fleet as of the end of 2006, we estimate that onshore rig utilization in Latin America is currently about 75%.

Drilling Activity

We expect that overall (land and offshore) drilling activity in Latin America will increase 4% in 2007 to a total of 4,995 wells and 31.4 million feet of hole. Onshore activity is projected to rise 3% accounting for 4,636 new wells and 28.3 million feet of hole.

On a regional basis, the increase in drilling activity is expected to be led by Argentina and Colombia. In Argentina, provincial governments — which in the past have had better relationships with producers than the federal government has had — are to be given more authority to negotiate with producers about contract terms. Colombia continues to attract interest from foreign operators as it seeks to increase output due to attractive contract terms, good exploration results, and an improving security situation.

LATIN AMERICA DRILLING ACTIVITY

	WELLS			FOOTAGE (Million Feet)		
Year	Land	Off	Total	Land	Off	Total
2000	2,535	295	2,830	15.8	2.7	18.4
2001	3,849	331	4,180	24.2	3.0	27.2
2002	3,163	313	3,476	19.9	2.7	22.7
2003	3,658	337	3,994	21.6	3.0	24.6
2004	3,861	320	4,181	24.3	2.8	27.1
2005	4,155	289	4,445	25.9	2.5	28.4
2006	4,481	309	4,790	27.4	2.7	30.1
2007	4,636	359	4,995	28.3	3.1	31.4
2008	4,925	386	5,310	30.1	3.3	33.5
2009	5,233	417	5,650	32.0	3.6	35.6
2010	5,486	447	5,933	33.5	3.9	37.3
2011	5,585	465	6,050	34.1	4.0	38.1
2012	5,525	462	5,987	33.3	3.9	37.2

Source: Spears

In Mexico the sharp decline in output from Pemex's flagship Cantarell field could reduce oil export revenues by 20% this year. In response, Pemex proposes an increase in exploration and development but budget

constraints may become a problem, although some restrictions on foreign investment in downstream development may eventually be relaxed. In Brazil, Petrobras is fast-tracking gas development to offset the looming shortfall in gas imports from Bolivia.

Rig Ownership

We were able to identify over 385 onshore rigs held by a total of 28 domestic and foreign drilling contractors in Latin America. Pemex (75 rigs) and San Antonio (74 rigs) are estimated to have the largest rig fleets in this region.

New Land Rig Demand

Assuming:(1) that Latin America's onshore drilling activity increases 40% over the 2006 to 2012 timeframe; (2) that regional rig utilization remains near current levels; and (3) that rigs have an average lifespan of 25 years, we estimate that in order to sustain drilling activity by 2012 a total of 115 new rigs will be built over the 2007 to 2012 timeframe in order to meet the needs of this market. Competition for new rig orders will come in the form of rigs being moved into the Latin American market, primarily from US and Canadian drilling contractors with surplus rigs.

Latin America Onshore Rig Fleet Market

Year	Active Rigs	Rig Fleet Jan 1	Newbuilds	Moved In or Assembled	Retirements	Rig Fleet Dec 31
2000	186	450	0	0	18	432
2001	215	432	0	0	17	415
2002	168	415	0	0	17	398
2003	188	398	0	5	16	387
2004	225	387	0	5	15	377
2005	251	377	5	10	15	377
2006	261	377	10	15	15	387
2007	285	387	10	10	15	391
2008	321	391	25	20	16	420
2009	351	420	25	30	17	459
2010	367	459	25	10	18	475
2011	374	475	20	5	19	481
2012	363	481	10	0	19	472

Sources: BHI, Spears

Note: The total or sub-total number in this chart is for illustrative purpose only; numbers may or may not add up due to rounding up, varied assumptions or other considerations.

Key New Rig/Major Component Suppliers

At present Latin America has no domestic manufacturers of onshore rig equipment. However, in Venezuela PdVSA has plans to begin assembling rigs beginning in 2008 under a joint venture with China Petroleum Technology and Development Corporation (CPTDC), a subsidiary of CNPC. By 2010-2011 PdVSA intends to be able to build rigs in Venezuela. In the near term PdVSA plans to purchase 28 new rigs from China.

The leading international rig manufacturers serving the Latin America market are National Oilwell Varco and Bentec (a unit of Abbot Group PLC).

Venezuela

PdVSA's long term plans are to double the country's oil production by 2012. To that end, in August 2006 the company said it hired 27 new rigs mainly from domestic and Chinese companies, breaking the traditional practice of only using multinational drilling contractors. However, industry sources indicate that many of the

2006 contracts were for renewals, and that a number of the domestic rig suppliers were unable to deliver due to mechanical issues with their rigs.

PdVSA is now inspecting the domestic rigs to make sure that bidders have what they are offering, but it remains to be seen if PdVSA will offer attractive enough terms to expand activity. The government claims it has nationalized a total of 18 rigs owned by private drilling contractors rather than pay higher day rates.

PdVSA plans to spend more than $3.5 billion to buy and lease over 100 drilling rigs to the end of 2012. As part of this program, it plans to issue a tender for 50-60 rigs in Q1 2008. Officially, PdVSA expects that around 170 rigs will be working in Venezuela by the end of 2008 (and 205 by the end of 2010) up from 110-120 rigs that are currently in the country. However, some PdVSA officials are reported to have conceded that the planned 2008 rig increase will not be completed until 2009.

	RIGS			WELLS			FOOTAGE (Million Feet)			SPENDING (US$ Million)		
	Land	Off	Total	Land	Off	Total	Land	Off	Total	Land	Off	Total
2000	47	15	63	688	3	691	3.9	0.0	3.9	$1,556	$ 36	$1,592
2001	50	18	67	1,282	3	1,285	8.3	0.0	8.3	$3,043	$ 44	$3,087
2002	30	12	42	949	2	951	6.3	0.0	6.3	$2,253	$ 31	$2,284
2003	26	11	37	960	5	965	5.0	0.0	5.0	$2,280	$ 66	$2,346
2004	43	12	55	1,150	6	1,156	6.8	0.1	6.8	$2,730	$ 74	$2,804
2005	55	13	68	1,270	7	1,277	7.5	0.1	7.5	$3,317	$ 92	$3,409
2006	64	16	81	1,502	8	1,510	8.8	0.1	8.9	$4,316	$124	$4,440
2007	60	17	77	1,434	8	1,442	8.4	0.1	8.5	$4,531	$141	$4,672
2008	75	17	92	1,472	9	1,481	8.7	0.1	8.7	$5,118	$157	$5,275
2009	99	22	121	1,700	11	1,711	10.0	0.1	10.1	$6,207	$217	$6,424
2010	109	25	134	1,870	12	1,883	11.0	0.1	11.1	$7,169	$251	$7,420
2011	110	25	135	1,889	12	1,901	11.1	0.1	11.2	$7,602	$266	$7,869
2012	111	25	136	1,908	13	1,920	11.2	0.1	11.3	$8,062	$282	$8,345

Sources: Baker Hughes, Spears and Associates

One factor jeopardizing PdVSA's long-term E&P plans is that the company's finances have come under increasing pressure as the company is being looked to as the source of funding for the president's nationalization program in the telecom and power sectors. Doubts have surfaced about PdVSA's ability to fund its capital spending program in light of the government's intention to have PdVSA provide the US$1.5 billion required to finance the nationalization of the telecom and power industry. The firm is also committed to spend US$1.0 billion to build three thermal power plants this year. Plans to acquire majority stakes in four heavy-oil crude operations could also cost about US$20 billion. PdVSA's own six-year capacity expansion plan is expected to cost about US$130 billion with the addition of refinery and modernization programs that have been promised in 12 foreign countries.

AFRICA

Rig Count

We forecast that overall (land and offshore) drilling activity in Africa will increase 15% in 2007 to an average of 136 active rigs, as measured by MI Swaco and Baker Hughes. Onshore drilling accounts for 80% to 85% of all active rigs in the region. With an estimated 220 to 230 rigs in the African onshore rig fleet as of the end of 2006, we estimate that onshore rig utilization in Africa is currently about 50%.

Drilling Activity

We expect that overall drilling activity in Africa will increase 17% in 2007 to a total of 1,521 wells and 11.8 million feet of hole. Onshore activity is projected to rise 17% accounting for 424 new wells and 3.8 million feet of hole.

Increased drilling in North Africa is expected to drive the overall regional increase in activity over the coming year. In Algeria, Sonatrach is increasing its E&P activity. Libya will see a number of operators start exploration work over the next 12 to 24 months. In Egypt, onshore gas development activity is on the rise while offshore deepwater drilling is holding steady.

Elsewhere in Africa, numerous small-scale exploration and development projects are taking place in Gabon, Equatorial Guinea, Mozambique, Mauritania, and South Africa.

AFRICA DRILLING ACTIVITY

	WELLS			FOOTAGE (Million Feet)		
Year	Land	Off	Total	Land	Off	Total
2000	457	246	702	3.8	2.2	6.0
2001	507	263	771	4.3	2.4	6.7
2002	692	295	986	5.6	2.7	8.3
2003	744	316	1,060	5.8	2.8	8.6
2004	755	306	1,061	5.4	2.8	8.2
2005	795	325	1,120	5.7	2.9	8.6
2006	934	363	1,297	6.8	3.3	10.1
2007	1,097	424	1,521	8.0	3.8	11.8
2008	1,240	480	1,720	9.0	4.3	13.3
2009	1,302	502	1,804	9.5	4.6	14.1
2010	1,370	517	1,887	9.9	4.7	14.7
2011	1,448	532	1,979	10.4	4.9	15.3
2012	1,501	546	2,047	10.8	5.0	15.8

Source: Spears

Rig Ownership

We were able to identify almost 230 onshore rigs held by 32 domestic and foreign drilling contractors in Africa. ENTP, Great Wall, EDC, and Enafor have the largest rig fleets in this market.

New Land Rig Demand

Assuming:(1) that Africa's onshore drilling activity increases 50% over the 2006 to 2012 timeframe; (2) that regional rig utilization remains near current levels; and (3) that rigs have an average lifespan of 25 years, we estimate that in order to sustain drilling activity by 2012 an average of 15 new rigs per year will be needed to be built for this market.

Over the 2009 to 2012 timeframe, about 60% of the demand for new rigs is linked to the need to replace worn-out or obsolete units.

Africa Onshore Rig Fleet Market

Year	Active Rigs	Rig Fleet Jan 1	Newbuilds	Moved In or Assembled	Retirements	Rig Fleet Dec 31
2000	38	260	0	0	10	250
2001	47	250	0	0	10	240
2002	55	240	0	0	10	230
2003	61	230	0	0	9	221
2004	67	221	0	6	9	218
2005	76	218	5	6	9	220
2006	95	220	5	6	9	222
2007	110	222	10	6	9	230
2008	119	230	15	0	9	235
2009	124	235	15	0	9	241
2010	129	241	15	0	10	246
2011	136	246	15	0	10	251
2012	140	251	15	0	10	256

Sources: BHI, MI Swaco, Spears

Note: The total or sub-total number in this chart is for illustrative purpose only; numbers may or may not add up due to rounding up, varied assumptions or other considerations.

Key New Rig/Major Component Suppliers

Africa has no domestic manufacturers of onshore rig equipment. The leading international rig manufacturers serving the African market have traditionally been National Oilwell Varco and Bentec (a unit of Abbot Group PLC). In recent years Chinese rig equipment suppliers — BOMCO and Honghua — have begun to enter this market.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on June 15, 2007 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and the Amended and Restated Articles of Association (the "Articles").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on January 21, 2008. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

As at the date of the adoption of these Articles, the share capital of the Company consists of 10,000,000,000 shares of par value HK$0.10 each.

(ii) Share certificates

Every person whose name is entered as a member in the register of members shall be entitled without payment to receive a certificate for his shares. The Cayman Companies Law prohibits the issue of bearer shares to any person other than an authorized or recognized custodian defined in the Cayman Companies Law. The requirement on all service providers to implement appropriate due diligence procedures on the identity of a client in order to "know your client" as a result of proceeds of crime legislation mandates that special procedures should be followed when issuing bearer shares.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and

may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words "restricted voting" or "limited voting" or "non-voting" or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

(b) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not

required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors and their Associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective Associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective Associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) Disclosure of interest in contracts with the Company or with any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his Associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution. If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the Chairman of the meeting) or his Associates or as to the entitlement of any Director (other than such Chairman of the meeting) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the Chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director or his Associates concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the Chairman of the meeting or his Associates such question shall be decided by a resolution of the Board (for which purpose such Chairman of the meeting shall not be counted in the quorum and shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such Chairman of the meeting or his Associates as known to him has not been fairly disclosed to the Board.

All matters which may lead to or result in any actual or potential conflict of interest with the Controlling Shareholder(s) shall be deferred to independent non-executive Directors of the Company for decision. If there is any question as to whether a certain matter conflicts with the interest of the Controlling Shareholder(s), such question shall be referred to the Chairman of the meeting and his ruling in relation to such question shall be final and conclusive. If any question as aforesaid shall arise in respect of the Chairman of the meeting or his Associates such question shall be decided by a resolution of the Board (for which purpose such Chairman of the meeting shall not be counted in the quorum and shall not vote thereon) and such resolution shall be final and conclusive.

(vi) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra

remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election. There is no shareholding qualification for Directors.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the

day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;

(bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;

(cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;

(gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or

(hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or

in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) Borrowing powers

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

(x) Proceedings of the Board

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Alteration of capital

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital-subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorized by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) Special resolution-majority required

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorized representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

(i) the chairman of the meeting; or

(ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or

(iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorized as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorisation shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized in accordance with this provision shall be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) Annual general meetings

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorized by the Stock Exchange at such time and place as may be determined by the Board.

(i) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorized by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than twenty-one days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must

specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of Directors in place of those retiring;

(dd) the appointment of auditors;

(ee) the fixing of the remuneration of the Directors and of the auditors;

(ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange and the number of any securities repurchased by the Company since the granting of such mandate; and

(gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

(k) Transfer of shares

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if

the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a newspaper circulating generally in Hong Kong or, where applicable, any other newspapers in accordance with the requirements of the Stock Exchange, at such times and for such periods as the Board may determine. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

(l) Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the

Company subject to any applicable requirement imposed from time to time by code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

(m) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque

or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the moneys so advanced may pay interest at such rate (if any) not exceeding 20 % per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorized. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be

transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

(q) Inspection of corporate records

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(s) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

(i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;

(ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and

(iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 15 June 2007 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) in the redemption and repurchase of shares (in accordance with the detailed provisions of section 37 of the Cayman Companies Law);

(iv) writing-off the preliminary expenses of the company;

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(vi) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares without the manner of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details).

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

(i) an act which is *ultra vires* the company or illegal;

(ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

(iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Cayman Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

(i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations: and

(ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the Company is for a period of twenty years from 17 July 2007.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not a party to any double tax treaties.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as the directors may, from time to time, think fit. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court or (ii) voluntarily by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or where the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no further executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including

the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, ratably if insufficient assets exist to discharge the liabilities in full, and settle the list of contributories ("members") and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

When the affairs of a company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This general meeting shall be called by public notice or such other means as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(r) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice which summaries certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VIII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

We were incorporated in the Cayman Islands, as an exempted company with limited liability under the Cayman Companies Law, on June 15, 2007. We have established a place of business at Room 908, 9/F, Hutchison House, Central, Hong Kong, and we have registered as an overseas company, under Part XI of the Companies Ordinance, at that address.

Arculli Fong & Ng has been appointed as our agent for the acceptance of service of process and notices served on the Company in Hong Kong. As we were incorporated in the Cayman Islands, our corporate structure and our Memorandum and Articles of Association are subject to the laws of the Cayman Islands. A summary of certain provisions of our Memorandum and Articles of Association and of certain aspects of Cayman Islands company law are set out in Appendix VI, "Summary of the Constitution of Our Company and Cayman Islands Company Law" to this Prospectus.

2. Subsidiaries

Our principal subsidiaries are listed in Appendix I, "Accountants' Report", to this Prospectus.

3. Changes in share capital

As of the date of our incorporation, our authorized share capital was HK$380,000, divided into 3,800,000 Shares, with a par value of HK$0.10. The changes in our share capital, since the date of our incorporation, were as follows:

(a) On June 15, 2007, one Share was allotted and issued nil paid to Reid Services Limited, and subsequently, on the same date, such Share was transferred to Ally Giant.

(b) On October 16, 2007, a shareholder's resolution was passed to increase the authorized share capital of the Company, from HK$380,000, divided into 3,800,000 ordinary shares, with a par value of HK$0.10, to HK$1,000,000,000, divided into 10,000,000,000 ordinary shares, with a par value of HK$0.10.

(c) Pursuant to the Reorganization, on October 16, 2007, the Company entered into a share sale and purchase agreement with, Ally Giant, under which agreement the Company acquired one ordinary share (at par value of HK$1.00) of Asia Harbour (being Asia Harbor's entire issued share capital) from Ally Giant. The consideration for such one share was satisfied by (i) crediting as fully paid the aggregate 1 nil paid Share in the issued share capital of the Company issued nil paid; and (ii) allotting and issuing 2,499,999,999 fully paid up Shares to Ally Giant.

(d) On October 16, 2007, the following transfers of Shares were effected:

Transferor	Transferee	No. of Shares
Ally Giant	Carlyle Asia Growth Partners III, L.P.	79,900,580
Ally Giant	CAGP III Co-Investment, L.P.	3,520,364
Ally Giant	Carlyle/Riverstone Global Energy and Power Fund III (Cayman), L.P.	55,449,901
Ally Giant	C/R Energy III Frontier Partnership, L.P.	25,159,757
Ally Giant	C/R Energy Coinvestment III (Cayman), L.P.	2,811,286
Ally Giant	DPF	53,086,055
Ally Giant	Hua VII Venture Capital Corporation	13,650,700
Ally Giant	Vincera Growth Capital I Limited	9,100,467
Ally Giant	Preen Group Limited	3,791,861
Ally Giant	IP Cathay	11,375,583
Ally Giant	COOS	174,425,609

(e) On October 17, 2007, Ally Giant transferred 450,000,000 Shares to Nabors International in connection with the Technology License Agreement, dated October 17, 2007, between the Company and Nabors Global.

Except as described above and in the sub-section 4 below, "Resolutions in writing, passed by all the shareholders of the Company, on January 21, 2008", there have been no changes in the share capital of the Company since its incorporation.

The changes in the share capital (or registered capital, as the case may be) of our subsidiaries occurred within the two years immediately preceding the date of this Prospectus were as follows:

Asia Harbour

(a) On July 8, 2006, Asia Harbour was incorporated in Hong Kong, with an authorized share capital of HK$10,000.00, divided into 10,000 ordinary shares at HK$1.00 each, one share of which was allotted and issued to Gold Regal Development Limited.

(b) On August 18, 2006, Gold Regal Development Limited transferred the entire issued share capital (i.e. one share) in Asia Harbour, to Ally Giant, in consideration for HK$1.00.

(c) On October 16, 2007, Ally Giant transferred one share of Asia Harbour to the Company, the consideration of which was satisfied by (i) crediting as fully paid the aggregate 1 nil paid Share in the issued share capital of the Company issued nil paid and currently held by Ally Giant; and (ii) allotting and issuing 2,499,999,999 Shares by the Company to Ally Giant credited as fully paid.

Honghua Company

(a) On December 1, 2005, the following transfers of equity interest in Honghua Company occurred:

Transferor	Transferee	Consideration (RMB)	Approximate equity interest transferred
He Guangfu	Zheng Yong	784,480.00	3.734%
Zhang Zongyou	Zhang Mi	3,861,739.31	3.136%
Chen Zongliang	Zhang Mi	2,786,135.71	2.262%
Zhi Rongmu	Ren Jie	47,080.00	0.224%
	Ao Pei	37,175.00	0.177%
	Zhou Tao	31,860.00	0.152%
	Wang Jiangyang	10,615.00	0.051%
	Liu Zhi	10,000.00	0.048%
	Lu Lan	2,650.00	0.013%
Wang Yaoxin	Lu Lan	35,000.00	0.167%
	Wang Jiangyang	28,895.00	0.138%
	Liu Chuanjun	10,000.00	0.048%
	Ren Jie	7,965.00	0.038%
	Tang Ying	7,965.00	0.038%
	Liu Zhi	5,000.00	0.024%
	Shi Shuming	2,900.00	0.014%
	Zhou Tao	1,500.00	0.007%
Liu Chuanjun	Fan Bing	23,895.00	0.114%
	Ao Pei	17,965.00	0.086%
	Zhi Rongmu	7,965.00	0.038%
	Wang Jiangyang	7,965.00	0.038%
	Zuo Huixian	7,965.00	0.038%
	Zheng Yong	7,965.00	0.038%
Xing Manrong	Zhi Rongmu	23,895.00	0.114%
	Yang Yuanchun	20,000.00	0.095%
	Ren Jie	18,580.00	0.088%
	Liu Zhi	18,500.00	0.088%
	Wang Yaoxin	3,765.00	0.018%
	Ni Xiurong	2,917.00	0.014%
	Liu Chuanjun	1,200.00	0.006%
Zhou Tao	Ren Jie	17,580.00	0.084%
	Zhang Yanyong	15,930.00	0.076%
	Fan Bing	15,930.00	0.076%
	Yang Yuanchun	7,965.00	0.038%
	Tian Diyong	7,965.00	0.038%
	Wang Yaoxin	2,000.00	0.010%
Yang Yuanchun	Wang Jiangyang	27,965.00	0.133%
	Liu Chuanjun	15,930.00	0.076%
	Ren Jie	15,930.00	0.076%
	Lu Lan	7,965.00	0.038%
Shi Shuming	Wang Jiangyang	15,930.00	0.076%
	Tian Diyong	15,930.00	0.076%
	Zhou Bing	14,180.00	0.067%
	Liu Zhi	7,965.00	0.038%
	Zhang Yanyong	2,665.00	0.013%
	Zhi Rongmu	2,650.00	0.013%

Transferor	Transferee	Consideration (RMB)	Approximate equity interest transferred
Li Yan	Tian Yu	15,930.00	0.076%
	Liu Chuanjun	15,930.00	0.076%
	Ren Jie	14,060.00	0.067%
	Zhou Bing	7,965.00	0.038%
	Zhi Rongmu	7,965.00	0.038%
	Shi Shuming	3,315.00	0.016%
	Wang Jiangyang	2,000.00	0.010%
Yang Xuefeng	Zheng Yong	7,965.00	0.038%
	Fan Bing	5,315.00	0.025%
	Xing Manrong	5,000.00	0.024%
	Wang Yaoxin	2,650.00	0.013%
Ni Xiurong	Wang Yaoxin	7,965.00	0.038%
	Zhou Tao	7,965.00	0.038%
	Lu Lan	7,965.00	0.038%
Yu Zhenghua	Zhang Xu	7,965.00	0.038%
	Ao Pei	7,965.00	0.038%

(b) On December 4, 2005, Zhou Tao entered into an equity transfer agreement with Liu Xuetian (deceased), pursuant to which Zhou Tao transferred approximately 0.038% equity interest in Honghua Company to Liu Xuetian (deceased).

(c) On January 7, 2006, a shareholders' resolution was passed, to reduce the registered capital of Honghua Company from RMB21,011,100 to RMB13,944,485. Honghua Company entered into an equity repurchase agreement with each of the following individual shareholders on January 12, 2006, pursuant to which Honghua Company repurchased all the equity interest held by those shareholders. Details of the equity repurchases are as follows:

Transferor	Consideration (RMB)	Approximate equity interest transferred
Xing Manrong	6,513,016.81	5.288%
Wang Yaoxin	5,708,957.75	4.635%
Liu Chuanjun	5,036,022.64	4.089%
Li Yan	4,633,360.09	3.762%
Shi Shuming	4,632,598.10	3.761%
Zhi Rongmu	3,714,824.07	3.016%
Zhou Tao	3,200,814.43	2.599%
Ni Xiurong	2,771,698.40	2.251%
Yang Xuefeng	2,199,301.48	1.786%
Yang Yuanchun	1,634,008.84	1.327%
Yu Zhenghua	1,377,065.63	1.118%

The capital reduction and equity repurchase was completed on April 26, 2006. Honghua Company was then owned approximately 24.615% by Huasheng Oil Company and approximately 75.385% by 23 individual shareholders, as follows:

Shareholder	Approximate equity interest
Concert Group	
Zhang Mi	16.515%
Zheng Yong	6.090%
Ren Jie	6.008%
Zuo Huixian	4.847%
Zhang Yanyong	4.447%
Fan Bing	4.137%
Zhang Xu	4.100%
Liu Xuetian (deceased)	3.508%
Zhou Bing	1.778%
Liu Zhi	1.760%
Wang Jiangyang	0.842%
Ao Pei	0.745%
Lu Lan	0.715%
Tian Diyong	0.521%
Chen Jun	0.293%
Li Hanqiang	0.293%
Tian Yu	0.286%
Shen Dingjian	0.240%
Liu Yingguo	0.172%
Liu Lulu	0.172%
Sub-total :	***57.468%***
*Other shareholder*s	
Deng Meng	8.755%
Yuan Guiqi	8.755%
Tang Ying	0.407%
Sub-total :	***17.917%***
Huasheng Oil Company	24.615%
Total :	**100%**

(d) On April 25, 2006, shareholders' resolutions were passed to reduce the registered capital of Honghua Company from RMB13,944,485 to RMB8,070,305. Honghua Company entered into an equity buy-out agreement with Huasheng Oil Company, Deng Meng and Yuan Guiqi, on May 22, 2006, pursuant to which Honghua Company repurchased all the equity interest held by Huasheng Oil Company, Deng Meng and Yuan Guiqi (approximately 24.615%, 8.755% and 8.755% respectively), for approximately RMB18,761,717.04, RMB6,673,275.42 and RMB6,673,275.42 respectively. The capital reduction and equity repurchase were completed on June 28, 2006, and Honghua Company was thereby owned by 21 individual shareholders, as follows:

Shareholder	Approximate equity interest
Concert Group	
Zhang Mi	28.536%
Zheng Yong	10.522%
Ren Jie	10.382%
Zuo Huixian	8.375%
Zhang Yanyong	7.684%
Fan Bing	7.147%
Zhang Xu	7.084%
Liu Xuetian (deceased)	6.061%
Zhou Bing	3.072%
Liu Zhi	3.042%
Wang Jiangyang	1.454%
Ao Pei	1.287%
Lu Lan	1.235%
Tian Diyong	0.900%
Chen Jun	0.506%
Li Hanqiang	0.506%
Tian Yu	0.495%
Shen Dingjian	0.415%
Liu Yingguo	0.297%
Liu Lulu	0.297%
Sub-total :	***99.297%***
Other shareholder	
Tang Ying	0.703%
Total :	**100.000%**

(e) On August 11, 2006, a shareholders' resolution was passed to increase the registered capital of Honghua Company from RMB8,070,305 to RMB18,750,000. On the same date, Honghua Company entered into a capital increase agreement with each of the following 33 individual shareholders. Details of the shareholding in Honghua Company after the capital increase are as follows:

Shareholder	Additional capital contribution (RMB)	Approximate equity interest
Concert Group:		
Zhang Mi	4,374,435	36.000%
Ren Jie	642,155	7.894%
Liu Zhi	804,535	5.600%
Zheng Yong	200,825	5.600%
Zuo Huixian	144,140	4.373%
Zhang Xu	218,330	4.213%
Fan Bing	203,180	4.160%
Liu Xuetian (deceased)	210,850	3.733%
Zhang Yanyong	75,000	3.707%
Zhou Bing	133,080	2.032%
Wang Jiangyang	82,630	1.067%
Chen Jun	136,000	0.943%
Ao Pei	28,000	0.703%
Lu Lan	28,000	0.681%
Tian Yu	37,000	0.410%
Li Hanqiang	28,000	0.367%
Tian Diyong	68,000	0.363%
Shen Dingjian	20,000	0.285%
Liu Yingguo	6,000	0.160%
Liu Lu Lu	NIL	0.128%
Sub-total :	***7,440,160***	***82.419%***
Other shareholders:		
Zhang Cong	853,000	4.550%
Yang Hong	598,535	3.192%
Zhao Ping	466,000	2.485%
Luo Qiping	300,000	1.600%
Liu Gangqiang	180,000	0.960%
Di Xiaohong	172,000	0.917%
Ma Limin	164,000	0.875%
Xu Chuan	143,000	0.763%
Chen Zhen	135,000	0.720%
Liu Yonghong	125,000	0.667%
Tang Ying	3,000	0.319%
Tian Daoyun	40,000	0.213%
Di Baiwei	30,000	0.160%
Li Ping	30,000	0.160%
Sub-total:	***3,239,535***	***17.581%***
Total :	**10,679,695**	**100.00%**

The said capital increase was completed on August 17, 2006, and the entire equity interest was thereby held by 34 individual shareholders (approximately 99.872% by the above 33 individual shareholders and approximately 0.128% by Liu Lulu).

(f) On August 24, 2006, a shareholders' resolution was passed to increase the registered capital of Honghua Company from RMB18,750,000 to RMB72,000,000. Further to the shareholders' resolution and for the purpose of the Reorganization, Asia Harbour entered into an equity purchase and capital increase agreement with the 34 individual shareholders on August 24, 2006, pursuant to which Asia Harbour acquired from the following 34 individual shareholders, the entire equity interest in Honghua Company at a total consideration of U.S. dollars equivalent to RMB155,000,000, as follows:

Transferor	Consideration (RMB)	Approximate equity interest transferred
Concert Group:		
Zhang Mi	55,800,000	36.000%
Ren Jie	12,235,700	7.894%
Zheng Yong	8,680,000	5.600%
Liu Zhi	8,680,000	5.600%
Zuo Huixian	6,778,150	4.373%
Zhang Xu	6,530,150	4.213%
Fan Bing	6,448,000	4.160%
Liu Xuetian (deceased)	5,786,150	3.733%
Zhang Yanyong	5,745,850	3.707%
Zhou Bing	3,149,600	2.032%
Wang Jiangyang	1,653,850	1.067%
Chen Jun	1,461,650	0.943%
Ao Pei	1,089,650	0.703%
Lu Lan	1,055,550	0.681%
Tian Yu	635,500	0.410%
Li Hanqiang	568,850	0.367%
Tian Diyong	562,650	0.363%
Shen Dingjian	441,750	0.285%
Liu Yingguo	248,000	0.160%
Liu Lulu	198,400	0.128%
Sub-total :	***127,749,450***	***82.419%***
Other shareholders:		
Zhang Cong	7,052,500	4.550%
Yang Hong	4,947,600	3.192%
Zhao Ping	3,851,750	2.485%
Luo Qiping	2,480,000	1.600%
Liu Gangqiang	1,488,000	0.960%
Di Xiaohong	1,421,350	0.917%
Ma Limin	1,356,250	0.875%
Xu Chuan	1,182,650	0.763%
Chen Zhen	1,116,000	0.720%
Liu Yonghong	1,033,850	0.667%
Tang Ying	494,450	0.319%
Tian Daoyun	330,150	0.213%
Di Baiwei	248,000	0.160%
Li Ping	248,000	0.160%
Sub-total :	***27,250,550***	***17.581%***
Total:	**155,000,000**	**100.000%**

Asia Harbour also contributed U.S. dollars equivalent to RMB53,250,000, as an increase in the registered capital of Honghua Company. Upon completion of the capital increase and the Reorganization, Honghua Company was wholly-owned by Asia Harbour and is our indirect wholly-owned subsidiary.

Youxin Company

(a) On July 18, 2006, the following transfers of equity interest in Youxin Company occurred:

Transferor	Transferee	Consideration (RMB)	Approximate equity interest transferred
Liu Hongbin	Liu Zhi	793,800	13.500%
Lin Ning	Zhao Ping	352,800	6.000%
Xiao Minsheng	Zhang Changlun	58,800	1.000%

(b) On July 18, 2006, 20 individual shareholders entered into an equity transfer agreement with Honghua Company, pursuant to which each shareholder agreed to transfer all his/her equity interest in Youxin Company to Honghua Company. Details of the equity transfers are as follows:

Transferor	Consideration (RMB)	Approximate equity interest transferred
Zhao Ping	3,610,452	23.799%
Liu Zhi	2,654,820	17.500%
Dai Huayin	2,048,004	13.500%
Lin Ning	758,520	5.000%
Zhang Mi	606,816	4.000%
Yuan Da	303,408	2.000%
Qu Xiaonan	291,024	1.918%
Zhang Xu	290,766	1.917%
Zeng Xianglong	180,600	1.190%
Zhang Yanyong	151,704	1.000%
Zhou Bing	151,704	1.000%
Zheng Yong	151,704	1.000%
Xu Chuan	151,704	1.000%
Jia Zhiyuan	151,704	1.000%
Ma Zhaoyi	151,704	1.000%
Li Lanxi	151,704	1.000%
Liu Xuetian (deceased)	109,650	0.723%
Luo Qiping	75,852	0.500%
Di Xiahong	72,240	0.476%
Li Xia	72,240	0.476%
Total:	**12,136,320**	**80.000%**

Upon completion of the equity transfers on August 23, 2006, Youxin Company was 80% owned by Honghua Company and 20% by nine individual shareholders, as follows:

Shareholder	Approximate equity interest
Honghua Company	80.000%
Zhao Ping	4.799%
Zhang Changlun	4.000%
Ju Lang	3.000%
Xie Xiaohong	3.000%
Chen Yaling	1.201%
Lin Ye	1.000%
Zhuang Jiandong	1.000%
Xiao Kaiyun	1.000%
Fang Yong	1.000%
Total:	**100.000%**

Honghua International

(a) Pursuant to a shareholders' resolution of Honghua International, dated September 26, 2005, the registered capital was increased from RMB2,000,000 to RMB3,200,000. Except for Ao Pei and Li Hanqiang, all the other 18 individual shareholders contributed to the increase of registered capital of Honghua International. Details are as follows:

Shareholder	Additional capital contribution (RMB)	Approximate equity interest
Liu Zhi	185,000	14.594%
Ren Jie	230,000	11.750%
Liu Xuetian (deceased)	120,000	6.375%
Ma Limin	70,000	4.813%
Luo Qiping	70,000	4.438%
Zhou Bing	50,000	3.313%
Zhang Xu	50,000	3.000%
Xu Chuan	50,000	2.875%
Di Xiaohong	50,000	2.813%
Zheng Yong	50,000	2.813%
Fan Bing	40,000	2.688%
Zuo Huixian	55,000	2.656%
Chen Jun	50,000	2.500%
Zhang Yanyong	10,000	2.250%
Shu Yuanbin	30,000	1.938%
Chen Zhen	40,000	1.875%
Tian Diyong	30,000	1.625%
Wang Jiangyang	20,000	1.125%
Total:	**1,200,000**	**73.438%**

(b) On October 16, 2005, Zhang Yanyong entered into an equity transfer agreement with Liu Zhi, pursuant to which Zhang Yanyong agreed to transfer a 0.300% equity interest in Honghua International to Liu Zhi, at a consideration of RMB6,000.

(c) On October 20, 2005, Zhou Bing entered into an equity transfer agreement with Liu Zhi, pursuant to which Zhou Bing agreed to transfer a 0.400% equity interest in Honghua International to Liu Zhi, at a consideration of RMB8,000.

(d) On July 18, 2006, each of the following individual shareholders entered into an equity transfer agreement with Honghua Company, pursuant to which the shareholders agreed to transfer an aggregate of approximately 55% equity interest in Honghua International to Honghua Company. Details of the equity transfers are as follows:

Transferor	Consideration (RMB)	Approximate equity interest transferred
Ren Jie	1,436,320	11.750%
Liu Zhi	1,061,960	8.688%
Liu Xuetian (deceased)	550,080	4.500%
Luo Qiping	542,440	4.438%
Zhang Xu	366,720	3.000%
Xu Chuan	351,440	2.875%
Zheng Yong	343,800	2.813%
Di Xiaohong	343,800	2.813%
Fan Bing	328,520	2.688%
Shu Yuanbin	236,840	1.938%
Chen Zhen	229,200	1.875%
Tian Diyong	198,640	1.625%
Ma Limin	191,000	1.563%
Zhang Yanyong	191,000	1.563%
Wang Jiangyang	137,520	1.125%
Li Hanqiang	106,960	0.875%
Ao Pei	84,040	0.688%
Zhou Bing	22,920	0.188%
Total:	**6,723,200**	**55.000%**

(e) On July 18, 2006, the following transfers of equity interest in Honghua International were effected:

Transferor	Transferee	Consideration (RMB)	Approximate equity interest transferred
Liu Zhi	Liu Yonghong	88,000	2.750%
Liu Xuetian (deceased)	Liu Yonghong	40,000	1.250%
Liu Zhi	Li Ping	32,000	1.000%
Liu Zhi	Wang Wei	23,000	0.719%
Liu Zhi	Xue Yuqing	20,000	0.625%
Liu Zhi	Chen Honghong	20,000	0.625%
Liu Xuetian (deceased)	Zhang Aimin	20,000	0.625%
Zhang Yanyong	Zhang Wei	16,000	0.500%
Zuo Huixian	Mo Kunrong	15,000	0.469%
Zhang Yanyong	Jiang Ping	6,000	0.188%
Liu Zhi	Jiang Ping	6,000	0.188%

Hongtian Company

(a) Pursuant to a shareholders' resolution of Hongtian Company, dated August 29, 2005, the registered capital was increased from RMB3,540,000 to RMB7,000,000. 11 individual shareholders contributed to the increase of registered capital of Hongtian Company. Details of the contributions are set out as follows:

Name of shareholders	Additional capital contribution (RMB)	Approximate equity interest
Zhang Cong	1,603,000	35.371%
Yi Langlin	419,000	10.057%
Wang Jiangyang	247,000	8.029%
Yuan Da	233,000	7.571%
Xiao Wei	221,000	7.057%
Liu Hong	177,000	5.914%
Bian Weidi	121,000	5.029%
Qu Yihong	124,500	4.843%
Xu Guomei	120,000	4.714%
Qu Xiaonan	134,500	4.557%
Du Zexia	60,000	1.714%
Total:	**3,460,000**	**94.860%**

Upon completion of the capital increase, Hongtian Company was owned by 15 individual shareholders, as follows:

Shareholder	Approximate equity interest
Zhang Cong	35.371%
Yi Langlin	10.057%
Wang Jiangyang	8.029%
Yuan Da	7.571%
Xiao Wei	7.057%
Liu Hong	5.914%
Bian Weidi	5.029%
Qu Yihong	4.843%
Xu Guomei	4.714%
Qu Xiaonan	4.557%
Tang Ying	2.571%
Du Zexia	1.714%
Li Meijuan	0.857%
Zeng Xianglong	0.857%
Ma Zhaoyi	0.857%
Total:	**100.000%**

(b) On July 30, 2006, each of the following shareholders entered into an equity transfer agreement with Honghua Company, pursuant to which the shareholders agreed to transfer an aggregate of 80% equity interest in Hongtian Company to Honghua Company. Details of the equity transfers are as follows:

Transferor	Consideration (RMB)	Approximate equity interest transferred
Zhang Cong	7,281,720	19.371%
Yi Langlin	3,780,480	10.057%
Yuan Da	2,846,100	7.571%
Xiao Wei	2,652,780	7.057%
Liu Hong	2,223,180	5.914%
Bian Weidi	1,890,240	5.029%
Qu Yihong	1,820,430	4.843%
Xu Guomei	1,772,100	4.714%
Qu Xiaonan	1,713,030	4.557%
Wang Jiangyang	1,514,340	4.029%
Tang Ying	966,600	2.571%
Du Zexia	644,400	1.714%
Li Meijuan	322,200	0.857%
Zeng Xianglong	322,200	0.857%
Ma Zhaoyi	322,200	0.857%
Total:	**30,072,000**	**80.000%**

(c) On July 31, 2006, Zhang Cong made the following transfers of equity interest in Hongtian Company:

Transferee	Consideration (RMB)	Approximate equity interest transferred
Li Qin	168,000	2.400%
Che Mingzhe	84,000	1.200%
Hu Likang	56,000	0.800%
Huang Sheng	42,000	0.600%
Liao Wenzhong	28,000	0.400%
Chen Tao	28,000	0.400%
He Yugang	21,000	0.300%
Luo Laijun	21,000	0.300%
Huang Huijian	21,000	0.300%
Zheng Liang	21,000	0.300%

Honghua America

(a) On November 1, 2006, the following assignments of interests in Honghua America occurred:

Assignor	Assignee	Approximate interest assigned
Huang Zhun	Honghua Company	11.75%
Ao Pei	Honghua Company	11.75%
Zhang Mi	NCE Management Inc.	11.75%
Zhang Yanyong	NCE Management Inc.	6.25%
Zhang Yanyong	Honghua Company	5.50%

Upon completion of the above assignments, Honghua America was owned as to 80% by Honghua Company and 20% by NCE Management Inc.

(b) On December 19, 2006, Honghua America was converted from a limited partnership to a limited liability company. Upon such conversion, Honghua America was owned 80% by Honghua Company and 20% by NCE Management Inc.

Golden Coast Company

Golden Coast Company was incorporated in the United Arab Emirates with limited liability on November 28, 2006. Its authorized share capital is UAE Dirhams 1,000,000, and it is wholly-owned by Honghua International.

Lucky Wish

Lucky Wish was incorporated in the BVI with limited liability on February 2, 2005. Its authorized share capital is US$50,000, divided into 50,000 shares of US$1.00 each. On December 5, 2005, one share was allotted to Liu Zhi, who holds that share in trust for Honghua International. The Group, has, pursuant to a letter issued by the Bureau of Commerce of Sichuan Province dated October 29, 2007, arranged to close down Lucky Wish after becoming aware of a possible deviation of the trust arrangement from the relevant PRC rules and regulations. The Group is currently (i) gathering the financial information of Lucky Wish; (ii) collecting accounts receivables of Lucky wish; (iii) settling the debts and liabilities of Lucky Wish; and (iv) liaising with BVI counsel for the purpose of closing down Lucky Wish. Lucky Wish will be closed down as soon as the relevant procedures required under BVI law are complete.

HH Egyptian Company

HH Egyptian Company was established as a limited company in Egypt on April 24, 2007. Its authorized capital is US$30,000,000, and its issued capital is US$12,000,000, divided into 12,000 shares of US$1,000 each. Asia Harbour, Petroleum Projects and Technical Consultations Company, Engineering For the Petroleum and Process Industries Company, and Tharwa Petroleum Company own 50%, 25%, 10% and 15% of HH Egyptian Company, respectively.

4. Resolutions in writing, passed by all the shareholders of the Company, on January 21, 2008

1. By resolutions approved in writing by all the Shareholders, of the Company which were passed on January 21, 2008, the Company resolved, among other things that conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Prospectus (including any Shares which may be issued pursuant to the exercise of the options granted under the pre-IPO Share Option Scheme, the Share Option Scheme or the Over-allotment Option), the Offer Price having been duly determined on or before the Price Determination Date, and (ii) the obligations of the Underwriters under the Hong Kong Underwriting Agreement and the International Placing Agreement becoming unconditional (including, if appropriate, as a result of the waiver of any condition(s) thereunder) and not being terminated in accordance with the terms of the Hong Kong Underwriting Agreement and the International Placing Agreement or otherwise, in each case on or before the date falling 30 days after the date of this Prospectus:

   (a) the Global Offering be and was thereby approved and the Directors were authorized to allot and issue, and to approve the transfer of, such number of Shares in connection with the Global Offering and any exercise of the Over-allotment Option as they see fit, on and subject to the terms and conditions stated in this Prospectus and in the relevant Application Forms;

   (b) conditional further on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares falling to be issued pursuant to the exercise of the options granted under our Pre-IPO Share Option Scheme and Share Option Scheme, the rules of our Pre-

IPO Share Option Scheme and Share Option Scheme were approved and adopted, and the Directors were authorized, at their sole discretion, subject to the terms and conditions of our Pre-IPO Share Option Scheme and Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights attaching to any options granted under our Pre-IPO Share Option Scheme and Share Option Scheme, and to take all such actions as they consider necessary or desirable to implement our Pre-IPO Share Option Scheme and Share Option Scheme, subject to the conditions therein;

(c) a general unconditional mandate was given to the Directors to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or pursuant to the exercise of any subscription rights which may be granted under our Pre-IPO Share Option Scheme and Share Option Scheme or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for shares under options and warrants or a special authority granted by our Shareholders) with an aggregate nominal value of not more than the sum of:

(i) 20% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering; and

(ii) the aggregate nominal value of the Share capital of our Company repurchased by us (if any);

(d) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to repurchase Shares to be listed on the Stock Exchange with a total nominal value of not more than 10% of the aggregate nominal value of the Company's Share capital in issue immediately following the completion of the Global Offering;

(e) the general unconditional mandate as mentioned in paragraph (c) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above; and

Each of the general mandates referred to in paragraphs 1 (c), (d) and (e) above will remain in effect until the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable law or the Articles; or (iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders of the Company in a general meeting.

2. By another resolutions approved in writing by all Shareholders of the Company passed on January 21, 2008, the Company resolved, among other things, to adopt and approve our Memorandum of Association and the Articles of Association, the terms of which are summarized in "Appendix VI — Summary of the Constitution of Our Company and Cayman Islands Company Law".

5. The Reorganization

For information with regard to our corporate Reorganization, see the section entitled "Company History and Reorganization".

6. Repurchases of our own securities

This sub-section includes information relating to the repurchase of our Shares, including information required by the Stock Exchange to be included in this Prospectus concerning such repurchase.

(a) Relevant Legal and Regulatory Requirements

The Listing Rules permit our Shareholders to grant to our Directors a general mandate to repurchase our Shares that are listed on the Stock Exchange. Such mandate is required to be given by way of an ordinary resolution passed by our Shareholders in a general meeting.

(b) Shareholder Approval

All proposed repurchases of Shares must be fully paid up and must be approved in advance by ordinary resolutions of our Shareholders in a general meeting, either by a general mandate or by specific approval of a particular transaction.

On January 21, 2008 our Directors were granted a general unconditional mandate to repurchase up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the Global Offering on the Stock Exchange, or on any other stock exchange on which our securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose. This mandate will expire at the earliest of (i) the conclusion of our next annual shareholders' general meeting, (ii) the date by which our next shareholders' general meeting is required by applicable laws and our Articles of Association to be held, or (iii) such mandate being revoked or varied by ordinary resolutions of our Shareholders in a general meeting (the period between granting and termination of the mandate being the "Relevant Period").

(c) Source of Funds

Our repurchase of the Shares listed on the Stock Exchange must be funded out of funds legally available for that purpose, in accordance with our Memorandum of Association and Articles of Association and the applicable laws of the Cayman Islands. We may not repurchase our Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, we may make repurchases out of profits of the Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase.

(d) Reasons for Repurchases

Our Directors believe that it is in our and our Shareholders' best interests for our Directors to have general authority to execute repurchases of our Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share, and will only be made where our Directors believe that such repurchases will benefit us and our Shareholders.

(e) Funding of Repurchases

In repurchasing securities, we may only apply funds legally available for such purpose, in accordance with our Memorandum of Association and Articles of Association and the Listing Rules.

On the basis of the current financial position of our Company, as disclosed in this Prospectus, and taking into account the current working capital position of our Company, our Directors believe that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or gearing of our Company. Our Directors do not propose to exercise the repurchase mandate to such an extent as would have a material adverse effect on the working capital requirements of our Company or gearing.

(f) Share Capital

The exercise in full of the current repurchase mandate, on the basis of 3,333,360,000 Shares in issue immediately after the Global Offering, could result in up to 333,336,000 Shares being repurchased by us during the Relevant Period.

(g) General

None of our Directors or, to the best of their knowledge, having made all reasonable inquiries, any of their Associates (as defined in the Listing Rules) currently intends to sell any of our Shares to us or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that they will exercise the repurchase mandate in accordance with the Listing Rules, the Memorandum of Association and Articles of Association, the Cayman Companies Law and any other applicable laws of the Cayman Islands.

If, as a result of any repurchase of our Shares, a Shareholder's proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. A Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Our Directors are not aware of any repurchases which would trigger such requirement under the Takeovers Code.

No connected person, as defined by the Listing Rules, has notified us that he or it either (i) has a present intention to sell his or its Shares to us, or (ii) has undertaken not to sell his or its Shares to us, if the repurchase mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into various contracts (which were not entered into in the ordinary course of business) within the two years immediately preceding the date of this Prospectus that are or may be material.

Reorganization contracts

The following contracts relate to reorganisation of the Company:

(a) a sale and purchase agreement (in English) dated October 16, 2007 entered into by Ally Giant, Zhang Mi and the Company, pursuant to which the Company acquired the entire issued share capital of Asia Harbour from Ally Giant, the consideration of which was satisfied by (i) crediting as fully paid the 1 nil paid Share in the issued share capital of the Company registered in the name of Ally Giant; and (ii) allotting and issuing 2,499,999,999 Shares by the Company to Ally Giant credited as fully paid; and

(b) the Share Transfer Agreement (in English) dated October 17, 2007, entered into between Ally Giant, Nabors International and the Company.

The following contracts relate to reorganisation of Honghua Company:

(a) an equity repurchase agreement (in Chinese), dated January 12, 2006, entered into between Honghua Company and Yu Zhenghua, pursuant to which Honghua Company repurchased 234,930 shares, representing an approximately 1.12% equity interest in Honghua Company from Yu Zhenghua, at a consideration of RMB 1,377,065.63;

(b) an equity repurchase agreement (in Chinese), dated January 12, 2006, entered into between Honghua Company and Ni Xiurong, pursuant to which Honghua Company repurchased 472,857 shares, representing an approximately 2.25% equity interest in Honghua Company from Ni Xiurong, at a consideration of RMB 2,771,698.4;

(c) an equity repurchase agreement (in Chinese), dated January 12, 2006, entered into between Honghua Company and Li Yan, pursuant to which Honghua Company repurchased 790,460 shares, representing an approximately 3.76% equity interest in Honghua Company from Li Yan, at a consideration of RMB 4,633,360.09;

(d) an equity repurchase agreement (in Chinese), dated January 12, 2006, entered into between Honghua Company and Zhi Rongmo, pursuant to which Honghua Company repurchased 633,756 shares, representing an approximately 3.02% equity interest in Honghua Company from Zhi Rongmo, at a consideration of RMB 3,714,824.07;

(e) an equity repurchase agreement (in Chinese), dated January 12, 2006, entered into between Honghua Company and Zhou Tao, pursuant to which Honghua Company repurchased 546,065 shares, representing an approximately 2.60% equity interest in Honghua Company from Zhou Tao, at a consideration of RMB 3,200,814.43;

(f) an equity repurchase agreement (in Chinese), dated January 12, 2006, entered into between Honghua Company and Yang Yuanchun, pursuant to which Honghua Company repurchased 278,765 shares, representing an approximately 1.33% equity interest in Honghua Company from Yang Yuanchun, at a consideration of RMB 1,634,008.84;

(g) an equity repurchase agreement (in Chinese), dated January 12, 2006, entered into between Honghua Company and Liu Chuanjun, pursuant to which Honghua Company repurchased 859,155 shares, representing an approximately 4.09% equity interest in Honghua Company from Liu Chuanjun, at a consideration of RMB 5,036,022.64;

(h) an equity repurchase agreement (in Chinese), dated January 12, 2006, entered into between Honghua Company and Shi Shuming, pursuant to which Honghua Company repurchased 790,330 shares, representing an approximately 3.76% equity interest in Honghua Company from Shi Shuming, at a consideration of RMB 4,632,598.10;

(i) an equity repurchase agreement (in Chinese), dated January 12, 2006, entered into between Honghua Company and Yang Xuefeng, pursuant to which Honghua Company repurchased 375,205 shares, representing an approximately 1.79% equity interest in Honghua Company from Yang Xuefeng, at a consideration of RMB 2,199,301.48;

(j) an equity repurchase agreement (in Chinese), dated January 12, 2006, entered into between Honghua Company and Xing Manrong, pursuant to which Honghua Company repurchased 1,111,133 shares, representing an approximately 5.29% equity interest in Honghua Company from Xing Manrong, at a consideration of RMB 6,513,016.81;

(k) an equity repurchase agreement (in Chinese), dated January 12, 2006 entered into between Honghua Company and Wang Yaoxin, pursuant to which Honghua Company repurchased 973,959 shares, representing an approximately 4.64% equity interest in Honghua Company from Wang Yaoxin, at a consideration of RMB 5,708,957.75;

(l) an equity buy-out agreement (in Chinese), dated May 22, 2006, entered into between Honghua Company and Deng Meng, pursuant to which Honghua Company repurchased an approximately 8.755% equity interest in Honghua Company from Deng Meng, at a consideration of RMB 6,673,275.42;

(m) an equity buy-out agreement (in Chinese), dated May 22, 2006, entered into between Honghua Company and Yuan Guiqi, pursuant to which Honghua Company repurchased an approximately 8.755% equity interest in Honghua Company from Yuan Guiqi, at a consideration of RMB 6,673,275.42;

(n) an equity buy-out agreement (in Chinese), dated May 22, 2006, entered into between Honghua Company and Huasheng Oil Company, pursuant to which Honghua Company repurchased an approximately 24.615% equity interest in Honghua Company from Huacheng Oil Company, at a consideration of RMB 18,761,717.04;

(o) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Zhang Mi, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Zhang Mi contributed RMB 6,750,000, and held an approximately 36% equity interest in Honghua Company;

(p) a capital increase agreement (in Chinese), dated August 11, 2006 entered into between Honghua Company and Ren Jie, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Ren Jie contributed RMB 1,480,000, and held an approximately 7.893% equity interest in Honghua Company;

(q) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Zheng Yong, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Zheng Yong contributed RMB 1,050,000, and held an approximately 5.6% equity interest in Honghua Company;

(r) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Liu Zhi, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Liu Zhi contributed RMB 1,050,000, and held an approximately 5.6% equity interest in Honghua Company;

(s) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Zuo Huixian, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Zuo Huixian contributed RMB 820,000, and held an approximately 4.373% equity interest in Honghua Company;

(t) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Zhang Xu, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Zhang Xu contributed RMB 790,000, and held an approximately 4.213% equity interest in Honghua Company;

(u) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Chen Jun, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Chen Jun contributed RMB 176,800, and held an approximately 0.943% equity interest in Honghua Company;

(v) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Wang Jiangyang, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Wang Jiangyang contributed RMB 200,000, and held an approximately 1.067% equity interest in Honghua Company;

(w) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Zhang Yanyong, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Zhang Yanyong contributed RMB695,140, and held an approximately 3.707% equity interest in Honghua Company;

(x) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Fan Bing, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Fan Bing contributed RMB 780,000, and held an approximately 4.16% equity interest in Honghua Company;

(y) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Ao Pei, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Ao Pei contributed RMB 131,905, and held an approximately 0.703% equity interest in Honghua Company;

(z) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Shen Dingjian, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Shen Dingjian contributed RMB 53,465, and held an approximately 0.285% equity interest in Honghua Company;

(aa) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Tian Diyong, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Tian Diyong contributed RMB 68,000, and held an approximately 0.363% equity interest in Honghua Company;

(ab) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Lu Lan, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Lu Lan contributed RMB 127,695, and held an approximately 0.681% equity interest in Honghua Company;

(ac) a capital increase agreement (in Chinese), dated August 11, 2006, entered into between Honghua Company and Liu Xuetian (deceased), pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Liu Xuetian (deceased) contributed RMB 700,000, and held an approximately 3.733% equity interest in Honghua Company;

(ad) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Zhou Bing, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Zhou Bing contributed RMB 381,000, and held an approximately 2.032% equity interest in Honghua Company;

(ae) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Li Hanqiang, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Li Hanqiang contributed RMB 68,800, and held approximately an 0.367% equity interest in Honghua Company;

(af) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Liu Yingguo, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Liu Yingguo contributed RMB 30,000, and held an approximately 0.16% equity interest in Honghua Company;

(ag) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Tian Yu, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Tian Yu contributed RMB 76,930, and held an approximately 0.41% equity interest in Honghua Company;

(ah) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Zhang Cong, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Zhang Cong contributed RMB 853,000, and held an approximately 4.549% equity interest in Honghua Company;

(ai) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Zhao Ping, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Zhao Ping contributed RMB 466,000, and held an approximately 2.485% equity interest in Honghua Company;

(aj) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Luo Qiping, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Luo Qiping contributed RMB 300,000, and held an approximately 1.6% equity interest in Honghua Company;

(ak) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Liu Gangqiang, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Liu Gangqiang contributed RMB 180,000, and held an approximately 0.96% equity interest in Honghua Company;

(al) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Di Xiaohong, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Di Xiaohong contributed RMB 172,000, and held an approximately 0.917% equity interest in Honghua Company;

(am) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Ma Limin, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Ma Limin contributed RMB 164,000, and held an approximately 0.875% equity interest in Honghua Company;

(an) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Xu Chuan, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Xu Chuan contributed RMB 143,000, and held an approximately 0.763% equity interest in Honghua Company;

(ao) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Chen Zhen, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Chen Zhen contributed RMB 135,000, and held an approximately 0.72% equity interest in Honghua Company;

(ap) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Liu Yonghong, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Liu Yonghong contributed RMB 125,000, and held an approximately 0.667% equity interest in Honghua Company;

(aq) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Di Baiwei, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Di Baiwei contributed RMB 30,000, and held an approximately 0.16% equity interest in Honghua Company;

(ar) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Li Ping, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Li Ping contributed RMB 30,000, and held an approximately 0.16% equity interest in Honghua Company;

(as) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Yang Hong, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Yang Hong contributed RMB 598,535, and held an approximately 3.192% equity interest in Honghua Company;

(at) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Tian Daoyun, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Tian Daoyun contributed RMB 40,000, and held an approximately 0.213% equity interest in Honghua Company;

(au) a capital increase agreement (in Chinese) dated August 11, 2006, entered into between Honghua Company and Tang Ying, pursuant to which Honghua Company increased its registered capital to RMB 18,750,000, of which Tang Ying contributed RMB 59,730, and held an approximately 0.319% equity interest in Honghua Company; and

(av) an equity purchase and capital increase agreement (in Chinese), dated August 24, 2006, entered into between the Existing Shareholders and Asia Harbour, pursuant to which the Existing Shareholders transferred the entire equity interest in Honghua Company to Asia Harbour for a total consideration of the U.S. dollar equivalent to RMB155,000,000, Honghua Company increased its registered capital from RMB 18,750,000 to RMB 72,000,000, of which Asia Harbour contributed RMB 53,250,000.

The following contracts relate to reorganisation of Youxin Company

(a) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Zhang Mi and Honghua Company, pursuant to which Zhang Mi transferred an equity interest equivalent to RMB235,200 registered capital in Youxin Company to Honghua Company;

(b) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Liu Zhi and Honghua Company, pursuant to which Liu Zhi transferred an equity interest equivalent to RMB1,029,000 registered capital in Youxin Company to Honghua Company;

(c) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Yuan Da and Honghua Company, pursuant to which Yuan Da transferred an equity interest equivalent to RMB117,600 registered capital in Youxin Company to Honghua Company;

(d) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Qu Xiaonan and Honghua Company, pursuant to which Qu Xiaonan transferred an equity interest equivalent to RMB112,800 registered capital in Youxin Company to Honghua Company;

(e) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Zhang Yanyong and Honghua Company, pursuant to which Zhang Yanyong transferred an equity interest equivalent to RMB58,800 registered capital in Youxin Company to Honghua Company;

(f) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Zhou Bing and Honghua Company, pursuant to which Zhou Bing transferred an equity interest equivalent to RMB58,800 registered capital in Youxin Company to Honghua Company;

(g) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Zhang Xu and Honghua Company pursuant to which Zhang Xu transferred an equity interest equivalent to RMB112,700 registered capital in Youxin Company to Honghua Company;

(h) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Liu Xuetian (deceased) and Honghua Company, pursuant to which Liu Xuetian (deceased) transferred an equity interest equivalent to RMB42,500 registered capital in Youxin Company to Honghua Company;

(i) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Zheng Yong and Honghua Company, pursuant to which Zheng Yong transferred an equity interest equivalent to RMB58,800 registered capital in Youxin Company to Honghua Company;

(j) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Luo Qiping and Honghua Company, pursuant to which Luo Qiping transferred an equity interest equivalent to RMB29,400 registered capital in Youxin Company to Honghua Company;

(k) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Xu Chuan and Honghua Company, pursuant to which Xu Chuan transferred an equity interest equivalent to RMB58,800 registered capital in Youxin Company to Honghua Company;

(l) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Di Xiaohong and Honghua Company, pursuant to which Di Xiaohong transferred an equity interest equivalent to RMB28,000 registered capital in Youxin Company to Honghua Company;

(m) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Jie Zhiyuan and Honghua Company, pursuant to which Jie Zhiyuan transferred an equity interest equivalent to RMB58,800 registered capital in Youxin Company to Honghua Company;

(n) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Ma Zhaoyi and Honghua Company, pursuant to which Ma Zhaoyi transferred an equity interest equivalent to RMB58,800 registered capital in Youxin Company to Honghua Company;

(o) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Li Lanxi and Honghua Company, pursuant to which Li Lanxi transferred an equity interest equivalent to RMB58,800 registered capital in Youxin Company to Honghua Company;

(p) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Zeng Xianglong and Honghua Company, pursuant to which Zeng Xianglong transferred an equity interest equivalent to RMB70,000 registered capital in Youxin Company to Honghua Company;

(q) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Li Xia and Honghua Company, pursuant to which Li Xia transferred an equity interest equivalent to RMB28,000 registered capital in Youxin Company to Honghua Company;

(r) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Dai Huayin and Honghua Company, pursuant to which Dai Huayin transferred an equity interest equivalent to RMB793,800 registered capital in Youxin Company to Honghua Company;

(s) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Lin Ning and Honghua Company, pursuant to which Lin Ning transferred an equity interest equivalent to RMB294,000 registered capital in Youxin Company to Honghua Company; and

(t) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Zhao Ping and Honghua Company, pursuant to which Zhao Ping transferred an equity interest equivalent to RMB1,399,400 registered capital in Youxin Company to Honghua Company.

The following contracts relate to reorganisation of Honghua International

(a) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Liu Zhi and Honghua Company, pursuant to which Liu Zhi transferred an equity interest equivalent to RMB278,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB 1,061,960 (inclusive of tax);

(b) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Ren Jie and Honghua Company, pursuant to which Ren Jie transferred an equity interest equivalent to RMB376,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB 1,436,320 (inclusive of tax);

(c) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Liu Xuetian (deceased) and Honghua Company, pursuant to which Liu Xuetian (deceased) transferred an equity interest equivalent to RMB144,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB 550,080 (inclusive of tax);

(d) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Zhang Xu and Honghua Company, pursuant to which Zhang Xu transferred an equity interest equivalent to RMB96,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB 366,720 (inclusive of tax);

(e) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Fan Bing and Honghua Company, pursuant to which Fan Bing transferred an equity interest equivalent to RMB86,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB 328,520 (inclusive of tax);

(f) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Li Hanqiang and Honghua Company, pursuant to which Li Hanqiang transferred an equity interest equivalent to RMB28,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB106,960 (inclusive of tax);

(g) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Ao Pei and Honghua Company, pursuant to which Ao Pei transferred an equity interest equivalent to RMB22,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB84,040 (inclusive of tax);

(h) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Tian Diyong and Honghua Company, pursuant to which Tian Diyong transferred an equity interest equivalent to RMB52,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB198,640 (inclusive of tax);

(i) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Ma Limin and Honghua Company, pursuant to which Ma Limin transferred an equity interest equivalent to RMB50,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB191,000 (inclusive of tax);

(j) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Zhang Yanyong and Honghua Company, pursuant to which Zhang Yanyong transferred an equity interest equivalent to RMB50,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB191,000 (inclusive of tax);

(k) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Zhou Bing and Honghua Company, pursuant to which Zhou Bing transferred an equity interest equivalent to RMB6,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB22,920 (inclusive of tax);

(l) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Wang Jiangyang and Honghua Company, pursuant to which Wang Jiangyang transferred an equity interest equivalent to RMB36,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB137,520 (inclusive of tax);

(m) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Luo Qiping and Honghua Company, pursuant to which Luo Qiping transferred an equity interest equivalent to RMB142,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB542,440 (inclusive of tax);

(n) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Xu Chuan and Honghua Company, pursuant to which Xu Chuan transferred an equity interest equivalent to RMB92,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB351,440 (inclusive of tax);

(o) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Zheng Yong and Honghua Company, pursuant to which Zheng Yong transferred an equity interest equivalent to RMB90,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB343,800 (inclusive of tax);

(p) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Di Xiaohong and Honghua Company, pursuant to which Di Xiaohong transferred an equity interest equivalent to RMB90,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB343,800 (inclusive of tax);

(q) an equity transfer agreement (in Chinese), dated July 18, 2006, entered into between Chen Zhen and Honghua Company, pursuant to which Chen Zhen transferred an equity interest equivalent to RMB60,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company, at a consideration of RMB229,200 (inclusive of tax); and

(r) an equity transfer agreement (in Chinese) dated July 18, 2006 entered into between Shu Yuanbin and Honghua Company, pursuant to which Shu Yuanbin transferred an equity interest equivalent to RMB62,000 registered capital in Honghua International and all interests deriving therefrom to Honghua Company at a consideration of RMB236,840 (inclusive of tax).

The following contracts relate to reorganisation of Hongtian Company

(a) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Zhang Cong and Honghua Company, pursuant to which Zhang Cong transferred an approximately 19.37% equity interest, representing RMB1,356,000 registered capital in Hongtian Company to Honghua Company;

(b) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Wang Jiangyang and Honghua Company, pursuant to which Wang Jiangyang transferred an approximately 4.03% equity interest, representing RMB282,000 registered capital in Hongtian Company to Honghua Company;

(c) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Xiao Wei and Honghua Company, pursuant to which Xiao Wei transferred an approximately 7.06% equity interest, representing RMB494,000 registered capital in Hongtian Company to Honghua Company;

(d) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Yi Langlin and Honghua Company, pursuant to which Yi Langlin transferred an approximately 10.06% equity interest, representing RMB704,000 registered capital in Hongtian Company to Honghua Company;

(e) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Yuan Da and Honghua Company, pursuant to which Yuan Da transferred an approximately 7.57% equity interest, representing RMB530,000 registered capital in Hongtian Company to Honghua Company;

(f) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Bian Weidi and Honghua Company, pursuant to which Bian Weidi transferred an approximately 5.03% equity interest, representing RMB352,000 registered capital in Hongtian Company to Honghua Company;

(g) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Liu Hong and Honghua Company, pursuant to which Liu Hong transferred an approximately 5.91% equity interest, representing RMB414,000 registered capital in Hongtian Company to Honghua Company;

(h) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Qu Yihong and Honghua Company, pursuant to which Qu Yihong transferred an approximately 4.84% equity interest, representing RMB339,000 registered capital in Hongtian Company to Honghua Company;

(i) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Xu Guomei and Honghua Company, pursuant to which Xu Guomei transferred an approximately 4.71% equity interest, representing RMB330,000 registered capital in Hongtian Company to Honghua Company;

(j) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Qu Xiaonan and Honghua Company, pursuant to which Qu Xiaonan transferred an approximately 4.56% equity interest, representing RMB319,000 registered capital in Hongtian Company to Honghua Company;

(k) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Du Zexia and Honghua Company, pursuant to which Du Zexia transferred an approximately 1.71% equity interest, representing RMB120,000 registered capital in Hongtian Company to Honghua Company;

(l) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Tang Ying and Honghua Company, pursuant to which Tang Ying transferred an approximately 2.57% equity interest, representing RMB180,000 registered capital in Hongtian Company to Honghua Company;

(m) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Li Meijuan and Honghua Company, pursuant to which Li Meijuan transferred an approximately 0.86% equity interest, representing RMB60,000 registered capital in Hongtian Company to Honghua Company;

(n) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Zeng Xianglong and Honghua Company, pursuant to which Zeng Xianglong transferred an approximately 0.86% equity interest, representing RMB60,000 registered capital in Hongtian Company to Honghua Company; and

(o) an equity transfer agreement (in Chinese), dated July 30, 2006, entered into between Ma Zhaoyi and Honghua Company, pursuant to which Ma Zhaoyi transferred an approximately 0.86% equity interest, representing RMB60,000 registered capital in Hongtian Company to Honghua Company.

The following contracts relate to reorganisation of Honghua America

(a) an assignment (in English), dated November 1, 2006, entered into between Zhang Yan Yong and Honghua Company, pursuant to which Zhang Yan Yong assigned a 5.5% limited partnership interest in Honghua America to Honghua Company, at a consideration of US$10.00 and other good and valuable consideration paid by Honghua Company;

(b) an assignment (in English), dated November 1, 2006, entered into between Huang Zhun and Honghua Company, pursuant to which Huang Zhun assigned an 11.75% limited partnership interest in Honghua America to Honghua Company, at a consideration of US$10.00 and other good and valuable consideration paid by Honghua Company; and

(c) an assignment (in English), dated November 1, 2006, entered into between Ao Pei and Honghua Company, pursuant to which Ao Pei assigned an 11.75% limited partnership interest in Honghua America to Honghua Company, at a consideration of US$10.00 and other good and valuable consideration paid by Honghua Company.

The following contracts relate to reorganisation of HH Egyptian Company

(a) a joint venture agreement (in English and Chinese), for the establishment of HH Egyptian Company, signed on December 26, 2006, by Honghua Company, Petroleum Projects and Technical Consultations Company, Engineering for the Petroleum and Process Industries Company and Tharwa Petroleum Company; and

(b) a letter of declaration (in English and Chinese), signed on January 8, 2007, by Honghua Company and Asia Harbour, pursuant to which Asia Harbour replaced Honghua Company as a party to the Joint Venture Agreement for the establishment of HH Egyptian Company signed on December 26, 2006.

The following are other agreements entered into not in the ordinary course of business

(a) a know-how license & technical assistance agreement (in Chinese and English), dated April 27, 2007, entered into between Honghua Company and HH Egyptian Company, pursuant to which Honghua Company agreed to provide HH Egyptian Company with technical information, know-how and technical assistance;

(b) an investment Agreement (in English), dated November 29, 2006, entered into by, among others, Ally Giant, Ample Chance, Zhang Mi, Asia Harbour, Honghua Company, Carlyle Funds, Vincera Group, IP Cathay and DPF, pursuant to which Ally Giant agreed to issue the Notes, in the aggregate principal amount of US$34,000,000, to Carlyle Funds, Vincera Group, IP Cathay and DPF;

(c) an escrow agreement (in English), dated December 6, 2006, entered into between Carlyle Asia Growth Partners III, L.P. as Investor Representative (as defined therein), Asia Harbour, Ally Giant and China Merchants Bank Co., Ltd., Hong Kong Branch, pursuant to which Ally Giant directed Carlyle Asia Growth Partners III, L.P. and the Investors (as defined therein), to deposit US$34,000,000, into an escrow account in the name of Asia Harbour, in China Merchants Bank Co. Ltd., Hong Kong Branch;

(d) an escrow agreement (in Chinese), dated December 6, 2006, entered into between Carlyle Asia Growth Partners III, L.P. as Investor Representative (as defined therein), Honghua Company, Zhang Mi and China Merchants Bank Co., Ltd., Chengdu Jinguancheng Branch, pursuant to which, Honghua Company, Carlyle Asia Growth Partners III, L.P., and Zhang Mi jointly and irrevocably appointed China Merchants Bank Co., Ltd., Chengdu Jinguancheng Branch, as escrow bank;

(e) a loan agreement (in Chinese), dated December 6, 2006, entered into between the Existing Shareholders and Honghua Company, pursuant to which the Existing Shareholders agreed to provide a loan, in the principal amount of RMB 49,600,000, to Honghua Company;

(f) a supplemental agreement (in English), dated March 19, 2007, to the Investment Agreement, dated November 29, 2006, entered into by, among others, Ally Giant, Ample Chance, Zhang Mi, Asia Harbour, Honghua Company and the Financial Investors, pursuant to which Ally Giant agreed to issue the Notes, in the aggregate principal amount of US$23,000,000, to China Ocean Oilfields Services (Hong Kong) Limited, and to amend certain provisions of the Investment Agreement dated November 29, 2006;

(g) a supplemental agreement (in English), dated March 30, 2007, to the escrow agreement dated December 6, 2006, entered into between Carlyle Asia Growth Partners III, L.P., Asia Harbour, Ally Giant and China Merchants Bank Co., Ltd., Hong Kong Branch, containing amendments to certain provisions of the escrow agreement (in English), dated December 6, 2006;

(h) a supplemental agreement (in Chinese), dated March 30, 2007, to the escrow agreement, dated December 6, 2006, entered into between Carlyle Asia Growth Partners III, L.P., Honghua Company, Zhang Mi and China Merchants Bank Co., Ltd., Chengdu Jin Guan Cheng Branch, containing amendments to certain provisions of the escrow agreement (in Chinese), dated December 6, 2006;

(i) the Settlement Agreement (in English) dated October 17, 2007, entered into between Nabors International and Honghua Company;

(j) the Technology License Agreement (in English) dated October 17, 2007, entered into between Nabors Global and the Company;

(k) the Mutual Release (in English) dated October 17, 2007, entered into between Nabors International and Honghua Company;

(l) a deed of indemnity in respect of tax (in English), dated February 15, 2008, entered into between each of the Existing Shareholders and Ally Giant, Ample Chance, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Ally Smooth, Charm Moral, Beauty Clear, Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises Inc, Dobson Global Inc, Darius Enterprises Limited, Believe Power, Benefit Way, Birdview, (collectively "the covenantors"), in favour of the Company, pursuant to which the covenantors provided an indemnity to the Company for its tax liabilities; and

(m) a deed of indemnity in respect of dispute and risk (in English) dated February 15, 2008 entered into between each of Ally Giant, Ample Chance, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Ally Smooth, Charm Moral, Beauty Clear, Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises Inc, Dobson Global Inc, Darius Enterprises Limited, Believe Power, Benefit Way, Birdview, and the Existing Shareholders of the Company (collectively "the Indemnifiers") in favour of the Group pursuant to which each of the Indemnifiers jointly and severally provided an indemnity to any members of the Group for potential damages that the Company may suffer as a result of the legal proceedings initiated by 57 plaintiffs or the dispute with 64 individuals.

(n) a deed of non-competition (in Chinese), dated February 15, 2008, entered into among Ally Giant, Ample Chance, Ally Smooth, Charm Moral, Zhang Mi (張弭), Ren Jie (任杰), Liu Zhi (劉智), Zheng Yong (鄭勇), Zuo Huixian (左輝先), Zhang Xu (張旭), Wang Jiangyang (王江陽), Chen Jun (陳俊), Fan Bing (范兵), Zhang Yanyong (張彥永), Ao Pei (敖沛), Tian Diyong (田弟勇), Shen Dingjian (沈定建), Liu Xue Tian (deceased) Zhou Bing (周兵), Lu Lan (呂蘭), Tian Yu (田雨), Li Hanqiang (李漢强), Liu Yingguo (劉映國), Liu Lulu (劉露璐), He Guangfu (何光福), Zhang Zongyou (張宗友) and Chen Zongliang (陳宗良) (the "Covenantors"), in favour of our Company, pursuant to which each of the Covenantors has agreed amongst others, not to engage in any business which is involved in any activity conducted in the PRC or overseas which is in competition with, or is likely to be in competition with, the business carried on by any member of our Group, from time to time during the restricted period set out in the deed.

(o) the Hong Kong Underwriting Agreement (in English) dated February 22, 2008;

2. Intellectual property rights

As of the Latest Practicable Date, our Group has registered or has applied for registration of the following intellectual property rights.

(a) Trademarks

(i) As of the Latest Practicable Date, we owned or had registered (as the case may be) the following trademarks:

Trademark	Place of Registration	Registrant	Class	Registration No.	Validity Period
HONG HUA	PRC	Honghua Company	7 (Note 1)	3119960	September 21, 2003 to September 20, 2013
宏华	PRC	Honghua Company	7 (Note 1)	3081373	April 28, 2007 to 27 April 2017
HONG HUA	Hong Kong	Honghua Company	7 (Note 1)	300890730	June 13, 2007 to June 12, 2017
HONG HUA	Hong Kong	Honghua Company	42 (Note 2)	300890730	June 13, 2007 to June 12, 2017

Trademark	Place of Registration	Registrant	Class	Registration No.	Validity Period
	Hong Kong	Honghua Company	7 (Note 1)	300890749	June 13, 2007 to June 12, 2017
	Hong Kong	Honghua Company	42 (Note 2)	300890749	June 13, 2007 to June 12, 2017
	Hong Kong	Honghua Company	7 (Note 1)	300890749	June 13, 2007 to June 12, 2017
	Hong Kong	Honghua Company	42 (Note 2)	300890749	June 13, 2007 to June 12, 2017

(ii) As of the Latest Practicable Date, we have applied for, but not obtained, registration of the following trademarks:

Trademark	Place of Application	Applicant	Class	Application No.	Application Date
	PRC	Hongtian Company	7 (Note 3)	5115091	January 12, 2006
	PRC	Hongtian Company	7 (Note 3)	5115092	January 12, 2006

(iii) Pursuant to (i) a Trademark Transfer Agreement, dated April 22, 2004, entered into among Huaian City Huahong Petroleum Mechanical Manufacturing Limited (淮安市華宏石油機械制造有限公司) as transferor, Honghua Company as transferee and Sichuan Southwest Trademark Office Co., Ltd. (四川西南商標事務所有限責任公司) as intermediary, and (ii) an approval from the Trademark Bureau, dated August 28, 2004, the following trademark was transferred to Honghua Company:

Trademark	Place of Registration	Class	Registration No.	Validity Period
	PRC	7 (Note 4)	1917007	December 7, 2002 to December 6, 2012

Note 1: The products and services covered under this class include: mine borers; geology prospecting; machining (apparatus for) mine selection and mining; mine well electric winch; drilling rigs (floating or non-floating); oil exploration, machining (apparatus for) oil refining (industrial use); apparatus for oil chemical industry; mud pump especially for petroleum; well cleaning equipment; oil pump specially for petroleum; and oil drilling rigs.

Note 2: The products and services covered under this class include: scientific and technological services and research and design relating thereto; industrial analysis and research; design and development of computer hardware and software; analysis for oil-field exploitation; analysis for oil exploitation; oil-well testing; geological surveying; geological exploration; oilfield surveying; oilfield prospecting; land surveying; oil prospecting; geological prospecting; geological research; calibration (measuring); underwater exploration; and surveying.

Note 3: The products and services covered under this class include: oil rigs; oil recover, oil refine industry equipment; electronic industry equipment; pneumatic components; oil chemical equipment; hydraulic components (exclusive of vehicles hydraulic system); and drilling equipment (floating or non-floating).

Note 4: The products and services covered under this class include: beach working cart; apparatus for oil chemical industry; oil exploration, machining (apparatus for) oil refining (industrial use); oil pump especially for petroleum; mud pump especially for petroleum; oil drilling rig; well cleaning equipment; well washing equipment; oil refining machine; and drilling rigs (floating or non-floating).

Source: Trademark Bureau

(b) Patents

(i) As of the Latest Practicable Date, we owned the following patents:

Patent	Place of Registration	Patent No.	Certificate No.	Validity Period
Digitally-controlled WOB auto-bit-feed device 數控變頻自動送鑽裝置	PRC	ZL 02 2 22561.7	546098	10 years, from May 14, 2002
AC VFD-controlled rig draw-works 能耗制動鑽機絞車	PRC	ZL 02 2 22560.9	545978	10 years, from May 14, 2002
A hydraulic device for transporting land rigs horizontally 一種陸地石油鑽機步進式液壓平移裝置	PRC	ZL 03 2 52990.2	644753	10 years, from September 29, 2003
Belt attached drawworks wheelwork 皮帶拼車整體傳動裝置	PRC	ZL 2004 2 0034664.1	731958	10 years, from May 9, 2004
A device for moving entire oil drilling rig 一種石油鑽機整體移動裝置	PRC	ZL 2004 2 0061826.0	753574	10 years, from October 28, 2004
Hydraulic pressure rising device for drilling rig control cabin 鑽機司鑽房液壓舉升裝置	PRC	ZL 2004 2 0061825.6	753411	10 years, from October 28, 2004
Synchronization control device for raising and laying down of mast and substructure of rig (utility model) 石油鑽機井架和底座液壓升降同步控制裝置(實用新型)	PRC	ZL 2006 2 0036677.1	983876	10 years, from December 20, 2006

(ii) As of the Latest Practicable Date, we have applied for, but have not obtained, registration of the following patents:

Patent	Place of Application	Application No.	Application Date
Synchronization control device for raising and laying down of mast and substructure of rig (invention) 石油鑽機井架和底座液壓升降同步控制裝置(發明)	PRC	200610022546.2	December 20, 2006
Drilling fluid transfer manifold 鑽井液輸送管匯裝置	PRC	200720078934.2	March 30, 2007
Self-lifting drilling fluid purification device 自升式鑽井液淨化裝置	PRC	200720078933.8	March 30, 2007
Casting stabbing board 套管扶正台	PRC	200720079406.9	April 30, 2007
Jack-up platform for offshore drilling 海洋鑽井自升式鑽井平台	PRC	200720079407.3	April 30, 2007
Synchronization controller of hydraulic raising for mast and substructure of rig 石油鑽機井架、底座液壓起升同步控制器	PRC	200720079408.8	April 30, 2007
Integrally trailered drawworks 整體拖掛絞車	PRC	200720079409.2	April 30, 2007
AC VFD drawworks with 2 gears 交流變頻兩檔絞車	PRC	200720079765.4	May 31, 2007
Transmission configuration for drilling pump with hydraulic motor drive 液壓馬達驅動鑽井泵傳動結構	PRC	200720079766.9	May 31, 2007
Single shaft drawworks with AC VFD planet gearing 交流變頻行星齒輪傳動單軸絞車	PRC	200720080357.0	July 19, 2007
Mud tank transporting device 鑽井液罐移運裝置	PRC	200720080974.0	September 7, 2007
Rig skidding device 鑽機整體移運裝置	PRC	200720080975.5	September 7, 2007
Rail skidding device with rail 軌道式鑽機平移裝置	PRC	200720080976.X	September 7, 2007
Intelligent control device for tubing gripper of injector of CTU 連續油管注入頭夾持機構智能化控制裝置	PRC	200710051007.6	December 27, 2007

(c) Domain Names

As of the Latest Practicable Date, we had registered the following domain names:

Domain Name	Registrant	Date of Registration	Expiration Date
hhcp.com.cn	Honghua Company	June 20, 2001	June 20, 2010
宏华.中国	Honghua Company	April 7, 2006	April 7, 2016
宏華.中國	Honghua Company	April 7, 2006	April 7, 2016
宏华.cn	Honghua Company	April 7, 2006	April 7, 2016
宏華.cn	Honghua Company	April 7, 2006	April 7, 2016
宏华.公司	Honghua Company	April 7, 2006	April 7, 2016
宏华.公司.cn	Honghua Company	April 7, 2006	April 7, 2016
宏華.公司	Honghua Company	April 7, 2006	April 7, 2016
宏華.公司.cn	Honghua Company	April 7, 2006	April 7, 2016
scyouxin.com	Youxin Company	July 2, 2003	July 2, 2010
鉆采设备	Youxin Company	March 19, 2004	March 19, 2014
鑽採設備	Youxin Company	March 19, 2004	March 19, 2014
友信.中国	Youxin Company	July 12, 2006	July 12, 2011
友信.cn	Youxin Company	July 12, 2006	July 12, 2011
友信.公司	Youxin Company	July 12, 2006	July 12, 2011
友信.公司.cn	Youxin Company	July 12, 2006	July 12, 2011
友信.网絡	Youxin Company	July 12, 2006	July 12, 2011
友信.网絡.cn	Youxin Company	July 12, 2006	July 12, 2011
hh-gltd.com	Honghua Group	November 13, 2007	November 13, 2017
hhgltd.com	Honghua Group	November 13, 2007	November 13, 2017
宏华集团.公司	Honghua Group	November 19, 2007	November 19, 2017
宏華集團．公司.cn	Honghua Group	November 19, 2007	November 19, 2017
宏华集团.公司	Honghua Group	November 19, 2007	November 19, 2017
宏华集团.公司.cn	Honghua Group	November 19, 2007	November 19, 2017

Except for the above, there are no other trade or service marks, patents, other intellectual or industrial property rights, which are or may be material concerning the Group's business.

C. DISCLOSURE OF INTERESTS

1. Interests and long and short positions of the Directors in the share capital of the Company and its associated corporations immediately following the Global Offering

Immediately following completion of the Global Offering, the interests of our Directors of our Company in the equity or debt securities of our Company, or any associated corporations (within the meaning of Part XV of the SFO), which will have to be reported to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they have taken or are attributed to them under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company under that section, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be reported to our Company and the Stock Exchange are as follows:

Name of Director	Nature of interest	Long/short position	Number and class of securities	Approximate percentage of interest immediately after Global Offering (assuming no exercise of the Over-allotment Option)
Zhang Mi	Corporate Interest and settlor of a discretionary trust(1)	Long	1,617,727,837 Shares	48.5%
Ren Jie	Corporate Interest and settlor of a discretionary trust(2)	Long	1,617,727,837 Shares	48.5%
Zhang Xu	Corporate Interest and settlor of a discretionary trust(3)	Long	1,617,727,837 Shares	48.5%

Notes:

(1) Zhang Mi is a member of the Concert Group. He is the settlor of a discretionary trust, The ZYL Family Trust, whose trustee, through Wealth Afflux Limited, holds the entire issued share capital of Ally Smooth, which in turn is the beneficial owner of 36% of the issued share capital of Ample Chance, which in turn is the beneficial owner of the entire issued share capital of Ally Giant which will hold 1,617,727,837 Shares immediately following completion of the Global Offering.

(2) Ren Jie is a member of the Concert Group. He is the settlor of a discretionary trust, The RJDJ Victory Trust, whose trustee, through Mowbray Worldwide Limited, holds approximately 41.34% of the issued share capital of Charm Moral, which in turn is the beneficial owner of approximately 19.09% of the issued share capital of Ample Chance, which in turn is the beneficial owner of the entire issued share capital of Ally Giant which will hold 1,617,727,837 Shares immediately following completion of the Global Offering.

(3) Zhang Xu is a member of the Concert Group. He is the settlor of a discretionary trust, The Hong Xu Family Trust, whose trustee, through Cavendish Global Corporation, holds approximately 22.77% of the issued share capital of Beauty Clear, which in turn is the beneficial owner of approximately 18.51% of the issued share capital of Ample Chance, which in turn is the beneficial owner of the entire issued share capital of Ally Giant which will hold 1,617,727,837 Shares immediately following completion of the Global Offering.

2. Substantial Shareholders

Information on the substantial shareholders of the Company is set out in the section entitled "Substantial Shareholders" of this Prospectus.

D. FURTHER INFORMATION ABOUT OUR DIRECTORS, MANAGEMENT, STAFF AND EXPERTS

1. Particulars of service contracts

We have entered into a service contract with each of our Directors, pursuant to which each Director is appointed for a term of three years, effective from the Listing Date, subject to re-election in accordance with

our Articles of Association at our general meetings, or unless it is otherwise stated in the service contract, by termination by either us or such Director by three months' notice in writing.

The service contracts are available for inspection at the times and places set out in Appendix VIII to this Prospectus.

All our directors' service contracts expire or as terminable within one year without the payment of compensation (other than the statutory compensation).

2. Directors' remuneration

The directors' remuneration which included fees, salaries, housing allowances, other allowances (including the contribution to the pension scheme on behalf of the Directors) for the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007 were RMB659,000, RMB1,326,000, RMB2,359,000 and RMB885,003 respectively.

It is estimated that remuneration and benefits in kind (including share options), equivalent to approximately HK$16 million in the aggregate, will be paid or distributed to our Directors by us, for the financial year ended December 31, 2008, under arrangements in effect as of the date of this Prospectus.

3. Fees or commissions received

Except as disclosed in this Prospectus, none of the Directors or any of the persons whose names are listed in the paragraph entitled "Consents" in this Appendix VII, have received any commissions, discounts, agency fees, brokerage fees or other special terms in connection with any sales to or purchase from any member of our Group within the two years preceding the date of this Prospectus.

4. Related party transactions

During the two years preceding the date of this Prospectus, we were engaged in related party transactions, as described in the section entitled "Connected Transactions," and in note 27 to the "Accountants' Report", in Appendix I to this Prospectus.

E. DISCLAIMERS

Except as disclosed in this Prospectus:

(a) none of our Directors has any interests on long or short positions in the Shares, underlying Shares and debentures of our Company, or any associated corporation (within the meaning of Part XV of the SFO), which is required to be reported to us and the Stock Exchange, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and long or short positions which he/she has taken or is attributable to him/her under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered into the register required to be kept by the Company under that section, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies, to be reported to us and the Stock Exchange, in each case once our Shares are listed;

(b) none of our Directors, or any of the parties listed in the paragraph headed "Consents" in the section headed "Other Information" of this Appendix VII, is involved in the promotion of the Group, or has an interest in any assets which have, within the two years immediately preceding the date of this Prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(c) none of our Directors, or any of the parties listed in the paragraph headed "Consents" in the section entitled "Other Information" of this Appendix VII, is materially interested in any contract or arrangement, existing as of the date of this Prospectus, which is significant in relation to our business;

(d) except for the Underwriting Agreements, none of the parties listed in the paragraph headed "Consents" in the section entitled "Other Information" of this Appendix VII:

(i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribed for our securities;

(e) within the two years preceding the date of this Prospectus, we have not issued, or agreed to issue, any share or loan fully or partly paid, either for cash or for consideration other than cash;

(f) no share or loan of our Company is subject to any option, or is subject to any conditional or unconditional agreement to be subject to any option;

(g) we have not issued, or agreed to issue, any founder shares, management shares or deferred shares;

(h) none of the equity or debt securities of our Company is listed or dealt with in any stock exchange, and no listing or permission to deal exists or is proposed;

(i) we have no outstanding convertible debt securities;

(j) within the two years immediately preceding the date of this Prospectus, no commissions, discounts, brokerages or other special items have been paid or granted, in connection with the sale of any shares or issue any loans to or from our Company or any of our subsidiaries;

(k) within the two years preceding the date of this Prospectus, no commission has been paid or is payable (except commissions to the Underwriters) for subscriptions, agreements to subscribe, procuring subscriptions or agreements to procure subscriptions of any Shares in our Company; and

(l) none of our Directors or their Associates has any interest in our five largest suppliers or in our top five business customers.

F. PRE-IPO SHARE OPTION SCHEME

1. Summary of Terms

The purpose of the Pre-IPO Share Option Scheme is to retain the best available personnel, to provide additional incentive or rewards to employees (full-time and part-time), directors, consultants and advisers of the Group for their contribution to the Group and to promote the success of the business of the Group. The principal terms of the Pre-IPO Share Option Scheme which were approved by resolutions in writing of all the Shareholders dated January 21, 2008 are substantially the same as the terms of the Share Option Scheme (where applicable) except for the following principal terms:

(a) the subscription price per Share shall be the Offer Price;

(b) the maximum number of Shares which may be issued upon exercise of all options granted under the Pre-IPO Share Option Scheme is 125,000,000 Shares, representing 5% of the issued share capital of the Company immediately prior to the Listing;

(c) the exercise period and life of the options are different from the terms of the Share Option Scheme as detailed in the paragraph "Outstanding Options Granted" immediately below;

(d) each option may be exercised at any time during a period commencing on the date upon which the option is accepted in accordance with the terms of the Pre-IPO Option Scheme but in any event shall not exceed ten years from the date of offer subject to the provisions of early termination thereof; and

(e) save for the options which have been granted as at the Latest Practicable Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

The options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme are non-transferable.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of and permission to deal in the 60,000,000 Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

2. Outstanding Options Granted

As at the date of this Prospectus, options to subscribe for an aggregate of 60,000,000 Shares (representing approximately 1.8% of the issued share capital of the Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised) at an exercise price equal to the Offer Price have been conditionally granted by the Company under the Pre-IPO Share Option Scheme. A total of 270 eligible participants were granted options at a consideration of HK$1.00 under the Pre-IPO Share Option Scheme on January 21, 2008 and no further options will be granted under the Pre-IPO Share Option Scheme after the Listing Date.

A full list of such grantees containing all the details in respect of each option required under paragraph 10 of the Third Schedule to the Companies Ordinance and Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix 1 to the Listing Rules is set out below:

Grantee and Position	Address	Commencement of exercise period	Date of Grant	Number of Shares subject to the option	Exercise Price
Director					
Zhang Mi Chairman of the Board, Executive Director and President of the Company	Block F, No.1, Section 1, East Guangdong Road, Guanghan City, Sichuan Province, PRC	Anytime after the Listing Date	January 21, 2008	1,980,000	Offer Price
		Anytime after the first anniversary of the Listing Date	January 21, 2008	1,980,000	Offer Price
		Anytime after the second anniversary of the Listing Date	January 21, 2008	1,980,000	Offer Price
		Anytime after the third anniversary of the Listing Date	January 21, 2008	1,980,000	Offer Price

Grantee and Position	Address	Commencement of exercise period	Date of Grant	Number of Shares subject to the option	Exercise Price
		Anytime after the fourth anniversary of the Listing Date	January 21, 2008	1,980,000	Offer Price
Ren Jie Executive Director and Vice-President of the Company	No. 1, 2/F., Unit 2, Block 1, No. 1, Section 1, East Guangdong Road, Guanghan City, Sichuan Province, PRC	Anytime after the Listing Date	January 21, 2008	620,000	Offer Price
		Anytime after the first anniversary of the Listing Date	January 21, 2008	620,000	Offer Price
		Anytime after the second anniversary of the Listing Date	January 21, 2008	620,000	Offer Price
		Anytime after the third anniversary of the Listing Date	January 21, 2008	620,000	Offer Price
		Anytime after the fourth anniversary of the Listing Date	January 21, 2008	620,000	Offer Price
Director					
Zhang Xu Executive Director	No.3-1, Unit 4, Block 26, No.87, Section 2, South Zhongshan Road, Guanghan City, Sichuan Province, PRC	Anytime after the Listing Date	January 21, 2008	238,200	Offer Price
		Anytime after the first anniversary of the Listing Date	January 21, 2008	238,200	Offer Price
		Anytime after the second anniversary of the Listing Date	January 21, 2008	238,200	Offer Price
		Anytime after the third anniversary of the Listing Date	January 21, 2008	238,200	Offer Price
		Anytime after the fourth anniversary of the Listing Date	January 21, 2008	238,200	Offer Price
Senior Management					
Liu Zhi Vice-President of the Company	1-1-3 Bldg 1, No.26 Mengzhuiwan St. Weihua District, Chengdu, Sichuan, PRC	Anytime after the Listing Date	January 21, 2008	560,000	Offer Price
		Anytime after the first anniversary of the Listing Date	January 21, 2008	560,000	Offer Price
		Anytime after the second anniversary of the Listing Date	January 21, 2008	560,000	Offer Price
		Anytime after the third anniversary of the Listing Date	January 21, 2008	560,000	Offer Price
		Anytime after the fourth anniversary of the Listing Date	January 21, 2008	560,000	Offer Price

Grantee and Position	Address	Commencement of exercise period	Date of Grant	Number of Shares subject to the option	Exercise Price
Luo Qiping Vice-President of the Company	Taozhu Ge, Tao Yuan, Shahe Street, Deyang City, Sichuan, PRC	Anytime after the Listing Date	January 21, 2008	340,000	Offer Price
		Anytime after the first anniversary of the Listing Date	January 21, 2008	340,000	Offer Price
		Anytime after the second anniversary of the Listing Date	January 21, 2008	340,000	Offer Price
		Anytime after the third anniversary of the Listing Date	January 21, 2008	340,000	Offer Price
		Anytime after the fourth anniversary of the Listing Date	January 21, 2008	340,000	Offer Price
Liu Gangqiang Secretary of the Board	10-5-2 Bldg 1, No. 56 Sec 1, South Lushan Road, Jingyang District, Deyang City, Sichuan Province, PRC	Anytime after the Listing Date	January 21, 2008	360,000	Offer Price
		Anytime after the first anniversary of the Listing Date	January 21, 2008	360,000	Offer Price
		Anytime after the second anniversary of the Listing Date	January 21, 2008	360,000	Offer Price
		Anytime after the third anniversary of the Listing Date	January 21, 2008	360,000	Offer Price
		Anytime after the fourth anniversary of the Listing Date	January 21, 2008	360,000	Offer Price
Lu Hong Financial Controller	Chengjian Main Office No. 62 Xueyuan South Road, Haiding District Beijing, PRC	Anytime after the Listing Date	January 21, 2008	340,000	Offer Price
		Anytime after the first anniversary of the Listing Date	January 21, 2008	340,000	Offer Price
		Anytime after the second anniversary of the Listing Date	January 21, 2008	340,000	Offer Price
		Anytime after the third anniversary of the Listing Date	January 21, 2008	340,000	Offer Price
		Anytime after the fourth anniversary of the Listing Date	January 21, 2008	340,000	Offer Price
Zhang Cong	201 Unit 1, Bldg 3, No. 99 Tongyou Streect, Chengdu City, Sichuan Province, PRC	Anytime after the Listing Date	January 21, 2008	420,000	Offer Price
		Anytime after the first anniversary of the Listing Date	January 21, 2008	420,000	Offer Price

Grantee and Position	Address	Commencement of exercise period	Date of Grant	Number of Shares subject to the option	Exercise Price
		Anytime after the second anniversary of the Listing Date	January 21, 2008	420,000	Offer Price
		Anytime after the third anniversary of the Listing Date	January 21, 2008	420,000	Offer Price
		Anytime after the fourth anniversary of the Listing Date	January 21, 2008	420,000	Offer Price
Zhao Ping	2-4-2 Bldg 1, Honghua Yuan, Sec 2, South Zhongshan Road, Guanghan City, Sichuan Province, PRC	Anytime after the Listing Date	January 21, 2008	340,000	Offer Price
		Anytime after the first anniversary of the Listing Date	January 21, 2008	340,000	Offer Price
		Anytime after the second anniversary of the Listing Date	January 21, 2008	340,000	Offer Price
		Anytime after the third anniversary of the Listing Date	January 21, 2008	340,000	Offer Price
		Anytime after the fourth anniversary of the Listing Date	January 21, 2008	340,000	Offer Price
Other employees		Anytime after the Listing Date	January 21, 2008	6,801,800	Offer Price
		Anytime after the first anniversary of the Listing Date	January 21, 2008	6,801,800	Offer Price
		Anytime after the second anniversary of the Listing Date	January 21, 2008	6,801,800	Offer Price
		Anytime after the third anniversary of the Listing Date	January 21, 2008	6,801,800	Offer Price
		Anytime after the fourth anniversary of the Listing Date	January 21, 2008	6,801,800	Offer Price
Total				60,000,000	

The total number of Shares subject to options granted under the Pre-IPO Share Option Scheme is 60,000,000 Shares, representing approximately 1.8% of the issued share capital of the Company upon completion of the Global Offering (but excluding all Shares which may be issued upon the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme or upon the exercise of the Over-allotment Option), or approximately 1.8% of the enlarged issued share capital of the Company upon full exercise of all the outstanding options granted under the Pre-IPO Share Option Scheme on completion of the Global Offering (excluding all Shares which may be issued upon the exercise of the options granted or to be granted under the Share Option Scheme and the Over-allotment Option). Assuming full exercise of these options, the shareholding of Ally Giant, Carlyle Funds, Vincera Group, DPF, IP Cathay, COOS and Nabors International in the Company will be diluted to approximately 47.6%, 4.9%, 0.8%, 1.6%, 0.4%, 5.1% and 13.3% respectively, and our earnings per Share would also be diluted by approximately 1.65%.

However, as the options are exercisable for a period of several years, any such dilution and impact on earnings per Share will be staggered over such period. No further options will be granted under the Pre-IPO Share Option Scheme after the Latest Practicable Date.

Each of the grantees has undertaken to the Company that, in relation to any Shares which he or she obtains pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme, he or she will not, without the prior written consent of the Company and the Stock Exchange and unless in compliance with the requirements of the Listing Rules at any time during the period from the date of exercise of the options and ending on the date which is six months from the Listing Date ("Lock-up Period"), offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of such Shares or any interest therein held by him or her during the Lock-up Period or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such Shares, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so, and in the event of a disposal by him or her of such Shares or any interest therein thereafter he or she will ensure that such a disposal will not create a disorderly or false market for the Shares or other securities of the Company.

With respect to those grantees who are also Directors, they have further undertaken to the Company that no options granted under the Pre-IPO Share Option Scheme will be exercised to the extent that the percentage of the Shares in the public hands will be less than the minimum public float requirements under Rule 8.08 of the Listing Rules as a result thereby.

G. SHARE OPTION SCHEME

1. Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

"Adoption Date"	January 21, 2008, the date on which the Share Option Scheme is conditionally adopted by the Shareholders by way of written resolution
"Board"	The Board of Directors or a duly authorized committee of the Board of Directors
"Group"	The Company and any entity in which the Company, directly or indirectly, holds any equity interest
"Scheme Period"	The period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof
"Participant"	(a) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group; (b) any non-executive director (including independent non-executive directors) of any member of the Group; (c) any supplier of goods or services to any member of the Group; (d) any customer of any member of the Group; (e) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group; (f) any shareholder of any member of the Group or any holder of any

securities issued by any member of the Group; (g) any joint venture partner, business or strategic alliance partner, in each case of any member of the Group; (h) any discretionary trust whose discretionary objects may be any executive director, employee or proposed employee (whether full time or part time) and any non-executive director (including independent non-executive directors) of any member of the Group, any supplier of goods or services to any member of the Group, any customer of any member of the Group, any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group, any shareholder of any member of the Group or any holder of any securities issued by any member of the Group, and any joint venture partner, business or strategic alliance partner, in each case of any member of the Group;

(2) Summary of terms

The following is a summary of the principal terms of the Share Options Scheme conditionally approved by a resolution in writing of all the Shareholders passed on January 21, 2008 and adopted by a resolution of the Board on January 21, 2008. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules:

(i) Purpose of the Share Option Scheme

The purpose of the Scheme is to provide incentives or rewards to Participants for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are available to the Group.

The Scheme will give the Participants an opportunity to have a personal stake in the Company and will (a) motivate the Participants to optimise their performance and efficiency; and (b) attract and retain the Participants whose contributions are important to the long-term growth and profitability of the Group.

(ii) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant any Participant options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any Participant to the grant of any option shall be determined by the Board (or as the case may be, the Independent Non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(iii) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a Participant and shall be at least the higher of : (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (c) the nominal value of a Share on the date of grant of the option.

(iv) Grant of options and acceptance of offers

An offer for the grant of options must be made to a Participant on a trading day by letter in such form as the Board may from time to time determine, requiring the Participant to

undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme and shall remain open for acceptance by the Participant concerned within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

No Offer may be made after a price sensitive event of the Group has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. No Option may be granted during the period commencing one month immediately preceding the earlier of: (a) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (b) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules).

(v) Maximum number of Shares

(a) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time (the "Scheme Limit"). No options may be granted under the Share Option Scheme or any other share option schemes of the Company, if this will result in such 30% limit being exceeded.

(b) Subject to the Scheme Limit and sub-paragraph (c) and (d) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company as from the commencement of the Scheme Period (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of the nominal amount of all the issued Shares as at the Listing Date (the "Scheme Mandate Limit"). Therefore, it is expected that the Company may grant options in respect of up to 333,336,000 Shares (or such numbers of shares as shall result from a sub-division or a consolidation of such 333,336,000 Shares from time to time) to the Participants under the Share Option Scheme.

(c) The Scheme Mandate Limit may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the Shares in issue at the date of approval of the limit (the "Refreshed Limit"). Options previously granted under the Share Option Scheme or any other share option schemes of the Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) will not be counted for the purposes of calculating the Refreshed Limit. A circular must be sent to the Shareholders containing the information as required under the Listing Rules in this regard.

(d) The Company may seek separate approval of the Shareholders in general meeting for granting options beyond the 10% limit under sub-paragraph (b) and (c) provided the

options in excess of the limit are granted only to grantees specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to the Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose, and such other information required under the Listing Rules.

(vi) Maximum entitlement of each Eligible Person

The total number of Shares issued and to be issued upon exercise of options granted to any Participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such Participant and his associates abstaining from voting. In such event, the Company must send a circular to the Shareholders containing the identity of the Participant, the number and terms of the options to be granted (and options previously granted to such Participant), and all other information required under the Listing Rules. The number and terms (including the exercise price) of the options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting proposing such further granted should be taken as the date of grant for the purpose of calculating the subscription price.

(vii) Grant of options to certain connected persons

(a) Any grant of an option to a Director, chief executive or substantial Shareholder of the Company (or any of their respective Associates) must be approved by the Independent Non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

(b) Where any grant of options to a substantial Shareholder of the Company or an independent non-executive Director (or any of their respective Associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of the Company (including options exercise, cancelled and outstanding) in any 12-month period up to and including the date of grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million.

such further grant of options is required to be approved by Shareholders in general meeting of the Company, with voting to be taken by way of poll. The Company shall send a circular to the Shareholders containing all information as required under the Listing Rules in this regard. All connected persons of the Company shall abstain from voting (except where any connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial Shareholder of the Company or an independent non-executive Director or any of their respective Associates is also required to be approved by Shareholders in the aforesaid manner.

(viii) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(ix) Performance targets

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(x) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distribution paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment.

(xi) Rights are personal to grantee

An option shall not be transferable or assignable and shall personal to the grantee of the option.

(xii) Rights on cessation of employment by death

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiii) below arises within a period of three years prior to the death, in the case the grantee is an employee at the date of grant), the legal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (xvi), (xvii) and (xviii) occurs prior to his death or within such period of six months following his death, then his personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(xiii) Rights on cessation of employment by dismissal

In the event that the grantee is an employee of the Group at the date of grant and he subsequently ceases to be an employee of the Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with the Group.

(xiv) Rights on cessation of employment for other reasons

In the event that the grantee is an employee of the Group when an Offer is made to him and he subsequently ceases to be an employee of the Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xiii) above, the option (to the extend not already exercised) shall lapse on the expiry of three months after the date of cessation of such employment (which date will be the last actual working day with the Company or the relevant member of the Group whether salary is paid in lieu of notice or not).

(xv) Effects of alterations to share capital

In the event of a capitalization issue, rights issue, consolidation, subdivision or reduction of the share capital of the Company, such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices; as the auditors or financial adviser of the Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplemental guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to the share option schemes (the "Supplemental Guidance").

Any such alternations will be made on the basis that a grantee shall have the same proportion of the issued share capital of the Company (as interpreted in accordance with the Supplemental Guidance) for which any grantee of any option is entitled to subscribe pursuant to the options held by him before such alternation and the aggregate subscription price payable on the full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alternation will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance regarding any such alternations. Any adjustment to be made will comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time.

(xvi) Rights on a general offer

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all the Shareholders (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(xvii) Rights on winding-up

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a

remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

(xviii) Rights on compromise or arrangement

In the event of a compromise or arrangement between the Company and the Shareholders or its creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company pursuant to the Companies Law, the Company shall give notice thereof to all the grantees (or as the case may be, his legal personal representative(s)) on the same day as it gives notice of the meeting to the Shareholders or its creditors to consider such a compromise or arrangement and the options shall become exercisable on such date until the earlier of two months after that date and the date on which such compromise or arrangement is sanctioned by the court of the Cayman Islands and becomes effective.

(xix) Lapse of options

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(a) the expiry of the period referred to in paragraph (viii) above;

(b) the date on which the grantee commits a breach of paragraph (xi) above;

(c) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraph (xii), (xiv), (xvi), (xvii) and (xviii) above; and

(d) subject to (xvii) above, the date of the commencement of the winding-up of the Company;

(e) in the event of (xiii) above, the date on which the grantee ceases his employment with the Group;

(f) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty; and

(g) where the grantee is a substantial shareholder of any member of the Group, the date on which the grantee ceases to be a substantial shareholder of such member of the Group.

(xx) Cancellation of options granted but not yet exercised

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(xxi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on which the Share Option Scheme is adopted by the Shareholders in general meeting or by way of written resolution and shall expire at the close of business on the day preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

(xxii) Alteration to the Share Option Scheme

(a) The Share Option Scheme may be altered in any respect by resolution of the Board except that alternations of the provisions of the Share Option Scheme which alters to the advantage of the grantees or prospective grantees of the options relating to matters governed by Rule 17.03 of the Listing Rules shall not be made except with the prior approval of the Shareholders in general meeting.

(b) Any amendment to any terms of the Share Option Scheme, which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(c) Any amendment to any terms of he Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(xxiii) Termination to the Share Option Scheme

The Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(xxiv) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Shares to issued pursuant to the exercise of any options granted under the Share Option Scheme.

3. Present status of the Share Option Scheme

Application has been made to the Listing Committee for listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

4. Disclosure of the Share Option Scheme

The Company shall disclose all information of the Share Option Scheme as required by the Listing Rules or any other applicable rules and regulations in its annual and interim reports.

As at the date of this Prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

H. OTHER INFORMATION

1. Tax and other indemnity

Each of Ally Giant, Ample Chance, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Ally Smooth, Charm Moral, Beauty Clear, Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises Inc, Dobson Global Inc, Darius Enterprises Limited, Believe

Power, Benefit Way, Birdview and the Existing Shareholders of the Company (collectively, the "Covenantors") has, pursuant to a deed of indemnity in respect of tax referred to the paragraph headed "Summary of material contracts" in this Appendix, given jointly and severally indemnities to the Company, in respect of, among other things:

a. any taxation liability of the Company and the Company's proportionate interest of any Taxation Liability of any of the other members of the Group which has arisen or may arise wholly or partly:

   (i) in respect of or in consequence of any act, omission or event occurring or deemed to occur on or before the date on which the Global Offering becomes unconditional; or

   (ii) in respect of income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which the Global Offering becomes unconditional;

b. any Taxation Liability under or by virtue of the provisions of section 35 and section 43 of the Estate Duty Ordinance (Cap. 111 of the Laws of Hong Kong) or any similar laws and regulations of any relevant jurisdiction arising on the death of any person at any time by reason of any transfer of any property to the Company or any member of the Group made or deemed to have been made on or before the date on which the Global Offering becomes unconditional or by reason of any property of any of the Companies being deemed for the purpose of estate duty to be included in the property passing on death of any of the Covenantor by reason of that person making or having made a transfer to such member of the Group on or before the date on which the Global Offering becomes unconditional;

save:

a. to the extent that specific provision or reserve has been made for it in the Accounts;

b. to the extent that the taxation liability would not have arisen but for any voluntary act of the Company or any member of the Group after the date on which the Global Offering becomes unconditional which the Company or the relevant member of the Group ought reasonably to have known would give rise to such taxation liability but excluding any act:

   (i) carried out pursuant to a legally binding obligation of the Company or any member of the Group entered into or incurred on or before the date on which the Global Offering becomes unconditional; or

   (ii) pursuant to an obligation imposed by any law, regulation or requirement having the force of law; or

   (iii) taking place with the written approval of the Covenantors or pursuant to the Global Offering or any document executed pursuant to the Global Offering; or

   (iv) occurring in the ordinary course of business of the Company or the relevant member of the Group; or

c. to the extent that the Taxation Liability arises in the ordinary course of business of the Company or any member of the Group after the August 31, 2007 up to and including the date on which the Global Offering becomes unconditional; or

d. to the extent that the Taxation Liability arises or is increased as a result only of:

   (i) an increase in rates of Taxation made after the date on which the Global Offering becomes unconditional with retrospective effect; or

   (ii) the passing of any legislation after the date on which the Global Offering becomes unconditional with retrospective effect.

Furthermore, Ally Giant, Ample Chance, Wealth Afflux Limited, Mowbray Worldwide Limited, Ecotech Enterprises Corporation, Otama Company Limited, Vast & Fast Corporation, Cavendish Global Corporation, Airtech Investments Limited, Ally Smooth, Charm Moral, Beauty Clear, Brondesbury Enterprises Limited, Oriental Starz Limited, Tech Express Enterprises Inc, Dobson Global Inc, Darius Enterprises Limited, Believe Power, Benefit Way, Birdview, and the Existing Shareholders of the Company executed a deed of indemnity in respect of dispute and risk dated February 15, 2008 in favour of the Group under which they agree to jointly and severally indemnify any members of the Group for any potential damages that the Company may suffer as a result of the legal proceedings initiated by the 57 plaintiffs or the dispute with the 64 investors.

2. Litigation

Save for the disputes with 64 natural persons as disclosed in the "Risk Factors" section and the subsection headed "Legal Proceedings" in "Our Business" section of this Prospectus, we are not aware of any other litigation or arbitration proceedings pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operation.

3. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee for listing of, and permission to deal in, the Shares and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and options granted under the Share Option Scheme on the Stock Exchange. All necessary arrangements have been made enabling the securities to be admitted to CCASS.

The listing of our Shares on the Stock Exchange is jointly sponsored by Credit Suisse (Hong Kong) Limited and Morgan Stanley Asia Limited. Each of the Joint Sponsors have declared pursuant to Rule 3A.08 of the Listing Rule that is independent pursuant to Rule 3A.07 of the Listing Rules.

4. Preliminary expenses

Our estimated preliminary expenses are approximately HK$50,000 and are payable by us.

5. Qualifications of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who have given their opinions or advice in this Prospectus are as follows:

Name	Qualification
Credit Suisse (Hong Kong) Limited	Licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Morgan Stanley Asia Limited	Licensed to conduct Type 1 (dealing in securities), Type 4 (advising in securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO
KPMG	Certified public accountants
Sallmanns (Far East) Limited	Chartered Surveyors
King & Wood	PRC legal advisers
Appleby	Cayman Islands legal advisers
Spears & Associates Inc	Technical Consultants

6. Consents

Each of Credit Suisse (Hong Kong) Limited, Morgan Stanley Asia Limited, KPMG, Sallmanns (Far East) Limited, King & Wood, Appleby and Spears & Associates has given and has not withdrawn its respective written consents to the issue of this Prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any of our members or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any of our members.

7. Waivers from Strict Compliance with Rule 4.04(1) of the Listing Rules and Paragraph 27 and Paragraph 31 of the Third Schedule to the Companies Ordinance

In strict compliance with the requirements contained in (i) Rule 4.04(1) of the Listing Rules ("Rule 4.04(1)"); and (ii) paragraph 27 ("Paragraph 27") and paragraph 31 ("Paragraph 31") of the Third Schedule of the Companies Ordinance, the Company is required to produce full year audited accounts for the year 2007. The Company has applied to the SFC and the Stock Exchange for waivers from strict compliance with the requirements contained in (i) Rule 4.04(1) and (ii) Paragraph 27 and Paragraph 31 of the Third Schedule of the Companies Ordinance on the ground that strict compliance with the requirements contained in (i) Rule 4.04(1) and (ii) Paragraph 27 and Paragraph 31 of the Third Schedule of the Companies Ordinance would be unduly burdensome for the Company in that there would not have been sufficient time for the Company to produce and the Reporting Accountants to audit the financial statements for the year ended December 31, 2007 prior to the Global Offering. A certificate of exemption from strict compliance with the requirements under Paragraph 27 and Paragraph 31 of the Third Schedule to the Companies Ordinance has been granted by the SFC to the Company under section 342A of the Companies Ordinance. The Stock Exchange has also granted its wavier to the Company from strict compliance with Rule 4.04(1) of the Listing Rules.

The Directors consider that all information reasonably necessary for the potential investors to make an informed assessment of the Group's activities and financial position has been included in this Prospectus.

The Directors confirm that they have performed sufficient due diligence on the Group to ensure that up to the date of this Prospectus, there has been no material adverse change in the financial or trading position of the Group since August 31, 2007 and there is no event since August 31, 2007 which would materially affect the information shown in the Accountants' Report as set out in Appendix I to this Prospectus. The Directors have further confirmed that the Reporting Accountants have disclosed all material events which have arisen since August 31, 2007 under the subsequent events note of the Accountants' Report as set out in Appendix I to this Prospectus.

8. Binding effect

This Prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Bilingual Prospectus

The English language and Chinese language versions of this Prospectus are being published separately, in reliance upon the exemption provided in Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Documents Delivered to the Registrar of Companies

The documents attached to this Prospectus and delivered to the Registrar of Companies in Hong Kong for registration are:

- copies of the **white, yellow** and **green** Application Forms;
- statement of adjustments in relation to Accountants' Report in Appendix I received from KPMG;
- the written consents referred to in the section headed "Consents" in "Appendix VII — Statutory and General Information" to this Prospectus; and
- copies of the material contracts referred to in the section headed "Summary of material contracts" in "Appendix VII — Statutory and General Information" to this Prospectus.

Documents Available for Inspection

Copies of the following documents will be available for inspection at the offices of Arculli Fong & Ng, located at 908, Hutchison House, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this Prospectus or for the duration of the Global Offering, if longer:

- our Memorandum and Articles of Association;
- our Accountants' Report prepared by KPMG, the text of which is set out in "Appendix I — Accountants' Report" in this Prospectus;
- our consolidated audited financial statements for the three years ended December 31, 2004, 2005 and 2006 and the eight months ended August 31, 2007;
- the letters relating to the pro forma financial information included in this Prospectus, the texts of which are set out in "Appendix II — Pro Forma Financial Information" in this Prospectus;
- the letters relating to the profit estimate of our Company prepared by KPMG, the texts of which are set out in "Appendix III — Profit Estimate" in this Prospectus;
- the letter and valuation certificates relating to our property interests prepared by Sallmanns (Far East) Limited, the text of which is set out in "Appendix IV — Property Valuation" in this Prospectus;
- the Independent Technical Report prepared by Spears and Associates Inc. the text of which is set out in "Appendix V — Independent Technical Report" in this Prospectus
- the letter prepared by Appleby summarising certain aspects of Cayman Islands company law as referred to in "Appendix VI — Summary of the Constitution of our Company and Cayman Islands Company Law" in this Prospectus.
- the material contracts referred to in the section entitled "Summary of material contracts" in "Appendix VII — Statutory and General Information" in this Prospectus;
- the written consents referred to in the section entitled "Consents" in "Appendix VII — Statutory and General Information" in this Prospectus;
- the service contracts between the Directors and the Company referred to in the section entitled "Particulars of service contracts" in "Appendix VII — Statutory and General Information" in this Prospectus.