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	Units Sold	Revenue	Units Sold
	(RMB millions)		(RMB millions)	
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	Unit Sold	Revenue	Unit Sold
	(RMB million)		(RMB million)	
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, 2004	2005	2006	As at August 31, 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, 2007	As of December 31, 2007
	2004	2005	2006		
				(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.