

M&A Rules

On August 8, 2006, six PRC regulatory agencies, including MOFCOM, and CSRC, jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Regulations, which became effective on September 8, 2006 and was further amended on June 22, 2009. Under the M&A Regulations, the acquisition of a domestic enterprise by a foreign investor shall be approved by MOFCOM or its authorized local branch and an asset appraisal report issued by an independent asset appraiser shall be presented to the approving authority as a basis for determination of the price for such acquisition. Our wholly owned subsidiary in Hong Kong, International Petroleum Services Corporation Ltd., or International Petroleum, acquired the 100% equity in TNH in 2007 without such an asset appraisal report. However, the acquisition was approved by the provincial branch of MOFCOM in Tianjin in accordance with the M&A Regulations and International Petroleum has been duly registered as the legal owner of the 100% equity interests in TNH since 2007. The above acquisition by International Petroleum and the price thereof have not been challenged by the approving authority since then. However, if MOFCOM, or its local counterpart, decides that the acquisition price is below the fair market value and is not valid, we may have to make up the difference between the above acquisition price and the fair market value. Our ultimate controlling shareholder, Mr. Qingzeng Liu, has undertaken to us in writing that in the event any competent PRC authority challenges the acquisition price of TNH and requires International Petroleum to make up the difference between the above acquisition price and the fair market value at any time in the future, Mr. Qingzeng Liu will indemnify and hold International Petroleum harmless from any losses arising from such requirement. The amount of Mr. Qingzeng Liu's liability under this indemnity will be deducted from the indemnity which Premium Sino Finance has undertaken to pay Mr. Guoqiang Xin under the Supplementary Agreement, dated November 30, 2009, among Premium Sino Finance, Mr. Guoqiang Xin and Mr. Ernest Cheung.

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The M&A Regulations further provide that prior approval of CSRC is required for overseas listing of offshore SPVs that are directly or indirectly controlled by PRC residents and used for the purpose of listing PRC onshore interests on an overseas stock exchange.

Although the application of the M&A Regulations remains unclear to a certain extent, we believe, based on the advice of our PRC counsel, TianYuan Law Firm, that we were not required to obtain CSRC approval for the listing and trading of our ADSs on the NASDAQ Global Select Market as we are not an offshore SPV as defined in the M&A Regulations and the M&A Regulations do not apply to the acquisition of us by Premium Sino, a company wholly owned by Mr. Qingzeng Liu. See Item 3.D "Risk Factors—Risk Factors Relating to the PRC—If the China Securities Regulatory Commission, or CSRC, or another PRC regulatory agency, determines that CSRC approval is required in connection with our initial public offering, we may become subject to penalties."