This offering involves certain risks. Prior to making an investment decision, you should carefully consider all of the information in this prospectus, including, but not limited to, the risks factors described below. Our business could be materially and adversely affected by any of the risks and uncertainties described below. The trading price of our Shares may decline due to any of these risks and uncertainties and may cause you to lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Declines in domestic and international oil and natural gas prices, or domestic and international exploration, drilling and production activities, may adversely affect our profitability.

Demand for our products and services depends significantly on the number of domestic and worldwide oil and gas wells being drilled, completed and re-worked, as well as the depth and drilling conditions of these wells. The level of such drilling activities in turn depends on the level of capital spending by major oil and gas companies. These expenditures are sensitive to the industry's view of future economic growth and the resulting impact on demand for oil and natural gas. The worldwide deterioration in the financial and credit markets, which began in the second half of 2008, resulted in diminished demand for oil and gas and significantly lowered oil and natural gas prices. This caused many of our customers, particularly international customers, to reduce or delay their oil and gas exploration and production spending in 2009, which consequently reduced the demand for our products, and exerted downward pressure on the prices of our products and services. If the global economic downturn continues for a prolonged period or if there is little or no economic growth, it will likely result in further reductions of exploration and production expenditures by our customers, causing further declines in the demand for, and prices of, our products and services. This could result in a material adverse effect on our financial condition, results of operations and cash flows.

Capital spending on drill pipes and other drilling-related products used for oil and natural gas exploration, drilling and production activities is driven in part by the prevailing prices for oil and natural gas and the perceived stability and sustainability of those prices. Oil and natural gas prices have also been subject to significant volatility in recent years due to numerous factors beyond our control, including:

- demand for hydrocarbons, which is affected by worldwide population growth, economic growth rates and general economic and business conditions;
- the ability of the OPEC to set and maintain production levels for oil;
- oil and gas production by non-OPEC countries;
- the level of excess production capacity;
- political and economic uncertainty and sociopolitical unrest;
- the level of worldwide oil and gas exploration and production activity;
- the cost of exploring for, producing and delivering oil and gas;
- technological advances affecting energy consumption; and
- weather conditions.

The current global economic downturn has reduced worldwide demand for oil and natural gas and resulted in significantly lower crude oil and natural gas prices compared to their record highs in July 2008. The significant decline in oil and natural gas prices reduced many of our customers' activities and spending on our services and products in 2009, and such reduction in our customers' activities and spending could continue through 2010 and beyond. Any declines in the price of oil and natural gas, even for a short period of time, may reduce or curtail expenditure by oil and gas companies in connection with exploration, drilling and production activities, which may result in lower sales volumes and prices for our drilling-related products in the PRC and overseas and materially and adversely affect our business, financial condition and results of operations.

Decreased demand for our products would be expected to result not only from periods of decreased capital spending and activities in exploration, drilling and production, but also from the resulting build up of customer inventory, as certain drilling-related products associated with idle rigs such as drill pipes can be re-used on active rigs instead of new purchases from us.

The recent global financial crisis has had and may continue to have material adverse effect upon our business, financial condition and results of operations.

Certain recent adverse developments in the global financial markets have impacted the global economy. These developments include, among other things, general slow-down of economic growth in China, the U.S. and elsewhere globally and substantial volatility and tightening of liquidity in financial and commodity markets. International oil and gas prices also experienced significant fluctuations and decrease, resulting in lower level of oil and gas production activities globally and the decrease in demand for oil and gas products and services.

These developments have adversely affected our business and operating results in a number of respects. In 2009, our revenue decreased significantly by 40.8% and revenue generated from the international market decreased to represent 15.8% of our total revenue in 2009, compared to 38.5% in 2008. Such decreases were primarily associated with the significant decreases in sales volume and average selling price of drill pipes sold in the international market. As our staff costs, utility charges and depreciation of fixed assets remained stable in 2009 despite the significant decrease in revenue, our gross profit margin decreased in 2009. Our inventory turnover days increased from 103 days in 2008 to 194 days in 2009, reflecting the significant decrease in sales in 2009. Our trade receivables turnover days increased from 85 days in 2008 to 200 days in 2009, reflecting the longer period required for our key customers to settle trade receivables. We also recorded impairment in inventory and trade receivables as a result of these negative developments. Some of our domestic and international customers, including those with significant transaction value and receivable balances with us, may not have fully recovered from the global financial crisis. See "Financial Information".

It is difficult to predict how long the impact of the global financial crisis will continue and which of and how our customers, markets and businesses may continue to be subject to such impact. As a result, the global financial crisis may continue to have material adverse effect upon our business, financial condition and results of operations.

It is difficult to evaluate our results of operations and future prospects due to the significant fluctuation in our historical performance and our limited operating history.

We entered coating business in 2002 and drill pipe manufacturing business in 2005. Accordingly, we have a limited operating history for potential investors to evaluate our business prospects. As our historical performance experienced significant fluctuations during the Track Record Period, our historical operating results may not be an indication of our future performance.

Our revenue increased 89.3% in 2008 compared to 2007 and reached its historically highest level in 2008, and revenue derived from the international market as a percentage of our total revenue increased to 38.5% in 2008, both reflecting the high oil and gas prices in 2008. International oil price reached an unprecedented peak level of US$145 per barrel in July 2008, and the global oil and gas drilling activities also increased significantly. These developments contributed to the unprecedented strong demand in the global market for oil and gas related products and services. However, in 2009, our revenue decreased significantly and revenue generated from the international market decreased to represent 15.8% of our total revenue in 2009. Such decrease was the result of the recent adverse developments in the global financial markets which have impacted the global economy, coupled with the associated decrease in global oil and gas prices, lower level in oil and gas production activities globally and the decrease in demand for oil and gas products and services. See "—The recent global financial crisis has had and may continue to have material adverse effect upon our business, financial condition and results of operations." In addition, our historical performance has also been affected by various company-specific factors, such as our utilization rate and expansion of capacity and product and service mix. See "Financial Information—Factors Affecting Our Results of Operations."

As a result, our historical operating results may not provide a meaningful basis for evaluating our future business performance, results of operations and financial condition. We may not be able to continue our growth at similar rates, or at all.

We may fail to renew our certification as a supplier of CNPC, Sinopec, or our other key customers.

We are approved by China Petroleum Sales Co., Ltd., or CPSC, as a member of www.energyahead.com, an E-Commerce portal website. We understand that CPSC evaluates and screens suppliers on behalf of CNPC, and as such, membership to www.energyahead.com permits its members to provide equipment and services to the major oil and gas fields of CNPC. The renewal of membership is subject to annual performance evaluations conducted by CPSC. In addition, we are a member of the List of Sinopec Suppliers (a group of suppliers designated by Sinopec Market and Equipment Department). Such memberships are necessary for us to sell our products to the subsidiaries or branch oilfields of CNPC and Sinopec, which have been our major customers in China. Our membership in the List of Sinopec Suppliers has no expiration date. Sinopec maintains an evaluation system to examine the performance of its network suppliers, including the product quality, product price, delivery and after-sales service. A supplier's membership may be suspended if such supplier, among other things, delays delivery, has operational problems, is unable to provide after-sales service, or is involved in litigation with an affiliate of Sinopec, or if the products it provides fail to meet relevant quality standards. Sinopec will terminate the supplier's membership if such supplier provided fraudulent information on a membership application, has unsatisfactory financial results, or is unable or refuses without reason to perform its contractual obligations. In the event that our membership is suspended or terminated by Sinopec, or we are unable to renew our membership with www.energyahead.com, then our business, financial condition and results of operations may be materially and adversely affected.

In addition, most of our major customers require us to first pass a qualification process before we can become a supplier to that customer. We cannot assure you that we will be able to pass such qualification process for new products with our existing customers or obtain necessary approvals for our products from any new customers. Even if we can ultimately pass such qualification process we cannot assure you that such approvals can be obtained in a timely manner. Furthermore, a number of our major customers perform audit periodically on our Company, during which they review our systems and procedures for the various stages of our manufacture process. We cannot assure you that we will be able to continue to pass such audits without incurrence of material expenses to implement corrective measures, or in a timely manner, or at all. In addition, even if we become an approved supplier of a company, it does not necessarily mean that we will receive purchase orders from that company. If we fail to become an approved supplier of our potential customers, or if we are unable to obtain or maintain such approval in a timely manner or without incurrence of material expenses to implement corrective measures, we may not be able to execute our expansion plans and our business prospects and results of operations may be materially and adversely affected.

We may fail to secure engagements for new projects through competitive bidding.

Revenue from our oilfield services segment is primarily generated on a project-by-project basis from oil well drilling projects that are non-recurring in nature. We generally secure engagements for projects through a bidding and negotiation process. As a result, our financial performance is dependent on our ability to maintain our bidding eligibility, submit competitive bids and continually secure engagements. In addition, due to the nature of the oilfield service industry, the value of projects that we are able to secure may fluctuate from year to year. We cannot assure you that we will continue to secure new engagements or that these engagements will be profitable. If we are unable to secure profitable engagements, our business, financial performance and financial position will be adversely affected.

We depend on a limited number of customers.

Our customers primarily consist of major PRC and international oil and gas companies. Based on contract party, aggregate revenue attributable to our five largest customers represented approximately 25.6%, 35.8%, 27.2% and 37.8% of our revenue for 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Revenue attributable to our largest customer during the Track Record Period, represented 7.2%, 14.9%, 15.0% and 12.9% of our revenue for the same period respectively. If calculated based on customer group including affiliated companies under the same control or ownership, based on our knowledge of our customers' ownership information, in 2007, 2008, 2009 and for the nine months ended September 30, 2010, (i) our five largest customer groups accounted for approximately 89.4%, 74.8%, 59.2% and 69.7% of our revenue, respectively, and (ii) revenue attributable to our largest customer group represented 39.1%, 44.4%, 28.6% and 23.0% of our revenue, respectively. See "Business—Customers." We cannot assure you that we will be able to maintain or improve our relationships with these customers, or that we will be able to continue to supply products to these customers at current levels, or at all. In addition, any decline in our major customers' businesses could lead to a decline in purchase orders from these customers. If any of our key customers were to substantially reduce the size or amount of the orders they place with us or were to terminate their business relationship with us entirely, we cannot assure you that we would be able to obtain orders from other customers to replace any such lost sales on comparable terms or at all. If any of these relationships were to be so altered or terminated and we were unable to obtain sufficient replacement orders on comparable terms, our business, results of operations and financial condition would be materially and adversely affected.

We do not have long-term purchase contracts from our customers.

We do not have long-term purchase contracts from our customers, and generally only enter into sales or supply contracts on an order-by-order basis with them. Accordingly, the volume of our customers' purchases and our product mix may vary significantly from period to period, and it is difficult for us to forecast future order quantities. We cannot assure you that any of our customers will continue to place orders with us in the future at the same level as in the current or prior periods, or at all. Furthermore, the actual volume of our customers' purchases may prove to be inconsistent with our expectations at the time we plan our expenditures. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

We may experience shortages or price increases of raw materials and components.

Our production depends on the ability to obtain adequate supplies of raw materials and components on acceptable terms. A shortage in any of these raw materials and components would likely increase their prices and would reduce our profit margins to the extent that we are unable to pass these higher raw materials and component prices to our customers. Raw materials have historically been the largest component of our cost of sales. For example, the principal raw material for our drill pipes and related products is steel-based components such as steel pipes. The price of steel has historically fluctuated significantly and may continue to fluctuate based on a variety of factors. We cannot assure you that the price of our principal raw materials will not rise from current levels and increase our cost of revenues and operating expenses. If we are unable to purchase any of our principal components at current prices or on terms acceptable to us or if we are not able to pass on all or part of any such price increases to our customers, our profit margins may decrease and our results of operations would be materially and adversely affected. For example, because we generally sell products to large-scale oil and gas companies in China at fixed prices subject only to limited adjustments based on parties' negotiations, the selling price of our products may not effectively reflect the fluctuation in raw material prices.

We depend on a limited number of suppliers.

For 2007, 2008, 2009 and the nine months ended September 30, 2010, purchases from our five largest suppliers, accounted for approximately 43.0%, 61.8%, 39.1% and 34.7%, respectively, of our total raw materials purchases. For the same periods, purchases from our largest supplier accounted for approximately 13.3%, 32.4%, 10.3% and 12.3% of our total purchases. If any of these suppliers fails to meet our quality standards or our quantity demands, our production, sales volume and results of operations may be adversely affected. Furthermore, we do not have any long-term arrangement with these suppliers that could provide us with a reliable supply of steel we require at pre-determined prices. If there is any supply shortage, we may not be able to deliver our products in a timely manner to our customers in the required quantities or at commercially acceptable prices, which in turn could result in order cancellations, decreased revenue and loss of market share.

We are vulnerable to the delay or rescheduling of oil and gas pipeline projects.

We derive a significant portion of our revenue from sales of oil and gas line pipe coating materials and services, which have enjoyed greater demand in recent years due to the continued development and growth of the PRC economy and exploration and production activities by oil and gas companies, and favorable government energy policies, which in turn have resulted in the construction of more oil and gas pipelines. Planned and ongoing oil and gas pipeline projects can be delayed or rescheduled for a number of reasons including, among other factors, changes in the business strategy of pipeline operators, technical difficulties, natural disasters, delays in regulatory approval or budget constraints. Should any of the major projects of our clients to which we plan to supply our pipeline coating materials and services be delayed or rescheduled, our business, financial condition and results of operations could be materially and adversely affected.

We face intense competition in our industry, and failure to compete effectively may adversely affect our business and prospects.

We face intense competition in the PRC and international markets in which we operate. See "Business—Competition." Many of our competitors may have longer operating histories, stronger capital resources, better research and development facilities, larger customer bases, stronger customer relationships, greater brand or name recognition, greater financial, technical, marketing and public relations resources and a broader range of products and services than we do. Moreover, some of our competitors may also be better positioned to develop superior product features and technological innovations and able to better adapt to market trends than we are. For example, the United States International Trade Commission approved certain trade remedies measures relating to the import of drill pipes and drill collars originated in China in February 2011. As a result of these measures, a number of Chinese manufacturers are subject to anti-dumping duties ranging from 69% to 340% as well as anti-subsidy duties of 18.8%. These measures could result in the affected producers to focus on markets where we do business, resulting in more intense competition. Our ability to compete depends on our ability to offer a wide array of high quality conventional or premium products and services that are suitable for our customers' needs at competitive prices. In addition, our competitiveness depends on our ability to achieve short lead-times, make timely deliveries and provide superior quality service and technical support. Competitive pressure may require us to reduce our prices or increase our costs and may adversely affect our profit margins and results of operations. Our failure to compete effectively could materially and adversely affect our business, financial condition, results of operations and market positions.

Loss of or failure to renew the API Monogram, NS-1 certifications, or other licenses certifying that our products meet benchmark quality standards could materially and adversely affect our business.

We have been granted licenses to place the API Monogram on a significant majority of our drill pipe and related products. In addition, a number of our products and services, including hardbanding, drill pipes and coating services have received Fearnley Procter NS-1 certification. In the oil and gas equipment industry, these licenses and certifications signify that a product meets benchmark quality standards and they are critical to our sales efforts. In 2007, 2008, 2009 and the nine months ended September 30, 2010, revenue derived from sales of API drill pipes represented 92.0%, 91.9%, 85.3% and 83.5%, respectively, of our total drill pipe sales revenue. API licenses must be renewed every three years, and NS-1 certifications are generally valid for two years. During the examination process for the application and renewal of such licenses, API and Fearnley Procter send their technical staff to audit our manufacturing facilities and our production management. There can be no assurance that renewal for such licenses will continue to be successful. In the event that we do not obtain or renew any such licenses, our ability to market our products may be adversely affected, and our sales volume may be reduced. As a result, our business, financial condition and results of operations may be materially and adversely affected.

If we fail to develop or adopt new production technologies, our business and prospects may be harmed.

The oil and gas industry is competitive and the production technology underlying the industry is rapidly evolving. As customers' needs, related technologies and market trends are subject to change, we cannot assure you that we will be able to correctly predict the trends in a timely manner. If we fail to correctly predict changes in the production technology or develop or adopt competitive technology on a timely basis, whether developed in-house or through license, we may not be able to respond effectively to competitive industry conditions and changing customer demands. Responding to and adapting to technological developments and changes in the oil and gas industry, and the integration of new technologies or industry standards, may require substantial investment of resources, time and capital. Even if we implement such measures, there can be no assurance that we will succeed in adequately responding and adapting to such technological and industry developments. In the event that we are unable to respond successfully to technological and industry developments, our business, results of operations and competitiveness may be materially and adversely affected.

Our investment in the development of new technologies may not lead to commercial success.

We invest substantial resources into the research and development of new products or in the improvement of existing products. In 2007, 2008, 2009 and the nine months ended September 30, 2010, our research and development expenditure totaled RMB3.9 million, RMB17.4 million, RMB22.3 million and RMB15.9 million, respectively. Some of this expenditure cannot translate into products that can feasibly, or cost effectively, be produced on a mass level. Even if new products are successfully developed, we cannot assure you that the products we develop would be commercially accepted. We cannot assure you that our research and development efforts will lead to substantial revenue, if at all. Our revenue may be adversely affected if the costs we spent in research and development do not bring along proportional financial benefits.

Our historical outstanding trade receivables and the turnover days of our trade receivables have been relatively high.

Historically, our outstanding trade receivables and the turnover days of our trade receivables have been relatively high. As of December 31, 2007, 2008, 2009 and September 30, 2010, our outstanding trade receivables less allowance for doubtful debts were RMB294.9 million, RMB492.7 million, RMB610.5 million and RMB619.1 million, respectively, and the turnover days of our trade receivables were 80 days, 85 days, 200 days and 182 days in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Our allowance for doubtful debts provided amounted to RMB0.5 million, RMB11.4 million, RMB11.5 million and RMB11.5 million as of December 31, 2007, 2008, 2009 and September 30, 2010, respectively. See "Financial Information—Discussion of Our Statement of Financial Position Items—Trade and Other Receivables" for more information.

Delays in receiving payments from or non-payment by our customers may adversely affect our cash flow position and our ability to meet our working capital requirements. In addition, defaults in making payments to us on sales or supply contracts for which we have already incurred significant costs and expenditures can materially and adversely affect our results of operations and reduce our financial resources that would otherwise be available for other purchase orders. Any extended delay in payment by any major customer would have a material and adverse effect on the aging schedule and turnover days of our trade receivables. Our customers' ability to pay may be impaired by a number of factors including, but not limited to, unfavorable global market conditions for oil and gas industry, deteriorating liquidity position of our customers or delayed commencement of oil and gas exploratory or production activities due to various reasons beyond our control. The occurrence of any of the foregoing could affect our customers' ability to make timely payments. Inability to collect our trade receivables on a timely basis could materially and adversely affect our financial condition, liquidity and results of operations. We cannot assure you that our customers will make payment in full to us on a timely basis or that we will be able to efficiently manage the level of bad debt arising from receipt of payments in stages.

Any failure in accurately predicting product demand may result in high inventory balances and inventory turnover days, which could materially and adversely affect our business, financial condition and results of operations.

We depend upon our forecasts of demand for our products and services to make decisions regarding investments of our resources and production levels of our products. Because of the lead time necessary to manufacture our products, we typically commit to substantial purchases and commence manufacture process prior to obtaining orders for those products from our customers. Our customers may not order the products we have forecasted or will purchase fewer products than forecasted. In addition, unfavorable market or industry conditions can limit visibility into customer spending plans and compound the difficulty of forecasting inventory at appropriate levels. For example, we experienced significant decreases in sales in the last quarter of 2008 and in 2009 as a result of the global financial crisis and the associated decrease in international oil and gas prices. As a result, our inventory balance maintained at a relatively high level in 2009, and our turnover days of inventory increased from 103 days in 2008 to 194 days in 2009. We also recognized losses of RMB30.0 million in respect of write-down of inventories to their net realizable value in 2008, which primarily reflected the decrease in realizable value of inventories which we accumulated prior to the market downturn in August 2008 in anticipation of orders for premium drill pipe products, and reflected a combination of a significant decrease in market price of and lower demand for premium drill pipe products during the downturn. The write-down of inventories also reflected a cancellation of orders for approximately 1,783 tonnes of drill pipes by customers in North America region and Russia and Central Asia region which were affected by the financial crisis. We did not seek contractual or other legal remedies for such order cancellations as we had maintained sound business relationships with these customers and the cancellation was the result of unexpected market turmoil resulting from the global financial crisis beyond either party’s control. See “Financial Information—Discussion of Our Statement of Financial Position Items—Inventories”.

Our high inventory levels heighten the risk of inventory obsolescence, decline in values and write-offs, which could have a material adverse impact upon our financial condition and results of operations. In addition, if we are unable to sell products or if we are required to lower product prices in order to reduce inventories, our gross margin might be negative affected. High inventory levels may also result in our commitment of substantial capital resources, which prevents us from using that capital for other purposes and requires us to utilize more capital than might otherwise be required. If we do not accurately predict product demand, our business and operating results could be materially adversely affected.

Power shortages or substantial increase in energy costs could have an adverse impact on our operations.

We consume substantial amounts of electricity in our production process. We have, from time to time, experienced power outages at our manufacturing facilities in Shanghai and Jiangsu, some of which resulted in temporary disruptions of our operations. If the PRC government imposes restrictions on the use of electricity due to power shortages, thereby disrupting our power supply, or if we are otherwise unable to obtain adequate supplies of electricity to meet our production requirements, our operations may be disrupted and our production and delivery schedules may be adversely affected. In addition, our ability to pass increased energy costs along to our customers may be limited by pressures from competition and customer resistance. We cannot assure you that we will be able to recover the substantial cost increases of energy by raising the prices of our products.

Our business strategy of growth through investments, acquisitions and strategic cooperation may not succeed.

As part of our growth strategy we may pursue acquisitions or enter into joint venture arrangements in our existing and new geographical markets that we believe would benefit us in terms of product, technology or distribution network. To enhance our growth, we may acquire companies, businesses or technologies. Our ability to grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions as well as to obtain necessary financing and any required governmental or third-party consents, approvals and permits in a timely manner. Even if we complete acquisitions, we have limited experience with significant acquisitions, and we may experience:

- difficulties in integrating any acquired companies, technologies, personnel or products into our existing business, particularly integrating different quality control, customer service, financial management, risk management, information system and other business functions;

- challenges in procuring and allocating resources to fuel our expansion, including sufficient raw materials, adequate manufacturing, production, warehousing and transportation infrastructure and increased distribution and marketing channels;

- difficulties in implementing management and internal control mechanisms that timely and adequately respond to our expanded scope of operations;

- delays or failures in realizing the benefits of the acquired company or products, which could result from, for example, delays in customer certifications of products developed or manufacturing processes employed by acquired businesses;

- diversion of our management's time and attention from other business concerns;

- the risk that foreign countries may impose withholding taxes (or otherwise tax our foreign income or place restrictions on repatriation of profit) and the risk of barriers, such as anti-dumping and other tariffs or other restrictions being imposed on foreign trade;

- the burden of complying with foreign laws and regulations and changes in the political, regulatory, or economic conditions in a foreign country or region;

- volatility in currency exchange rates;

- cultural differences and other difficulties in managing international operations, including higher costs of integration than we anticipated; or

- difficulties in retaining key employees of the acquired business who are necessary to manage these acquired businesses.

If we invest in businesses that operate outside of China or that offer products that are different from our existing products, these risks may increase because of our limited experience in operating such businesses. An acquisition could also materially impair our operating results by causing us to incur debt or requiring us to amortize acquired intangible assets. We may also discover product liabilities and deficiencies in internal controls, data adequacy and integrity, product quality and regulatory compliance in acquired businesses which we did not uncover prior to such acquisition. As a consequence, we may become subject to penalties, lawsuits or other liabilities.

Any difficulties in the integration of acquired businesses, product or technologies or unexpected penalties, lawsuits or liabilities in connection with such businesses, product or technologies could have a material adverse effect on our business.

We face certain risks inherent in our overseas operations and risks associated with the international expansion of our business.

During the Track Record Period, revenue from our oilfield services segment was primarily derived from non-PRC markets, such as Russia and Central Asia region and South America region. In addition, we generated a significant portion of our drill pipes and related products revenue from sales to non-PRC markets, including Russia and Central Asia region, North America region and Middle East region. Revenue derived from non-PRC markets as a percentage of our total revenue amounted to 14.6%, 38.5%, 15.8% and 40.9% in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. See "Business—Customers." In addition, as part of our strategy, we intend to expand our business into other regions in the world, including South America, North Africa and Central Asia. We face certain risks inherent in our overseas operations and risks associated with our efforts to expand and maintain our business in international markets, including:

- cultural differences and other difficulties in staffing and managing international operations;

- inherent difficulties and delays in contract enforcement and collection of receivables through the use of foreign legal systems;

- volatility in currency exchange rates;

- the risk that foreign countries may impose withholding taxes (or otherwise tax our foreign income or place restrictions on repatriation of profit);

- the risk of barriers, such as anti-dumping and other tariffs or other restrictions being imposed on foreign trade;

- market entry barriers such as strong local competitors that may have a proximity advantage and local connections, which may prevent us from competing effectively in new markets;

- risks relating to any unfavorable relationship that may exist between China and the foreign country in which we operate;

- social unrest, acts of terrorism, war or other armed conflict, such as the recent social unrest in Egypt and Tunisia;

- changes in the political, regulatory, or economic conditions in a foreign country or region; and

- the burden of complying with foreign laws and regulations.

If any of the risks described above materializes, or if we are unable to manage these risks effectively, our ability to maintain or expand our international business would be impaired, which may in turn materially and adversely affect our business, financial condition, results of operations and prospects.

We cannot assure you that we will be able to effectively manage or obtain adequate financing for our planned expansion.

Further expansion of production capacity is a key aspect of our growth strategy. Our planned expansion requires us to identify suitable locations that are in close proximity to raw material sources or transportation networks. Even if we successfully identify suitable locations, we may be unable to expand our business if we cannot compete effectively in the market. In addition, we may not have the necessary management or financial resources to oversee the successful and timely construction of new production facilities or expansion of existing facilities. Our expansion plans could also be affected by construction delays, cost overruns, failures or delays in obtaining government approvals of necessary permits and our inability to secure the necessary production equipment. Furthermore, to effectively manage our planned expansion, we must improve our operational and financial systems and procedures and system of internal control. We cannot assure you that we will be able to effectively manage our planned expansion or achieve our expansion plans in production capacity at all. If we are unable to do so, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures, any of which could materially and adversely affect our business, results of operations and financial condition.

In addition, we expect that over the next several years, a substantial portion of our cash flow will be used to finance the expansion of our production capacities and other aspects of our business. We may need to incur additional financing in order to fund our capital expenditures. We cannot assure you that we will be successful in obtaining such financing at a reasonable cost or at all. Our inability to finance our planned capital expenditures could adversely affect our business, financial condition, results of operations or liquidity position.

Protectionist measures such as initiation of anti-dumping and anti-subsidy proceedings and imposition of anti-dumping and/or countervailing duties by governments in our overseas markets could materially and adversely affect our export sales.

International sales as a percentage of our total revenue amounted to 14.6%, 38.5%, 15.8% and 40.9% in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. Anti-dumping and anti-subsidy proceedings have been initiated by local producers in countries such as the United States and Canada in relation to certain steel products, such as drill pipes. These proceedings have resulted in the imposition of significant penalties, anti-dumping or countervailing duties, or a combination of the foregoing. These and other similar measures could trigger trade disputes between major countries importing and exporting steel product. While neither anti-dumping nor anti-subsidy proceedings have been initiated against us in countries to which we currently or expect to sell our products and we historically have not been materially affected by any such proceedings, we cannot guarantee that we will not be significantly affected by such proceedings in the future. Any such proceeding would divert significant time and resources from us if unsuccessful and impede access to export markets for our products and limit our growth opportunities if successful.

We may be unable to prevent possible resale or transfer of our products to countries, governments, entities, or persons targeted by United States economic sanctions.

OFAC and the Bureau of Industry and Security, or BIS, of the U.S. Department of Commerce administer certain laws and regulations, or U.S. Economic Sanctions Laws, that impose restrictions upon U.S. persons and, in some instances, foreign entities owned or controlled by U.S. persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of U.S. Economic Sanctions Laws, or Sanctions Targets. U.S. persons are also generally prohibited from facilitating such activities or transactions. We will not use any proceeds from the Global Offering to fund any activities or business with any Sanctions Targets with respect to which U.S. persons or, as appropriate, foreign entities owned or controlled by U.S. persons, are prohibited by U.S. Economic Sanctions Laws from conducting. In addition, we are implementing a number of measures designed to ensure ongoing compliance with U.S. Economic Sanctions Laws. However, we cannot assure you that we will be able to prevent all sales of our products to Sanctions Targets in the future. If our products are sold into Sanctions Targets in the future, our reputation could be adversely affected, some of our U.S. investors may be required to sell their Shares in our Company under the laws of certain U.S. states or under internal investment policies or may decide for reputational reasons to sell such interests, and some U.S. institutional investors may forgo the purchase of our Shares, all of which could materially and adversely affect the value of our Shares and your investment in us.

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

Our products may contain latent defects or flaws. Our products may contain flaws that are not detected prior to delivery to our customers. Some flaws in our products may only be discovered after a product has been installed and used by customers. Any flaws or defects discovered in our products could result in delay in payment collection, increase in service or warranty cost, loss of revenue or loss of customers, any of which could adversely affect our business, operating results and financial condition. If our products do not meet the specifications and requirements agreed with or requested by our customers, or if any of our products are defective, or result in our customer's financial losses or personal injuries, we may be subject to product liability claims and other claims for compensation. As a result, we may be subject to product liability claims and litigation and may incur significant legal costs regardless of the outcome of any claim of alleged defect. Products failure or defects, and any complaints or negative publicity resulting therefrom, could result in decreased sales or supply of these or other products. As a result, if we face any product liability claims or litigations, our business, financial condition and results of operations may be materially and adversely affected.

The oil and gas equipment manufacturing industry is subject to regulation, and we may not successfully obtain and maintain the necessary regulatory permits, approvals or clearance for the production and sale of our products in certain markets.

The oil and gas equipment manufacturing industry is subject to extensive regulation by the government, industry organizations and international standardization bodies. These regulations set requirements and standards for the manufacturing, functionality and safety performance of our products. Our ongoing compliance with such regulations and standards can be expensive, which can result in increased manufacturing, development and marketing costs. In addition, extensive government regulation and the related delays in seeking the appropriate approvals or permits can significantly delay the introduction of our new products, which could materially and adversely affect our market competitiveness. Even if we do obtain approval or permits from the appropriate authorities, it may be granted on a limited basis or subject to modification of our products, which could increase operation costs.

In addition, as part of our growth strategy, we plan to further expand our production and sales internationally, including to South America, North Africa and Central Asia, all of which have highly regulated markets. We cannot guarantee that we will receive the necessary regulatory approvals to market our products in the countries and markets where we may seek approval in the future. Moreover, even if we obtain the requisite approvals for our current products, we cannot guarantee that we will remain compliant with the appropriate country regulations in the future. Any failure to do so may result in a variety of actions against us, including penalties, injunctions, suspension of production, the loss of regulatory approvals, product recalls and termination of distribution.

We are required to comply with various environmental, safety and health laws and regulations which are extensive and the compliance of which may be onerous or expensive.

As part of our business operation, we are required to comply with various and extensive environmental as well as health and safety laws and regulations promulgated by the PRC and governments of other overseas jurisdictions in which we operate. If we fail to comply with these laws and regulations, we could be exposed to penalties, fines, suspension or revocation of our licenses or permits to conduct business, administrative proceedings and litigation. In light of the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and regulations continue to evolve, there can be no assurance that the PRC governments or the governments of other overseas jurisdictions in which we have operations will not impose additional or more onerous laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our customers.

Failure to maintain a safety performance standard that is acceptable to our customers could result in the loss of future business.

A number of our customers set safety performance standards for their suppliers that are more stringent than the minimum required by applicable laws. A number of our customers require us to maintain safety performance records for our manufacturing facilities, products and service offerings. Some of our customers have set safety performance criteria that potential suppliers must meet in order to become and remain one of their suppliers. If we fail to meet a customer's safety performance requirements, we may be required to incur additional expenses to implement corrective measures, or even be removed from that customer's supplier list and precluded from providing products or services to that customer.

Our business operations and manufacturing facilities may be adversely affected by unexpected interruptions in production, operating hazards and natural disasters.

Our business requires substantial investments in complex production facilities and the uninterrupted use of specialized manufacturing equipment. Substantial damage to our manufacturing facilities from natural or other causes, such as earthquakes, floods, fires and typhoons, or resulting consequences and disruptions, technical or mechanical difficulties or sourcing difficulties could be costly and time-consuming to repair and may disrupt our manufacturing. In such an event, we would be forced to suspend our manufacturing, rely on third-party manufacturers or seek alternative facilities. Even if we are able to identify such alternative facilities, we may incur additional costs and experience a disruption in the supply of our products until those facilities are available. Any disruption or delay in our manufacturing capacity could have an adverse impact on our ability to produce sufficient inventory of our products or may require us to incur additional expenses in order to produce sufficient inventory, and could impair our ability to meet the demand of customers and cause such parties to cancel orders, any of which could negatively affect our reputation and results of operations.

Our production process involves the operation of machinery, which involves inherent risks that cannot be completely eliminated through preventive measures. We cannot assure you that accidents such as major equipment failures, explosions and fires which may result in property damage, severe personal injuries or even fatalities will not occur in one of our manufacturing facilities or during the course of our business operations. The occurrence of any of the foregoing events may have a material and adverse effect on our business, financial condition and results of operations.

Our business operations involve risks and occupational hazards.

Our business operations involve risks and occupational hazards that are inherent to the industry and which may not be completely eliminated through the implementation of preventive measures. These risks could result in personal injury, damage to or destruction of properties or production facilities, environmental damage, business interruption, legal liability, damage to our business reputation and corporate image, and fatalities. Our business, financial condition and results of operations may be materially and adversely affected if we incur any loss which is not covered by our insurance policies or if the amount of such loss exceeds the aggregate amount of our insurance coverage.

We face certain risks relating to the real properties that we own, use or lease.

As of the date of this prospectus, we are in the process of obtaining the land use right for a parcel of land with a gross land area of 29,752 square meters in Sichuan Province. We won the bid of land use right with respect to such land in February 2011 and have duly paid the premium required to obtain such land use right. We expect to obtain the land use right of such land in June 2011. We commenced construction of certain production facility and office spaces on such land prior to local authority's issuance of approval for commencement of construction. In addition, we leased production facilities for our drill pipe manufacturing and coating services operations in Shanxi Province and Jiangsu Province. However, the lessors of these properties have not obtained property title certificates to such leased properties. See "Business—Production Facilities and Real Properties—Real Properties."

We cannot assure you that we will not be subject to any governmental fines or penalties as a result of our commencement of construction prior to local authority's issuance of the approval. In addition, our leasehold interest on properties in Shanxi Province and Jiangsu Province could be challenged by a third party alleging ownership of such property. In the event that our use of properties is successfully challenged, we may be forced to relocate the affected operations. There can be no assurance that we could find suitable replacement site on terms acceptable to us on a timely basis, or at all, or if we would not be subject to any material liability resulting from third parties' challenges for our use of such properties. To the extent that any material fines or penalties are imposed by the governmental authority with respect to our use of such properties, or that any other loss sustained by us as a result of our use of properties is not fully indemnified by the lessors, our business, financial condition and results of operations could be materially and adversely affected.

If disruptions in our transportation network occur or our transportation costs substantially increase, we may be unable to deliver our products in a timely manner and our cost of sales could increase.

We are highly dependent upon the transportation systems we use to deliver our products, including train, truck and ocean shipping. The transportation network is potentially exposed to disruption from a variety of causes, including labor disputes or port strikes, acts of war or terrorism and natural disasters. If our delivery times increase unexpectedly for these or any other reasons, our ability to deliver products on time could be materially and adversely affected and result in delayed or lost revenue.

Severe weather conditions may affect our operations.

Our oilfield services business may be materially affected by severe weather conditions in areas where we operate. This may entail the evacuation of personnel and stoppage of services. In addition, if particularly severe weather affects platforms or structures, this may result in a suspension of activities until the platforms or structures have been repaired. Any of these events could adversely affect our financial condition, results of operations and cash flows.

We may not maintain sufficient insurance coverage for the risks associated with our business operations.

Risks associated with our businesses and operations include but not limited to damage to production facilities, environmental pollution, transportation damages and delays, business interruption due to power shortage, industrial damages, product liabilities, losses of key personnel and risks posed by natural disasters, any or all of which may result in significant losses to us. Currently, we have maintained insurance coverage we consider necessary and sufficient for our operations and customary for the industry in which we operate. See "Business—Insurance". We cannot assure you that our insurance coverage is sufficient to cover any losses to be sustained by us, or that we can successfully claim our losses under our existing insurance policy on a timely basis or at all. If we incur any loss which is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our financial condition and results of operations could be materially and adversely affected.

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

Immediately after the Global Offering, Mr. Zhang will remain as our Controlling Shareholder with substantial control over our issued share capital. Accordingly, subject to our Memorandum and Articles of Association and the Companies Law, Mr. Zhang, by virtue of his controlling ownership of our share capital as well as his position on our board, will be able to exercise significant control, or exert significant influence over, our business or other matters of significance to us and other shareholders by voting at the general meetings of shareholders or at board meetings, including any shareholder approvals for the election of our Directors, the selection of our senior management, the amount of dividend payments, increases or decreases in our share capital, new securities issuance, mergers and acquisitions and any amendments to our bylaws. Although Mr. Zhang is our Director, the voting power and other rights of Mr. Zhang as our Controlling Shareholder will not be affected by his capacity as a Director. Mr. Zhang is free to exercise his voting power according to his interests, which may differ from the interests of other shareholders.

Any material disputes between us and our joint venture partners may adversely affect the results of operations and financial condition of the relevant joint venture and, if unresolved, could potentially lead to a termination of that joint venture.

If there is a material dispute between us and our joint venture partners in connection with the performance of a party's obligations or the scope of a party's responsibilities under the relevant joint venture agreements, the parties may not be able to resolve their disputes through negotiation. In the event such a material dispute cannot be resolved, the business and operations of the relevant joint venture may be adversely affected, and the joint venture agreement may be terminated by mutual consent of the parties or as a result of a material breach by one party. In addition, our joint venture agreements with relevant joint venture partners do not provide for any dispute resolution mechanism in the event of a deadlock in the board meeting of the relevant joint venture. Any such deadlock may cause the board of directors of the relevant joint venture to fail to make, or delay in making, important decisions, which may adversely affect the financial condition and results of operation of the relevant joint venture. Furthermore, the operational, financial or other condition of our joint venture partners may deteriorate, which may adversely affect their ability to continue to perform their obligations under the relevant joint venture agreements or other contracts, which in turn could have any adverse impact on the business of the relevant joint venture. In the event that any of the above events occurs, our financial condition and results of operations may be adversely affected.

If we are unable to attract and retain members of our senior management team and other skilled personnel, our operations could be disrupted and the growth of our business could be delayed or restricted.

Our success depends on the continued service of our key executive officers. We do not carry key person insurance on any of our personnel. We cannot assure you that we will appoint or integrate adequate replacement personnel into our operations in a timely manner, the failure of which may in turn disrupt our operations and the growth of our business.

Our success also depends upon our ability to recruit and retain technical personnel with the ability to develop, manufacture, sell and enhance our products. We have invested significant resources in training our technical personnel, and we expect to increase our outlays to expand our business. Currently, the demand for skilled workers in China is high, and supply is limited. As a result, there is significant upward pressure on labor wages in China. Significant increases in wages paid by competing employers could result in a reduction of our skilled labor force, and increases in the wage rates that we must pay. If any such events were to occur, our cost structure may increase and our growth potential may be impaired which in turn could have a material adverse effect on our business, financial condition and results of operations.

Failure to protect our intellectual property rights may materially and adversely affect our competitive position and operations and we may be exposed to infringement or misappropriation claims by third parties.

Our success is in part attributable to the intellectual properties that we have developed or acquired. See "Business—Intellectual Property". There can be no assurance that the steps we have taken to protect our intellectual property rights are adequate to prevent or deter infringement or other misappropriation of our intellectual property. Any significant infringement of our proprietary technologies and processes could weaken our competitive position and have an adverse effect on our operations. To protect our intellectual property rights, we may have to commence legal proceedings against any misappropriation or infringement. However, there can be no assurance that we will prevail in such proceedings. We may be subject to litigation or other proceedings involving the violations of intellectual property rights of third parties. The defense of such litigation or other proceedings can be both costly and time-consuming. An adverse determination in any such litigation or proceedings to which we may become a party could materially and adversely affect our business, financial condition or results of operations.

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

We declared dividends in the amount of RMB13.4 million, RMB108.3 million, RMB9.0 million and RMB10.0 million in 2007, 2008, 2009 and the nine months ended September 30, 2010, respectively. There can be no assurance that in the future we will pay dividends at a similar level to the past or at all, and potential investors should be aware that the amount of dividends we paid in the past should not be used as a reference or basis upon which future dividends are determined. Whether dividends will be distributed and the amount to be distributed will depend on factors such as our profitability, financial condition, business development requirements, future prospects and cash requirements. Any declaration and payment, as well as the amount of dividends, will be subject to our constitutional documents and the Companies Law, including the approval of our shareholders or our Directors. There can be no assurance that we will make any dividend payments on our ordinary shares in the future.

An occurrence of a widespread health epidemics and other outbreaks could have a material adverse effect on our results of operations.

Our business could be adversely affected by the effects of Influenza A virus subtype H1N1 (or A(H1N1)), Severe Acute Respiratory Syndrome (SARS), avian influenza or other epidemic or outbreak on the economic and business climate. Any recurrence of A(H1N1), SARS, avian influenza or other adverse public health developments in China or else in the world could have a material adverse effect on our business operations. These could include our ability to travel or ship our products outside of China, as well as temporary closure of our operating facilities. Such closures or travel or shipment restrictions would severely disrupt our business operations and adversely affect our results of operations. Our business operations could be disrupted if one of our employees is suspected of having SARS, avian influenza or A(H1N1), since it could require us to quarantine some or all of our employees and/or disinfect our facilities. In addition, our results of operations could be adversely affected to the extent that SARS, avian influenza, A(H1N1) or other outbreak harms the global economy in general.

RISKS RELATING TO THE PRC

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

The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of governmental involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange and capital flows; and (vi) allocation of resources. The Chinese economy is in transition from a planned economy to a market economy. For the past three decades, the PRC government has implemented economic reform measures, emphasizing the utilization of market forces in the development of the Chinese economy. The PRC economy has grown significantly in recent years. However, we cannot assure you that such growth will continue. In response to the global economic slow-down and market volatility, the PRC government has lowered interest rates and implemented large fiscal stimulus packages to boost the domestic economy, which include RMB 4.0 trillion investments in, among other things, airports, highways, railways, power grids and other infrastructure developments, the effects of which cannot yet be fully determined. Any adverse change in China's economic, political and social conditions, as well as governmental policies could have a material adverse effect on China's overall economic growth, which in turn could materially and adversely affect our business, financial condition and results of operations.

PRC regulation of loans and direct investments by offshore holding companies to PRC entities may delay or prevent us from using the proceeds we receive from this offering to make loans or additional capital contributions to our PRC operating subsidiaries.

In utilizing the proceeds we receive from this offering in the manner described in "Use of Proceeds," as an offshore holding company with PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries.

Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans to our PRC subsidiary Hilong Group, which is a foreign-invested enterprise, to finance its activities cannot exceed statutory limits and must be registered with the State Administration of Foreign Exchange in China, or SAFE, or its local counterpart. Loans by us to domestic PRC enterprises must be approved by the relevant government authorities and must also be registered with the SAFE or its local counterpart.

Any capital contributions to our PRC subsidiaries must be approved by the Ministry of Commerce in China or its local counterpart. On August 29, 2008, SAFE promulgated "Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises (Hui Zong Fa [2008] No. 142) (《國家外滙管理局綜合司關於完善外商投資企業外滙資本金支付結滙管理有關業務操作問題的通知》滙綜發[2008]142號), or Circular 142 which provides Renminbi capital converted from the foreign currency-denominated capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and shall not be used for equity investments within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its oversight over the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested company. The use of such Renminbi may not be altered without approval from SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Rules.

We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future loans or capital contributions to our direct or indirect subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of this offering and to capitalize our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and ability to fund and expand our business.

Fluctuations in exchange rate may have a material adverse effect on your investment.

We manufacture our products primarily in the PRC and incur costs mainly in Renminbi. Renminbi is the functional currency and presentation currency for our financial statements. However, a significant portion of our revenue is derived from overseas markets, which are denominated in foreign currencies, including the U.S. dollar and the Euro. We also have accounts receivable and payable denominated in foreign currencies. As a result, we are exposed to foreign exchange fluctuations between the Renminbi and these other currencies as well as among the non-Renminbi currencies. Our revenue, profit and profit margin as well as our working capital and liquidity position could be materially and adversely affected should any of such foreign currencies depreciates significantly against Renminbi. See "Financial Information—Quantitative and Qualitative Disclosure About Market Risk—Foreign Exchange Risk."

The conversion of Renminbi into foreign currencies, including the U.S. dollar, has been based on rates set by the People's Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under this policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 19% appreciation of the Renminbi against the U.S. dollar from July 21, 2005 to November 26, 2010. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against these currencies. Further appreciation of the Renminbi may cause our exported products to be relatively more expensive than those of our competitors, which could have an adverse impact on our overseas sales and may cause imported products, which compete with our products, to be relatively less expensive for Chinese customers. This could have a material adverse effect on our business, financial condition, and results of operations. Conversely, any depreciation of the Renminbi would adversely affect the value of any dividends payable on the Shares by us in foreign currency terms.

There are only limited hedging instruments available in the PRC to reduce our exposure to exchange rate fluctuations. We currently do not enter into such currency hedging transactions. We may consider entering into currency hedging transactions, however, the effectiveness of these transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies because the regulations would limit our ability to hedge our exposure to foreign currency exchange losses.

Failure to comply with the SAFE regulations relating to registration of interests by our PRC resident beneficial owners may adversely affect our business operations.

On October 21, 2005, SAFE issued the "State Administration of Foreign Exchange's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Round-trip Investment via Special Purpose Offshore Companies" (Hui Fa [2005] No. 75) (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》(匯發[2005]75號)), or Notice No.75, a public notice which became effective on November 1, 2005. The Notice No.75 requires PRC residents to register with the local SAFE branch before directly establishing or indirectly controlling any company, referred to in the notice as a "special purpose offshore company", outside of the PRC for the purpose of capital financing with assets or equity interest in an onshore enterprise in the PRC, and to go through the modification registration procedures after completing an investment in or acquisition of any operating subsidiaries in the PRC via the special purpose offshore company, which we refer to herein as a "round-trip investment". In addition, any change of shareholding or any other material capital alternation in such special purpose offshore company not involving a round-trip investment, such as a change in share capital or merger and acquisition, must be filed or registered within 30 days from the date of change. The relevant SAFE's regulations apply retrospectively to registration of direct or indirect investments made by PRC residents in special purpose offshore companies before the Notice No.75 came into effect.

In the event that a PRC resident with a direct or indirect stake in a special purpose offshore company fails to make the required SAFE registration, the PRC subsidiaries of such special purpose offshore company may be prohibited from distributing their profits to their offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries, and the offshore parent's ability to contribute additional capital or provide loans, whether using the proceeds from the Offering or otherwise, would be impaired. In addition, failure to comply with SAFE registration requirements as described above may also result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

These regulations apply to the beneficial owners of our Company who are PRC residents. We have notified our beneficial owners whom we know are PRC residents to register with the local SAFE branch and update their registrations from time to time as required under the SAFE regulations described above. We are aware that our beneficial owners whom we know as PRC residents have registered with the relevant local SAFE branch. We, however, cannot provide any assurances that any or all of our beneficial owners who are PRC residents will continue to comply with relevant SAFE regulations. Any failure or inability of our PRC resident beneficial owners to comply with the registration procedures may subject such PRC resident beneficial owners to certain fines and legal sanctions, may restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends or obtain foreign exchange-dominated loans to our company.

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

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

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

On March 16, 2007, the National People's Congress passed a new Enterprise Income Tax Law. The Enterprise Income Tax Law, or EIT Law, which became effective on January 1, 2008 replaced the previous two separate tax legal regimes for foreign-invested enterprises and Chinese domestic companies and imposes a single uniform income tax rate of 25% for all enterprises, including foreign-invested enterprises, unless they qualify for any exemptions or reductions. Although the EIT Law revokes many of the previous tax exemption, reduction and preferential treatments which were applicable to foreign-invested enterprises, it contemplates various transition periods and measures for previous preferential tax policies. Enterprises which were established before the promulgation of the EIT Law and were previously entitled to a lower income tax rate will be entitled to a grace period of 5 years, and enterprises which were entitled to the fixed-term preferential tax exemption or reduction will continue to enjoy such preferential treatment until the expiration of the specified terms, except that the relevant exemption or reduction shall start from January 2008 if the first profitable year for the relevant enterprise is later than January 1, 2008. We expect that our tax payment will increase in 2010 and will further increase following the expiry of the above preferential tax treatment in 2013.

Moreover, the EIT Law provides a withholding tax rate of 20% which will be applicable to dividends payable by foreign-invested enterprise to its foreign investors that are "non-PRC resident enterprise" without any establishment or place within China or if the dividends payable have no connection with the establishment or place of the foreign investors in the PRC unless the jurisdiction of such foreign investors has a tax treaty with China that provides a different withholding arrangement. The Implementation Rules of the Enterprise Income Tax Law, which was promulgated on December 6, 2007, subsequently reduced this withholding income tax rate from 20% to 10%. The State Administration of Taxation and Minister of Finance jointly issued the Notice on Several EIT Preferential Treatments on February 22, 2008, which further clarifies that dividends distributed to foreign investors out of the profits of a foreign-invested company generated before January 1, 2008 are still exempt from withholding tax even if they are paid after January 1, 2008.

Under the EIT Law, if any enterprise incorporated outside the PRC has its "actual management organization" located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% on their global income. The Implementation Rules of the Enterprise Income Tax Law defined the "actual management organization" as an organization actually managing and controlling an enterprise's production, operation, personnel, finance and assets. If the PRC tax authorities determine that our overseas holding companies are "PRC resident enterprises" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. Firstly, we may be subject to enterprise income tax at a rate of 25% on our global taxable income as well as PRC enterprise income tax reporting obligations. Secondly, although under the EIT Law and its Implementing Rules, dividends income between qualified PRC resident enterprises is tax-exempted, it is not clear how the qualified PRC resident enterprise is defined under the EIT Law. Finally, if dividends we pay to our non-PRC shareholders and gains derived by our non-PRC shareholders from transferring our shares are treated by the PRC taxation authorities as income derived from sources within the PRC, such dividends and gains may be subject to a 10% withholding tax unless the jurisdiction of such non-PRC shareholders has a tax treaty with China that provides a different withholding arrangement, provided that the non-PRC shareholders are "non PRC resident enterprises" without any establishment or place within China or that such dividends or gains have no connection with the establishment or place of the non-PRC shareholders in the PRC.

We face uncertainty with respect to transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》國稅函[2009]698號), or SAT Circular 698, issued by the State Administration of Taxation on December 10, 2009 with retroactive effect from January 1, 2008, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. Using a "substance over form" principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There is uncertainty as to the application of SAT Circular 698. For example, while the term "Indirect Transfer" is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, and the process and format of the reporting of an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, there is no any formal implementation guidance with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to avoid PRC tax, or how and to what extent the PRC tax authority may adjust the taxable income of related parties transfer. As a result, we may become at risk of being taxed under SAT Circular 698 due to any transfer of equity interest in our group companies. We may be required to incur additional tax-related expenses or otherwise allocate significant resources to comply with SAT Circular 698, or to establish that we should not be taxed under SAT Circular 698, which may have a material adverse effect on our financial condition and results of operations.

There are uncertainties regarding the interpretation and enforcement of PRC laws and regulations.

The PRC legal system is based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little value as precedents in subsequent legal proceedings. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, and forms of foreign investment (including wholly foreign-owned enterprises and joint ventures) in particular. These laws, regulations and legal requirements are relatively new and are often changing, and their interpretation and enforcement involve significant uncertainties that could limit the reliability of the legal protections available to us. We cannot predict the effects of future developments in the PRC legal system. We may be required in the future to procure additional permits, authorizations and approvals for our existing and future operations, which may not be obtainable in a timely fashion or at all. An inability to obtain such permits or authorizations may have a material adverse affect on our business, financial condition and results of operations.

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

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

The implementation of the PRC Labor Contract Law and the Implementation Regulation for the PRC Labor Contract Law may increase our operating expenses and may adversely affect our business and results of operations.

On June 29, 2007, the PRC National People's Congress enacted the PRC Labor Contract Law, or the Labor Contract Law, which became effective on January 1, 2008. The Implementation Regulation for the PRC Labor Contract Law, or the Implementation Regulation, was promulgated by the State Council and took effect on September 18, 2008. The Labor Contract Law formalizes, among others, worker's rights concerning overtime hours, pensions and layoffs, the execution, performance, modification and termination of the labor contracts, the clauses of the labor contract and the role of trade unions herein. In particular, it provides for specific standard and procedures for entering into non-fixed-term labor contracts as some of our employees do. Either the employer or the employee is entitled to terminate the labor contract in circumstances as prescribed in the Labor Contract Law or if certain precondition is fulfilled, and in certain cases, the employer is required to pay a statutory severance upon the termination of the labor contract pursuant to the standards provided by the Labor Contract Law.

As the Labor Contract Law and its Implementation Regulation have been enforced for only a very short period by now, substantial uncertainty remains as to its potential impact on our business and results of operations. The implementation of the Labor Contract Law and the Implementation Regulation may increase our operating expenses, in particular our costs of human resources and our administrative expenses. In the event that we decide to significantly modify our employment or labor policy or practice, or reduce the number of our employees or otherwise, the Labor Contract Law may also limit our ability to effectuate the modifications or changes in the manner that we believe to be most cost-efficient or otherwise desirable, which could materially and adversely affect our business and results of operations.

In addition, Social Insurance Law of the People's Republic of China, or the Social Insurance Law, was promulgated on October 28, 2010 and will take effect on July 1, 2011. The implementation of the Social Insurance Law could increase our staff costs and expenses associated with social insurance payable in the PRC. As the Social Insurance Law is a newly enacted law and has not come into effect as of the date of the prospectus, substantial uncertainty remains as to its implementation and interpretation by governmental authorities in the PRC and its potential impact upon our business, financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

Current volatility in the global financial markets could cause significant fluctuations in the price of our Shares.

Financial markets around the world have been experiencing heightened volatility and turmoil since 2008. Upon listing, the price and trading volume of our Shares will likely be subject to similar market fluctuations which may be unrelated to our operating performance or prospects. Factors that may significantly impact the volatility of our stock price include:

- developments in our business or in the financial sector generally, including the effect of direct governmental action in the financial markets;

- the operating and securities price performance of companies that investors consider to be comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors; and
- changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates as well as stock and commodity valuations and volatility.

As a result of these market fluctuations, the price of our Shares may decline significantly, and you may lose a significant value on your investments.

Issuance of Shares pursuant to the Pre-IPO Share Option Scheme will result in dilution to your shareholding in our Company and dilution of the earnings per Share.

Issuance of Shares for the purpose of satisfying any award made under the Pre-IPO Share Option Scheme and/or pursuant to the exercise of the options to be granted under the Pre-IPO Share Option Scheme will cause dilution to your shareholding in our Company and dilution to the earnings per Share because of the increase in the number of Shares in issue after the issuance. As at the Latest Practicable Date, options to subscribe for an aggregate of 46,322,000 Shares had been granted to 225 grantees under the Pre-IPO Share Option Scheme. In addition, we expect to incur additional costs and expenses relating to our share option scheme which could negatively affect our financial condition and results of operations. See "Statutory and General Information—Pre-IPO Share Option Scheme" for more information of our Pre-IPO Share Option Scheme.

If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be materially and adversely affected.

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

The liquidity and market price of our Shares following the Global Offering may be volatile, which may result in substantial losses for investors purchasing our Shares in the Global Offering.

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

Our Share price may be affected if additional Shares are sold by our substantial shareholder or are issued by us.

We will have a number of substantial shareholders immediately after the Global Offering. Further details are set out in the section headed "Substantial Shareholders" and in Appendix VII "Statutory and General Information" to this prospectus. Furthermore, our Directors have been granted a general unconditional mandate to issue Shares with an aggregate nominal value of not more than 20% of the aggregate nominal value of the ordinary share capital immediately following completion of the Global Offering. Further details are set out in the section headed "Share Capital—General Mandate to Issue Shares". The Company and certain of our shareholders and Directors have agreed with the Underwriters not to, subject to certain exceptions, dispose of or hedge any of our securities which are substantially similar to the Shares or which are convertible or exchangeable into securities which are substantially similar to the Shares for certain agreed-to periods except with the prior written consent of the Joint Bookrunners (on behalf of the Underwriters). Further details are set out in the section headed "Underwriting". We cannot assure you that the abovementioned shareholders will not dispose of the Shares held by it or that we will not issue Shares pursuant to the general mandate, upon the expiration of the restrictive period. We cannot predict the effect, if any, that any future sales of Shares by the substantial shareholder, or the availability of Shares for sale by the abovementioned shareholders, the issuance of Shares by the Company, or the availability of the general mandate to our Directors, may have on the market price of our Shares. Sales or issuance of substantial amounts of Shares by the abovementioned shareholders or us, or the market perception that such sales or issuance may occur, could materially and adversely affect the prevailing market price of the Shares.

The Laws of the Cayman Islands relating to the protection of the interests of minority shareholders are different from those in Hong Kong.

Our corporate affairs are governed by our Memorandum and Articles of Association and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Such differences may mean that the level of protection afforded to our minority shareholders may differ from what may be afforded to them under the laws of Hong Kong. A summary of Cayman Islands law on "Protection of Minorities" is set out in Appendix VI "Summary of the Constitution of the Company and Cayman Company Law" to this prospectus.

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

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

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding our Global Offering.

There may have been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering. You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our Global Offering. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding Global Offering, or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions whether to invest in our Global Offering.

Prospective investors in our Global Offering are reminded that, in making their decisions as to whether to purchase our shares, they should rely only on the financial, operational and other information included in this prospectus and the Application Forms. By applying to purchase our shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.