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## FUTURE PLANS AND USE OF PROCEEDS

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### Future Plans

Our objectives are to further strengthen our leadership position in the global land rig market and to expand into the offshore drilling rig market. In order to increase the annual rig production to 150 rigs by 2008, the Group's plan to increase capacity is as follows.

- (1) *Expansion of the site for final assembly tests.* The Group has expanded the site for final assembly tests from 62,000 m<sup>2</sup> to 71,000 m<sup>2</sup>, and this expanded site is already in use. Additionally, the Group has increased the positions for final assembly tests from 16 to 19.
- (2) *Expansion of workshops.* The Group plans to extend the steel-structure workshop by 300 m<sup>2</sup>, to build a new steel-structure workshop covering of 23,660 m<sup>2</sup>, and to build a new sand-painting workshop covering 24,000 m<sup>2</sup>. These expansions will be completed by approximately February, 2008;
- (3) *Increasing equipment and staff.* The Group plans to add equipment and staff, in order to utilize the increased physical capacity.
- (4) *Optimization of supply system and final assembly techniques.* The Group plans to optimize the supply system for prompt material supply and production. The Group plans to optimize final assembly techniques for reducing the amount of time drilling rigs spend on the final assembly ground and thereby improving turnover on the final assembly ground.

We intend to achieve these objectives through our business strategies, as detailed in the section of this Prospectus headed "Our Business — Business Strategies."

### Use of Proceeds

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

- (i) Approximately 60% is to be used for the construction of an offshore equipment manufacturing base in the eastern coastal area of China, to produce jack-up rigs and fixed rigs as well as large structures. This includes acquiring land and coastline in Shanghai or neighboring provinces, investing in research and development and new equipment, and constructing new factories.
- (ii) Approximately 12% is to be used for increasing production capacity, and for the development of new land rig equipment and rig parts and components. In order to increase the annual rig production to 150 rigs by 2008, the Group needs capital investment, including fixed capital (for such items as expansion of the ground for final assembly tests, expansion of workshops, and increase in production and testing equipment).

The new land rig equipment, parts and components intended to be developed include:

- top drive units;
- rigs capable of withstanding extreme temperatures in arctic and desert environments;
- rigs with a depth range of 12,000 meters;
- offshore drilling modules for 7,000- to 12,000-meter depth drilling rigs;
- semi-trailer rigs; and

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- helicopter-mounted drilling rigs;
  - light, speedy and efficient rigs, with various depth ranges, that are equipped with the combined technology of our hydraulic device, digitally-controlled VFD rig and coiled tubing drilling;
  - HH-1600 high-pressure mud pumps;
  - HH-2200 high-pressure power driven mud pumps;
  - synthetic well logging instruments;
  - digitally controlled VFD software, long-distance and statistic handling systems
- (iii) Approximately 20% is to be used for acquisitions, establishing joint ventures and strategic alliances with international partners, in order to expand our product offerings to the oil and gas exploration and production industry, specifically, in the following areas:
- BOP system, casing pipe-head, and wellhead equipment;
  - drilling equipment (drill pipe, oil pipe, and drill collar) and tools;
  - casting technology and forging technology;
  - electrical machines and gears.

The Company is in the process of searching for potential international partners.

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

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

Any change to the above proposed use of proceeds will be duly published by announcement.

The net proceeds we receive from the Global Offering in Hong Kong dollars will be accounted for in our financial statements at the exchange rate published by the PBOC in effect at the time the net proceeds are received.

None of the issue and sale of the Offer Shares, the execution, delivery and performance of the Underwriting Agreements, the consummation of any related transaction, or the provision of services with respect to the Global Offering, or the facilitation of any of the foregoing, will result in a violation by any person (including, without limitation, the Underwriters and purchasers of the Offer Shares) of any regulation or statute of the United States, including, without limitation, the U.S. Trading with the Enemy Act (as amended), the U.S. International Emergency Economic Powers Act (as amended), the Iran and Libya Sanctions Act of 1996, or any economic sanctions administered by the Office of Foreign Assets Control of the USA Department of the Treasury.

The Company, its subsidiaries and affiliates, will use the net proceeds received by the Company from the sale of the Offer Shares in the manner specified in the section headed “Future Plans and Use of Proceeds” in this Prospectus, and, will not, directly or indirectly, use the proceeds of the sale of the Offer Shares to fund, directly or indirectly, activities or business with, or for the benefit of, any government, individual or entity, that is the subject of any OFAC-administered sanctions, or in a manner that would cause any person (including, without limitation, the Underwriters and purchasers of the Offer Shares), to violate any regulation or statute of the United States, including, without limitation, the U.S. Trading with the Enemy Act (as amended), the U.S. International Emergency Economic Powers Act (as amended), the Iran and Libya Sanctions Act of 1996, or any OFAC-administered sanctions.