

CONNECTED TRANSACTIONS

OVERVIEW

During the Track Record Period and prior to Listing, there have been certain transactions which, had our Company been listed at the relevant times, would have constituted connected transactions which are subject to reporting, announcement and/or independent shareholders' approval requirements. Please refer to the section headed "Relationship with our Controlling Shareholders—Delineation of Business" for details. These transactions have ceased before Listing and we do not intend to engage in such transactions upon or after Listing.

We have also entered into a number of agreements with our connected persons which will continue after Listing and constitute continuing connected transactions. Details of the continuing connected transactions of our Company upon Listing are as follows.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Provision of Technology Consultancy Services by Shanghai Yuanzhi Metallurgical Company Limited (上海圓直冶金技術諮詢服務有限公司) to Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司)

On February 28, 2011, Shanghai Yuanzhi Ironworks Consulting Services Company Limited (上海圓直冶金技術諮詢服務有限公司) ("Shanghai Yuanzhi") entered into a technology service agreement (the "Technology Service Agreement") with Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司) ("Shanghai Hilong"), under which Shanghai Yuanzhi agreed to provide drill pipe related technology consultancy services to Shanghai Hilong for a term commencing from February 28, 2011 and ending on December 31, 2013.

As at the Latest Practicable Date, Mr. Chen Su (陳甦) is a director of certain subsidiaries of our Group, and is therefore a connected person of our Company. Mr. Chen Su owns 100% of the interest in Shanghai Yuanzhi. As such, Shanghai Yuanzhi is an associate of Mr. Chen Su and a connected person of the Company. The transactions under the Technology Service Agreement will therefore constitute continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

For the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, the total transaction amount for the provision of services was approximately RMB0, RMB0, RMB2.1 million and RMB2.9 million, respectively. The annual caps for the transactions under the Technology Service Agreement for the three years ending December 31, 2013 have been set at approximately RMB2.6 million, RMB2.4 million and RMB1.5 million, respectively. The annual caps are determined on normal commercial terms and the expected decrease in demand for such services upon maturity and development of our own research and development platform.

Given that each of the applicable percentage ratios (other than the profit ratio) under Chapter 14 of the Listing Rules in respect of the above transaction is less than 1%, the transaction under the Technology Service Agreement will be exempted from the reporting, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Provision of Technology Consultancy Services from Shanghai Xinhao Technology Development Company Limited (上海信豪科技發展有限公司) to Shanghai Hilong Drill Pipe Co., Ltd. (上海海隆石油鑽具有限公司)

On February 28, 2011, Shanghai Xinhao Technology Development Company Limited (上海信豪科技發展有限公司) ("Shanghai Xinhao") entered into a technology consultancy agreement ("Technology Consultancy Agreement") with Shanghai Hilong, under which Shanghai Xinhao agreed to provide technology consultancy services to Shanghai Hilong.

As at the Latest Practicable Date, Mr. Chen Su (陳甦) is a director of certain subsidiaries of our Company. Mr. Chen Su holds 50% of the interest in Shanghai Xinhao. As such, Shanghai Xinhao is an associate of Mr. Chen Su and therefore a connected person of our Company. The transactions under the Technology Consultancy Agreement will constitute continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

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For the three years ended December 31, 2009 and the nine months ended September 30, 2010, the total transaction amount for the provision of services was approximately RMB0, RMB6.0 million, RMB6.0 million and RMB0.67 million, respectively. The annual caps for the transactions under the Technology Consultancy Agreement for the three years ending December 31, 2013 have been set at approximately RMB1.9 million, RMB1.2 million and RMB0.83 million, respectively. The annual caps are determined by reference to historical transaction figures and expected decrease in demand for such services upon maturity and development of our own research and development platform.

Given that each of the applicable percentage ratios (other than the profit ratio) under Chapter 14 of the Listing Rules in respect of the above transaction is less than 1%, the transaction under the Technology Consultancy Agreement will be exempted from the reporting, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT BUT ARE SUBJECT TO THE REPORTING AND ANNOUNCEMENT REQUIREMENTS

Lease of Production Site by Hilong Oil Pipe Co., Ltd. to Hilong Petropipe Co., Ltd.

On February 28, 2011, Hilong Oil Pipe Co., Ltd., as landlord, entered into a tenancy agreement (the "**Tenancy Agreement**") with Hilong Petropipe Co., Ltd., our subsidiary, as tenant, under which Hilong Oil Pipe Co., Ltd. agreed to lease to Hilong Petropipe Co., Ltd. workshop, office and warehouse in Canada with a gross floor area of 91,312 square feet for a term commencing from February 28, 2011 and ending February 28, 2013.

As at the Latest Practicable Date, Mr. Zhang, our Controlling Shareholder and Director, and his associates, hold the entire share capital in Hilong Oil Pipe Co., Ltd. As such, Hilong Oil Pipe Co., Ltd. is an associate of Mr. Zhang and a connected person of our Company. The lease under the Tenancy Agreement will therefore constitute continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

The annual rent under the Tenancy Agreement is C\$1,038,040 (approximately RMB6,911,063). The proposed annual caps for the lease under the Tenancy Agreement are C\$1,038,040, C\$1,038,040 and C\$1,038,040, respectively. The annual rental payable under the lease is determined on normal commercial terms. The Company's valuer, Jones Lang LaSalle Sallmanns, has confirmed that the rental payable under the lease is fair, reasonable and is consistent with the prevailing market rates for similar properties in similar locations in Canada.

Given that each of the applicable percentage ratios (other than the profit ratio) under Chapter 14 of the Listing Rules is on an annual basis more than 0.1% but less than 5%, the transactions under the Tenancy Agreement will be exempted from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Sale of Drilling Rig Components from Hebei Zhongxin Precision Equipment Company Limited (河北中新精密機械有限公司) to Hilong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司)

On February 28, 2011, Hebei Zhongxin Precision Equipment Company Limited (河北中新精密機械有限公司) ("**Hebei Zhongxin**"), as seller, entered into a master sales agreement (the "**Master Sales Agreement**") with Hilong Oil Service and Engineering Co., Ltd. ("**Hilong Oil Service**"), as buyer, under which Hebei Zhongxin agreed to sell drilling rig components to Hilong Oil Services for a term commencing from February 28, 2011 and ending on December 31, 2013.

As at the Latest Practicable Date, Mr. Zhang Jun, our Director and Controlling Shareholder, owns 95.65% of the interest in Huashi Hailong, which in turns holds 60% of interest in Hebei Zhongxin. As such, Hebei Zhongxin is an associate of Mr. Zhang and a connected person of the Company. The transactions under the Master Sales Agreement will therefore constitute continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

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For each of the three years ended December 31, 2009 and the nine months ended September 30, 2010, the total transaction amount for the sales of spare parts amounted to approximately RMB0, RMB474,000, RMB19,000 and RMB756,000, respectively. The sale in 2010 primarily represented sale of small scale drilling rig components to Hilong Oil Service. The annual caps for the sales transactions under the Master Sales Agreement for the three years ending December 31, 2013 have been set at approximately RMB 8 million, RMB 12 million and RMB 12 million, respectively. The substantial increase in transaction volume is a result of expected increase in the demand of drilling rigs by the Group and the expected commencement of purchases of large scale drilling rig components in 2011, including electric-controlled equipment, by Hilong Oil Service from Hebei Zhongxin. Each set of electric-controlled equipment is expected to cost RMB 3.5 million to RMB 4.0 million, and the Group expects to purchase two, three and three sets of such equipment for the three years ending December 31, 2013, respectively.

Given that each of the applicable percentage ratios (other than the profit ratio) under Chapter 14 of the Listing Rules is on an annual basis more than 0.1% but less than 5%, the transactions under the Master Sales Agreement will be exempted from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Lease of Office Premises by Beijing Huashi Hilong Oil Investments Co., Ltd. (北京華實海隆石油投資有限公司) to Hailong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司)

On February 28, 2011, Beijing Huashi Hilong Oil Investment Company Limited (北京華實海隆石油投資有限公司) (“**Beijing Huashi Investment**”), as landlord, entered into a tenancy agreement (the “**Tenancy Agreement**”) with Hailong Oil Service and Engineering Co., Ltd. (海隆石油技術服務有限公司) (“**Hailong Oil Service**”), our subsidiary, as tenant, under which Beijing Huashi Investment agreed to lease to Hailong Oil Service the office premises in Beijing with a gross floor area of 2,500 square meters for a term commencing from February 28, 2011 and ending December 31, 2013, subject to renewal.

As at the Latest Practicable Date, Mr. Zhang, our Controlling Shareholder and Director, holds 95.65% of the interest in Huashi Hailong, which in turn holds 98% of the interest in Beijing Huashi Investment. As such, Beijing Huashi Investment is an associate of Mr. Zhang and a connected person of our Company. The lease under the Tenancy Agreement will therefore constitute continuing connected transactions under Chapter 14A of the Listing Rules upon Listing.

The annual rent under the Tenancy Agreement is RMB 7.9 million. The proposed annual caps for the lease under the Tenancy Agreement are RMB 7.9 million, RMB 7.9 million and RMB 7.9 million, respectively. The annual rental payable under the lease is determined on normal commercial terms. The Company's valuer, Jones Lang LaSalle Sallmanns, has confirmed that the rental payable under the lease is fair, reasonable and is consistent with the prevailing market rates for similar properties in similar locations in the PRC.

Given that each of the applicable percentage ratios (other than the profit ratio) under Chapter 14 of the Listing Rules is on an annual basis more than 0.1% but less than 5%, the transactions under the Master Sales Agreement will be exempted from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

WAIVER FROM THE STOCK EXCHANGE

On the basis of the above, our Company has applied to the Stock Exchange for a waiver under Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement requirements in respect of each of the non-exempt continuing connected transactions of our Company. If any of the material terms of the agreements or arrangements referred to above are altered (unless as provided for under the terms of the relevant agreement or arrangement) or if our Company enters into any new agreements or arrangements which any connected persons in the future under which the aggregate consideration paid or payable by us each year exceed to limits referred to in the Listing Rules, we will comply with the provisions of Chapter 14A of the Listing Rules.

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CONFIRMATION FROM OUR DIRECTORS

Our Directors (including our independent non-executive Directors) are of the opinion that (i) the continuing connected transactions described above for which waivers are sought have been and will be entered into in the ordinary and usual course of business of our Company, on normal commercial terms, are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and (ii) the proposed annual caps for such continuing connected transactions are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that (i) the continuing connected transactions described above for which waivers were sought have been and will be entered into in the ordinary and usual course of business, on normal commercial terms, are fair and reasonable and in the interests of our shareholders as a whole, and (ii) the proposed annual caps for such continuing connected transactions are fair and reasonable and in the interests of our shareholders as a whole.