

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The Controlling Shareholders of our Company are Mr. Zhang Jun, Hilong Group Limited and Standard Chartered Trust (Cayman) Limited. Immediately following the completion of the Global Offering and the Capitalization Issue (without taking into account Shares that may be issued pursuant to the options granted pursuant to our Pre-IPO Share Option Scheme), Mr. Zhang, Hilong Group Limited and Standard Chartered Trust (Cayman) Limited will be interested in 64.5%, 64.5% and 71.5%, respectively, of the issued share capital of our Company.

In particular, Mr. Zhang established Mr. Zhang's Trust in March 2011 with himself as the beneficiary and Standard Chartered Trust (Cayman) Limited as the trustee. As a result, Mr. Zhang's Trust holds the entire share capital of Hilong Group Limited, which in turn is expected to hold approximately 64.5% of the issued share capital of our Company upon the Completion of the Global Offering on the same basis as stated above. In addition, Standard Chartered Trust (Cayman) Limited also serves as trustees for Mr. Zhang's Family Trusts which in turn are expected to hold an aggregate of approximately 7% of the issued share capital of our Company through certain BVI holding entities upon the completion of the Global Offering on the same basis as stated above. As a result, Standard Chartered Trust (Cayman) Limited is deemed to be interested in approximately 71.5% of the issued share capital of our Company upon the Completion of the Global Offering on the same basis as stated above.

DELINEATION OF BUSINESS

Business Held Indirectly Through Hailong International (L) Limited

As at the Latest Practicable Date, Mr. Zhang is the sole shareholder of Hilong Group Limited. Hilong Group Limited (which is wholly owned by Mr. Zhang) owns the entire share capital in Hailong International (L) Limited which in turn owns the entire share capital in Hilong USA, LLC.

Hilong USA, LLC

During the Track Record Period, Hilong USA, LLC was solely engaged in the sale of oil pipes and drill pipes in the United States. In March 2011, Hilong Petropipe Co., Ltd., a member of our Group which operates in Canada purchased all oil pipes then owned by Hilong USA, LLC as a one-off transaction. After the one-off sale of oil pipes and drill pipes to our Group, Hilong OSE USA, Ltd., our subsidiary, became the only company under Mr. Zhang's control which conducts oil pipe business in the US and Hilong USA, LLC ceased all of its oil pipe operations.

Pursuant to the cessation of the oil pipe business of Hilong USA, LLC and the Non-competition Undertaking given by Hilong Group Limited to our Company, it is expected that Hilong USA, LLC will only conduct property investment business in the US. Our Directors are of the view that the business conducted by Hilong USA, LLC are not, and will not be, in competition with the business of our Company.

Interest in Other Companies

Hailong International (L) Limited also holds non-controlling interest in other companies, including 39% of the interest in Hilong Oil Pipe Co., Ltd. and 25% of the interest in Tianjin Shuanghai Oil Pipe Manufacturing Company Limited (天津雙海石油鋼管製造有限公司). Please refer to the subsection headed "—Business held directly by Mr. Zhang" for more details.

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Business Held Directly by Mr. Zhang

As at the Latest Practicable Date, Mr. Zhang directly or indirectly owns more than 50% of the interest in the following companies which are not part of our Group:

| <u>Name of company</u> | <u>Place of incorporation</u> | <u>Principal business</u> | <u>Percentage of beneficial interest held by Mr. Zhang</u> |
|---|-------------------------------|--|--|
| Hilong Oil Pipe Co., Ltd. | Canada | Property investment | 80% ⁽¹⁾ |
| Huashi Hailong | PRC | Investment holding | 95.65% |
| Tianjin Shuanghai Oil Pipe Manufacturing Company Limited (天津雙海石油鋼管製造有限公司) | PRC | Property investment | 75% ⁽²⁾ |
| Hebei Zhongxin Precision Equipment Company Limited (河北中新精密機械有限公司) | PRC | Diesel engine components and drilling rig components manufacturing | 57.39% ⁽³⁾ |
| Beijing Huashi Hilong Oil Investment Company Limited (北京華實海隆石油投資有限公司) | PRC | Property investment | 93.74% |
| Huashi Film Investment (Beijing) Company Limited (華視影視投資北京有限公司) | PRC | Entertainment | 100% |
| Huashi Film Culture Guarantee Company Limited (華視影視文化擔保有限公司) | PRC | Entertainment | 100% ⁽⁴⁾ |

- (1) Hilong Oil Pipe Co. Ltd. is held by Mr. Zhang as to 41%, his family members as to 20% and Hailong International (L) Ltd. as to 39%.
- (2) The remaining 25% interest in Tianjin Shuanghai Oil Pipe Manufacturing Company Limited (天津雙海石油鋼管製造有限公司) is held by Hailong International (L) Ltd.
- (3) The remaining 40% interest in Hebei Zhongxin Precision Equipment Company Limited (河北中新精密機械有限公司) is held by an independent third party.
- (4) Huashi Film Culture Guarantee Company Limited (華視影視文化擔保有限公司) is held as to 5% by Beijing Huashi Hilong Oil Investment Company Limited (北京華實海隆石油投資有限公司) and 95% by Huashi Film Investment (Beijing) Company Limited (華視影視投資北京有限公司).

Hilong Oil Pipe Co., Ltd.

Hilong Oil Pipe Co. Ltd. is incorporated in Canada and is beneficially owned by Mr. Zhang and his family members as to 61% and by Hailong International (L) Limited as to 39%. The principal business of Hilong Oil Pipe Co. Ltd. is property investment.

On February 28, 2011, Hilong Oil Pipe Co. Ltd. and Hilong Petropipe Co., Ltd. entered into a tenancy agreement, pursuant to which Hilong Oil Pipe Co. Ltd. agreed to lease to Hilong Petropipe Co., Ltd. workshop, office and warehouse in Canada at an annual rental of C\$ 1,038,040. Please refer to the section headed "Connected Transactions" for details.

Hilong Oil Pipe Co. Ltd. is not involved in any other business apart from property investment. The Directors are of the view that the property investment business conducted by Hilong Oil Pipe Co. Ltd. will not compete directly or indirectly with the business of our Group.

Huashi Hailong

Huashi Hailong is beneficially owned by Mr. Zhang as to 95.65%. Huashi Hailong is an investment holding company and is also engaged in trading business. During the Track Record Period, our Group has sourced welding wires from Huashi Hailong. The sourcing accounted for 8%, 5%, 2% and 2% of the purchases of our Group for the years ended 2007, 2008 and 2009 and for the nine months ended September 2010, respectively. Such transactions were discontinued since December 2010 and our Group currently sources welding wires from independent third parties.

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During the Track Record Period, our Group has supplied drill pipes to Huashi Hailong for resale to certain subsidiaries of CNPC and Sinopec. See “Business—Customers”. As a result, the commission to Huashi Hailong for provision of drill pipes accounted for 0%, 0%, 0% and 0% of the revenue of our Group in 2007, 2008 and 2009 and for the nine months ended September 2010, respectively. To our knowledge, CNPC and Sinopec also sourced drill pipes from other third parties in the past.

In June 2009, qualification certificates for the supply of drill pipes to CNPC and Sinopec were transferred to Hilong Group of Companies Limited, which is a subsidiary of our Group. Accordingly, sales to Huashi Hailong were substantially reduced and were subsequently terminated in 2010. Sale of drill pipes to customers, including CNPC and Sinopec, are now conducted directly by our Group.

Since the termination of these transactions with our Group, Huashi Hailong has ceased to conduct further business with our Group or with independent third parties. During the Track Record Period, Huashi Hailong was engaged in the sale of oil pipes, drill pipes and welding wires but such sales ceased in 2010. Huashi Hailong has been and will be engaged in the production of diesel engines and components. As our primary business is to provide oilfield equipment and service with a focus on drill pipes, our Directors are of the view that such business will not be in competition with the business of our Group. Our Controlling Shareholder, Mr. Zhang, has undertaken that Huashi Hailong will not conduct any business which may be in competition with our Group’s business. Please refer to the sub-section headed “Non-competition Deed” for details.

Tianjin Shuanghai Oil Pipe Manufacturing Company Limited (天津雙海石油鋼管製造有限公司)

Tianjin Shuanghai Oil Pipe Manufacturing Company Limited (天津雙海石油鋼管製造有限公司) (“Tianjian Shuanghai”) is 75% beneficially owned by Huashi Hailong and 25% beneficially owned by Hailong International (L) Limited. Tianjin Shuanghai is engaged in the business of property investment and did not have any transaction with our Group during the Track Record Period.

Hebei Zhongxin Precision Equipment Company Limited (河北中新精密機械有限公司)

Hebei Zhongxin Precision Equipment Company Limited (河北中新精密機械有限公司) (“Hebei Zhongxin”) is 60% beneficially owned by Huashi Hailong and 40% by an independent third party and is solely engaged in the production and sale of diesel engine components and drill rig components during the Track Record Period. For the three years ended December 31, 2007, 2008 and 2009, the revenue of Hebei Zhongxin amounted to approximately RMB9.4 million, RMB12.2 million and RMB10.1 million, respectively.

During the Track Record Period, Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司) (“Hilong Oil Service”) sourced spare parts from Hebei Zhongxin. The sourcing from Hebei Zhongxin accounted for 0%, 0.06%, 0.004% and 0.18% of the purchases of our Group for the three years ended 2007, 2008 and 2009 and for the nine months ended September 2010, respectively. Such sourcing is expected to continue after Listing. In addition, it is expected that Hilong Oil Service will source large scale drilling rig components, including electric-controlled equipment from Hebei Zhongxin in the future in order to expand its service area. Please refer to the section headed “Connected Transactions” for details.

As our primary business is to provide oilfield equipment and service with a focus on drill pipes, we outsource certain components of oilfield equipment to, among others, Hebei Zhongxin. Our Directors are of the view that the manufacture of diesel engine components and drill rig components does not form part of our core business and that the inclusion of Hebei Zhongxin into our Group is not in line with the overall strategic development of our Group.

Beijing Huashi Hilong Oil Investment Company Limited (北京華實海隆石油投資有限公司)

During the Track Record Period, Beijing Huashi Hilong Oil Investment Company Limited (北京華實海隆石油投資有限公司) (“Beijing Huashi Investment”) engaged in purchase of welding wires from our Group and sale of welding wires to other members of our Group. Beijing Huashi Investment is 98% beneficially owned by Huashi Hailong. The purchases from Beijing Huashi Investment accounted for 0%, 0%, 0.72% and

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1.30% of the purchases of our Group for the three years ended 2007, 2008 and 2009 and for the nine months ended September 2010, respectively. The sales to Beijing Huashi Investment accounted for 0%, 0%, 0.41% and 0.52% of the revenue of our Group for the three years ended 2007, 2008 and 2009 and for the nine months ended September 2010, respectively. Beijing Huashi Investment is currently engaged in property investment and the operation of hotels and conference centers. It is expected that Beijing Huashi Investment will lease certain of its properties in Beijing to our Group and provide hotel, office and conference services for our employees, suppliers and customers for business purpose. Please refer to the section headed “Connected Transactions” for details.

Other Companies Held by Our Controlling Shareholders

Our Group has had no dealings with, and expects to have no dealings with Huashi Film Investment (Beijing) Company Limited (華視影視投資北京有限公司) and Huashi Film Culture Guarantee Company Limited (華視影視文化擔保有限公司). The Directors are of the view that the businesses conducted by these companies are delineated from our Group’s business and will not constitute competition with our Group.

Mr. Zhang is also interested in less than 50% of other companies, but is not in control or otherwise involved in the management of these companies. These companies do not constitute direct or indirect competition with the business of our Group.

Delineation From Our Group’s Business

Mr. Zhang has undertaken to us that none of his controlled companies will compete directly or indirectly with the Group under the Non-competition Undertaking. Please refer to the sub-section headed “Non-competition Undertaking” for details. Given that each of the companies controlled by Mr. Zhang has either ceased operations or operates in areas which will not directly or indirectly compete with our Group, our Directors are of the view that the businesses conducted by Mr. Zhang are not, and will not be in competition with the business of our Group.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Our Directors consider that our Group is capable of carrying on its business independent of the Controlling Shareholders and their associates based on the following reasons.

Management Independence

Our Company’s management and operational decisions are made by our Board and the senior management. Our Board will comprise three executive Directors, three non-executive Directors and three independent non-executive Directors upon Listing. None of our non-executive Directors or independent non-executive Directors are Controlling Shareholders. Given such composition, our Group believes that the independent non-executive Directors will be able to exercise their independent judgment and will be able to provide impartial opinions in the decision-making process of the Board to protect the interests of the shareholders. Our Group also believes that the senior management members, who have served our Company and/or its subsidiaries for a long time and have substantial experience in the industry in which our Company is engaged will be able to make business decisions that are in the best interest of our Group.

Mr. Zhang Jun will continue to be a director of Hailong International (L) Limited after Listing. The Directors believe that our Group is able to operate independently of Hilong International (L) Limited despite Mr. Zhang’s positions in Hilong International (L) Limited for the following reasons:

Our Group companies are controlled by Mr. Zhang. As explained in more details in the subsection headed “Delineation of Businesses” above, such business activities of our Group are delineated from those of Hailong International (L) Limited. The Directors and all of our senior management team (other than Mr. Ji Min who joined in 2010) have been working for our Group during most of the Track Record Period and are expected to continue to work together to manage our business.

As one of the executive Directors, Mr. Zhang is and will continue to be closely involved in the management decisions of our Group, with specific responsibilities for monitoring the overall strategy of our Group. Mr. Zhang

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is responsible for (i) management of risk assessment, including the assessment of industry, operational and financial risks of our business, (ii) overseeing investment activities and transactions, (iii) approving annual planning and budgeting policy, treasury and funds management; (iv) overseeing the Company's Listing Rules compliance after Listing; (v) being one of our authorized representatives, whereas his role in Hailong International (L) Limited will be less active as described below.

Mr. Zhang Jun expects to spend approximately 80% of his time in our Group after the Listing and the remainder of his time will be spent with Hailong International (L) Limited. After the Listing, Mr. Zhang Jun will not be involved in the daily operations and related management decisions of Hailong International (L) Limited. His responsibilities with Hailong International (L) Limited will be limited to high level monitoring of the overall strategy of Hailong International (L) Limited and its subsidiaries.

If any conflict of interest arises from transactions, such as connected transactions, between our Group and Hailong International (L) Limited, Mr. Zhang and any Director with an interest in the relevant transaction(s) (including by virtue of his directorship in the other listed issuer) will be required to abstain from voting on the relevant resolution(s) in the relevant meeting of board of directors of our Company. Our remaining Directors who do not hold office with Hailong International (L) Limited who are responsible for the daily operation of our Group, could still properly attend, be counted in the meeting quorum, and vote on any matter that involves the interests of Hailong International (L) Limited without impeding the operations of our Group.

Our Group has its own capabilities and personnel to perform all essential administrative functions including financial and accounting management, business management and research and development. Except for Ms. Zhang Shuman, one of our executive Directors and one of our joint company secretaries, who is the sister of Mr. Zhang, the other Directors, our other joint company secretary and senior management staff are independent of the Controlling Shareholders.

Operational Independence

Although the Controlling Shareholders will retain a controlling interest in our Company after the Listing, our Company has full rights to make all decisions and to carry out its own business operations independently. Our Company (through its subsidiaries) holds all relevant licences necessary to carry on the business, and has sufficient capital, equipment and employees to operate the businesses independently from the Controlling Shareholders and/or their associates.

Save for disclosed above and the continuing connected transactions disclosed in the section headed "Connected Transactions" in this prospectus, the Directors do not expect that there will be any other transactions between our Group and the Controlling Shareholders or their associates upon or shortly after the Listing.

Financial Independence

As at the Latest Practicable Date, our Company has outstanding loans and payables of RMB160,000,000 due to Hailong International (L) Limited which will be repaid after Listing with the proceeds from the Global Offering.

In addition, our Group's bank borrowings in the sum of RMB256,000,000 was guaranteed by, inter alia, Mr. Zhang Jun, as at September 30, 2010. Such guarantees will be released by the Group upon Listing.

As at September 30, 2010, total non trade other receivables of RMB169.1 million is due from Huashi Hailong to our Group. Such non-trade receivables due from Huashi Hailong to our Group have been settled in full in March 2011.

Pursuant to a facility agreement dated December 27, 2010, we obtained a bank borrowing of HK\$156 million with an interest rate of HIBOR plus 5% from Standard Chartered Bank (Hong Kong) Limited, an affiliate of Standard Chartered. Hilong Group Limited, one of our Controlling Shareholders, pledged 200,000 Shares of our Company (representing 20% of our issued share capital before Capitalization Issue and the Global Offering)

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to the lender in connection with such bank borrowing, which pledge will be released prior to the Listing Date. In addition, we expect to repay such bank borrowing using the proceeds from the Global Offering. See “Use of Proceeds.”

Save as disclosed above, our Group has its own financial management system and the ability to operate independently from the Controlling Shareholders from a financial perspective. Our internal control, accounting system, accounting and finance department are all delineated from those of our Controlling Shareholders. The Directors believe that our Group is capable of obtaining financing from external sources without reliance on the Controlling Shareholders.

NON-COMPETITION UNDERTAKING

Each of the Controlling Shareholders and Directors has confirmed that it/he is neither engaged, nor interested, in any business which, directly or indirectly, competes or may compete with our Group’s business.

Each of the Controlling Shareholders (collectively, the Covenantors and each a Covenantor) entered into the Non-competition Deed with the Company on March 3, 2011, pursuant to which each of the Covenantors has, among other things, irrevocably and unconditionally undertaken with the Company that at any time during the Relevant Period (as defined below), each of the Covenantor shall, and shall procure that its associates (other than members of our Group):

- (i) not, directly or indirectly, carry on, engage in, invest in, participate in, or attempt to participate in or render any services to or provide any financial support to or otherwise be involved in or interested in, whether on its own account or with each other or in conjunction with or on behalf of any person, firm or company, any business which is the same as, similar to or in competition with the business carried on or contemplated to be carried on by any member of the Group from time to time (the “**Restricted Business**”); and
- (ii) not take any action which interferes with or disrupts or may interfere with or disrupt the business of the Group.

The above restrictions do not prohibit any of the Covenantors and its associates (excluding members of our Group) from holding not more than 5% of the securities of any company which conducts or is engaged in any Restricted Business, provided that

- (i) the aggregate number of securities held by the Covenantors and their respective associates (excluding members of our Group) do not exceed 30% of the issued shares of such company;
- (ii) the total number of the relevant Covenantors’ representatives on the board of directors of the subject company is not significantly disproportionate in relation to the shareholding; and
- (iii) any of the Covenantors and their respective associates (excluding members of our Group) not being the controlling shareholder of such company;

Under the Non-competition Deed, the Covenantors further undertake to the Company the following:

- (i) the Covenantors shall allow, and shall procure that their associates (excluding members of our Group) to allow, during the Relevant Period, the independent non-executive Directors to review, whereas necessary, at least on an annual basis, the Covenantors’ compliance with the Non-competition Deed;
- (ii) the Covenantors shall provide, and shall procure that their associates (other than members of our Group) to provide, during the Relevant Period, all information necessary for the annual review by the independent non-executive Directors without prejudicing any relevant laws, rules and regulations or any contractual obligations, in making a fair and reasonable assessment of the Covenantors’ and/or their associates’ (other than members of our Group) compliance with the Non-competition Deed and the enforcement of the Non-competition Deed by the independent non-executive Directors;

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- (iii) without prejudicing the generality of paragraph (i) above, the Covenantors shall provide to the Company with a declaration annually for inclusion by the Company in its annual report, in respect of their compliance with the terms of the Non-competition Deed and disclose such information in the corporate governance report under the annual report of the Company (any such disclosure would be consistent with the principles of making voluntary disclosures in the corporate governance report);
- (iv) the Convenantors shall agree and authorize the Company to disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Non-competition Deed either through the annual report, or by way of announcements to the public;
- (v) during the Relevant Period, in the event the Convenantors or their associates (excluding members of our Group) were given any business opportunity that is or may involve in direct or indirect competition with the business of the Group, in connection with the Restricted Business, the Convenantors shall and shall procure their associates to inform the Group of such opportunity in writing with all available information as soon as practicable and shall use their best endeavors to assist the Group in obtaining such business opportunity on the same or more favorable terms being acceptable to the Group;
- (vi) in the event that the Board (including all independent non-executive Directors but excluding any Directors with conflicted interests) gives up such business opportunity as referred to in (v) above within a commercially reasonable period, the Convenantors and their associates (excluding members of our Group) may take up such business opportunity and the involvement in the business derived from such business opportunity shall not be regarded as a breach of the Non-competition Deed; and
- (vii) each of the Convenantors agrees to indemnify the Company from and against any and all losses, damages and costs (including legal costs) which loss, damage or cost is resulted from any failure to comply with the terms of the Non-competition Deed by the Convenantors or any of their respective associates.

For the above purpose, the “Relevant Period” means the period commencing from the date of the Non-competition Deed and shall expire on the earlier of (i) the date on which any of the Convenantors (together with other Convenantors), become collectively entitled to exercise, or control the exercise of, less than 30 per cent (or such other percentage of shareholding as stipulated in the Listing Rules to constitute a controlling shareholder) of voting power at general meetings of the Company; and (ii) the date on which the Shares cease to be listed on the Stock Exchange (except for temporary suspension of trading of the Shares), provided that the deed shall cease to be binding on a Covenantor when he/it (or its/his associates) ceases to hold any equity interest in the Group and ceases to have any role in the Group.

The independent non-executive Directors will review, at least on an annual basis, the compliance with the Non-competition Deed by the Convenantors.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to ensure good corporate governance and to improve transparency after Listing:

- (i) the independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertakings under the Non-competition Deed by our Controlling Shareholders.
- (ii) our Controlling Shareholders undertake to provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Non-competition Deed;
- (iii) we will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Non-competition Deed in our annual reports; and
- (iv) our Controlling Shareholders will make an annual confirmation on their compliance with the undertakings under the Non-competition Deed in our annual reports.