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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2010.

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from t o

or

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

Commission file number: 001-34913

SinoTech Energy Limited

(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English)

Cayman Islands
(Jurisdiction of incorporation or organization)

3/F, No. 19 Ronghua South Road
Beijing Economic-Technological Development Area
Beijing 100176
People's Republic of China
(Address of principal executive offices)

Guoqiang Xin, Chief Executive Officer
3/F, No. 19 Ronghua South Road
Beijing Economic-Technological Development Area
Beijing 100176
People's Republic of China
Telephone: +(86 10) 8712-5555
Facsimile: +(86 10) 8712-5500
(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing two ordinary shares	The NASDAQ Stock Market LLC
Ordinary shares, par value US$0.0001 per share	The NASDAQ Stock Market LLC*

* Not for trading, but only in connection with the listing on The NASDAQ Global Select Market of American Depositary Shares representing such ordinary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: one (1) share, par value US$1.00 per share. On October 12, 2010, the shares of SinoTech Energy Limited were redesignated into ordinary shares and its authorized share capital of US$50,000 divided into 50,000 shares of par value US$1.00 each was subdivided into 500,000,000 shares of par value US$0.0001 each. Pursuant to a share swap, on October 12, 2010, SinoTech Energy Limited became the sole shareholder of Superport Limited when it issued 99,990,000 ordinary shares to the existing shareholders of Superport Limited in exchange for all of the outstanding shares of Superport Limited.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

If this report is an annual or transaction report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer

☐ Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer (Do not check if a smaller reporting company) ☐ Smaller reporting company

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

☒ U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standard Boards ☐ Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

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Special Note Regarding Forward-Looking Statements

This annual report contains forward-looking statements that involve risks and uncertainties, including statements based on our current expectations, assumptions, estimates and projections about us and our industry. These statements relate to events that involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. In some cases, these forward-looking statements can be identified by words or phrases such as "may," "will," "expect," "anticipate," "aim," "estimate," "intend," "plan," "believe," "potential," "continue," "is/are likely to" or other similar expressions. The forward-looking statements included in this annual report relate to, among others:

- our goals and strategies;
- our future business development, growth of our operations, financial condition and results of operations;
- our ability to introduce successful new services and attract new clients;
- growth of the enhanced oil recovery services market in the PRC and worldwide;
- our beliefs regarding our strengths and strategies;
- changes in the oil services industry in the PRC, including changes in the policies and regulations of the PRC government governing the oil services industry;
- our access to current or future financing arrangements;
- our planned use of proceeds; and
- fluctuations in general economic and business conditions in the PRC.

This annual report also contains market data relating to the EOR services industry in the PRC and worldwide, that includes projections based on a number of assumptions. The EOR services industry in the PRC and worldwide may not grow at the rates projected by market data, or at all. The failure of these markets to grow at the projected rates may have a material adverse effect on our business and the market price of our ADSs. If any one or more of the assumptions underlying the market data turns out to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

Certain Conventions

Except where the context otherwise requires and for purposes of this annual report only:

- "$", "US$" and "U.S. dollars" are to the legal currency of the United States;
- "ADSs" are to our American depositary shares, each of which represents two ordinary shares of our company;
- "ADRs" are to American depositary receipts, which, if issued, evidence our ADSs;
- "China" and the "PRC" are to the People's Republic of China, excluding, for the purposes of this annual report only, Taiwan and the special administrative regions of Hong Kong and Macau;

- "shares" and "ordinary shares" are to our ordinary shares, par value $0.0001 per share, of our company;
- "RMB" and "Renminbi" are to the legal currency of the PRC;
- "TNH" are to Tianjin New Highland Science and Technology Development Co., Ltd., our operating subsidiary in the PRC; and
- "we," "us," "our company" and "our" refer to SinoTech Energy Limited and its subsidiaries and affiliated PRC entity, as the context requires.

This annual report contains translations of certain Renminbi amounts into U.S. dollars at specified rates. For all dates through December 31, 2008, all translations from Renminbi to U.S. dollars were made at the noon buying rate in the City of New York for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate. For January 1, 2009 and all later dates and periods, the exchange rate refers to the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise stated, the translation of Renminbi into U.S. dollars has been made at the noon buying rate in effect on September 30, 2010, which was RMB6.6905 to $1.00. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminibi, as the case may be, at any particular rate or at all. On March 25, 2011, the noon buying rate was RMB6.5568 to $1.00.

Part I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

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Item 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

	Predecessor					Successor	
	Fiscal Year Ended September 30, 2006	Fiscal Year Ended September 30, 2007	Period from October 1, 2007 to October 12, 2007(3)	Fiscal Year Ended September 30, 2008	Period from October 1, 2008 to May 5, 2009	Period from May 6, 2009 to September 30, 2009	Fiscal Year Ended September 30, 2010
	(unaudited)	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)
Sales							
LHD	$	$ —	$ 84,402	$ 11,343,635	$ 9,073,401	$ 5,270,010	$ 21,200,906
MDF		14,683,134	718,596	20,023,069	13,869,440	9,999,937	19,410,848
Traditional(1)		10,217,930	—	—	—	—	—
Consulting		—	—	—	—	—	4,697,920
Sales	$ 20,097,336	$ 24,901,064	$ 802,998	$ 31,366,704	$ 22,942,841	$ 15,269,947	$ 45,309,674
Cost of sales	7,914,501	8,480,492	312,039	11,749,643	8,286,681	5,543,385	10,389,268
Gross profit	12,182,835	16,420,572	490,959	19,617,061	14,656,160	9,726,562	34,920,406
Operating expenses	580,272	3,248,089	354,006	5,172,972	2,815,196	3,034,852	10,847,743
Operating income	11,602,563	13,172,483	136,953	14,444,089	11,840,964	6,691,710	24,072,663
Other income and expenses							
Gain on disposal of equipment	—	21,142	3,572	113,717	72,572	49,079	122,056
Interest income	167,156	68,260	—	81,726	33,403	88,544	238,623
Foreign exchange gain	—	—	—	—	—	—	445,719
Changes in fair value of warrant liabilities	—	—	—	—	—	—	(25,000,000)
Interest expenses	(443,609)	(298,743)	—	—	—	—	(8,085,903)
Other income and expenses	(276,453)	(209,341)	3,572	195,443	105,975	137,623	(32,279,505)
Net income (loss) from operations before income taxes	11,326,110	12,963,142	140,525	14,639,532	11,946,939	6,829,333	(8,206,842)
Income tax expense	3,421,152	4,849,977	50,880	2,996,428	2,640,953	1,609,125	5,477,884
Net income (loss) for the period	7,904,958	8,113,165	89,645	11,643,104	9,305,986	5,220,208	(13,684,726)
Other comprehensive income (loss)							
Translation adjustment	245,902	1,061,473	(2,365)	3,661,210	244,717	3,301,824	2,185,419
Comprehensive income (loss) for the period	$ 8,150,860	$ 9,174,638	$ 87,280	$ 15,304,314	$ 9,550,703	$ 8,522,032	$ (11,499,307)
Earnings per share—basic	—	—	—	$ 116,431	$ 93,060	$ 0.05	$ (0.14)
Weighted average number of ordinary shares outstanding	—	—	—	100	100	100,000,000	100,000,000
Other Financial Data:							
Adjusted EBITDA(2)	$ 11,622,695	$ 17,149,847	$ 183,537	$ 17,918,050	$ 14,060,613	$ 9,450,627	$ 31,912,839

(1) Represents sales for services using traditional methods used by EOR services providers such as desanding and sand control, acidization, vis-breaking and profile controlling.

(2) Adjusted EBITDA refers to earnings before income tax expenses (benefits), interest income, interest expenses, depreciation of equipment, amortization of intangible assets and other adjustments. Other adjustments comprise of write down in value of equipment, gain on disposal of equipment, foreign exchange gain and changes in fair value of warrant liabilities. See below for a reconciliation of Adjusted EBITDA to net income (loss) for the period.

(3) This reflects the operating results for the period from October 1, 2007 to October 12, 2007 of TNH before the acquisition by International Petroleum on October 12, 2007.

We include in this annual report the non-U.S. GAAP financial measure Adjusted EBITDA. We provide a reconciliation of Adjusted EBITDA to net income (loss) for the period, our most directly comparable financial performance calculated and presented in accordance with U.S. GAAP. Adjusted EBITDA refers to earnings before income tax expense (benefit), interest income, interest expenses, depreciation of equipment, amortization of intangible assets and other adjustments. Other adjustments comprise of write down in value of equipment, gain on disposal of equipment, foreign exchange gain and changes in fair value of warrant liabilities.

Adjusted EBITDA is not a standard measure under U.S. GAAP. We have included Adjusted EBITDA as we believe it is a financial measure commonly used in the oil and gas industry. We believe that Adjusted EBITDA is often used as supplemental financial measures by our management and by investors, research analysts and others, to assess our intrinsic operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure. However, Adjusted EBITDA should not be considered in isolation or construed as an alternative to income from operations or any other measure of performance or as an indicator of our operating performance or profitability. Adjusted EBITDA fails to account for tax, interest income, bank loan interest and other non-operating cash expenses. The use of Adjusted EBITDA has certain limitations because it does not reflect all items of income and expense that affect our operations. Items excluded from Adjusted EBITDA are significant components in understanding and assessing our operating and financial performance. Depreciation, amortization, income taxes expenses, interest expenses and interest income as well as changes in fair value of warrant liabilities have been and may continue to be incurred in our business and are not reflected in the presentation of Adjusted EBITDA. Each of these items should also be considered in the overall evaluation of our results. Additionally, Adjusted EBITDA does not consider capital expenditures and other investing activities and should not be considered as a measure of our liquidity. We compensate for these limitations by reconciling this non-GAAP financial measure to the most comparable U.S. GAAP performance measure, all of which should be considered when evaluating our performance.

The term Adjusted EBITDA is not defined under U.S. GAAP, and Adjusted EBITDA is not a measure of net income, operating income, operating performance or liquidity presented in accordance with U.S. GAAP. When assessing our operating and financial performance, you should not consider such data in isolation or as a substitute for our net income, operating income or any other operating performance measure that is calculated in accordance with U.S. GAAP. Further, our Adjusted EBITDA may differ from similarly titled non-GAAP measures used by other companies, including peer companies, because all companies may not calculate Adjusted EBITDA in the same manner and therefore comparability may be limited. We encourage investors and others to review our financial information in its entirety and not rely on a single financial measure.

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The following unaudited table presents a reconciliation of Adjusted EBITDA to net income (loss) for the period for each of the periods indicated.

	Predecessor					Successor	
	Fiscal Year Ended September 30, 2006	Fiscal Year Ended September 30, 2007	Period from October 1, 2007 to October 12, 2007	Fiscal Year Ended September 30, 2008	Period from October 1, 2008 to May 5, 2009	Period from May 6, 2009 to September 30, 2009	Fiscal Year Ended September 30, 2010
Net income (loss) for the period	**$ 7,904,958**	**$ 8,113,165**	**$ 89,645**	**$ 11,643,104**	**$ 9,305,986**	**$ 5,220,208**	**(13,684,726)**
Income tax expense	3,421,152	4,849,977	50,880	2,996,428	2,640,953	1,609,125	5,477,884
Interest income	(167,156)	(68,260)	—	(81,726)	(33,403)	(88,544)	(238,623)
Interest expenses	443,609	298,743	—	—	—	—	8,085,903
Depreciation of equipment	20,132	2,014,251	46,584	783,818	502,864	360,276	1,507,331
Amortization of intangible assets	—	—	—	2,690,143	1,716,785	2,398,641	6,332,845
Other adjustments(1)	—	1,941,971	(3,572)	(113,717)	(72,572)	(49,079)	24,432,225
Adjusted EBITDA	**$11,622,695**	**$17,149,847**	**$183,537**	**$17,918,050**	**$14,060,613**	**$ 9,450,627**	**$ 31,912,839**

(1) Other adjustments comprise of write down in value of equipment, gain on disposal of equipment, foreign exchange gain, and changes in fair value of warrant liabilities.

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	Predecessor			Successor	
	September 30, 2006 (unaudited)	September 30, 2007 (audited)	September 30, 2008 (audited)	September 30, 2009 (audited)	September 30, 2010 (audited)
ASSETS					
CURRENT					
Cash and cash equivalents	$ 2,889,364	$ 9,041,636	$ 9,188,455	$ 26,170,565	$ 43,826,024
Accounts receivable	1,964,832	6,285,886	12,505,081	8,618,646	20,119,753
Other receivable	—	—	—	50,080	51,112
Inventories	1,376,439	14,385	13,145	—	—
Prepaid expenses and deposit	2,183,185	5,727	8,442,775	14,808,502	10,178,924
	8,413,820	15,347,634	30,149,456	49,647,793	74,175,813
Long term investment	2,844,450	—	—	—	—
Equipment, net	492,833	20,582,504	11,559,660	13,489,808	64,286,601
Advance for purchase of equipment	14,589,247	—	—	—	—
Due from related parties	662,343	—	—	—	—
Intangible assets, net	—	—	17,327,353	32,077,027	26,770,105
	$ 27,002,693	$ 35,930,138	$ 59,036,469	$ 95,214,628	$ 165,232,519
LIABILITIES					
CURRENT					
Bank note	$ 5,878,530	—	—	—	—
Accounts payable	—	1,576,470	607,767	1,293,701	—
Other payables and accrued liabilities	4,350,642	1,051,933	1,414,379	1,758,320	2,417,620
Loan interest payable	—	—	—	—	763,248
Income taxes payable	928,507	1,429,300	1,302,539	1,427,734	3,541,873
Deferred gain on disposal of equipment—current portion	—	110,732	121,424	121,740	17,133
Obligation under capital lease—current portion	—	—	3,680	3,986	4,395
Due to related parties	—	149,838	5,255,884	5,170,946	8,206,578
	11,157,679	4,318,273	8,705,673	9,776,427	14,950,847
Bank loan	—	—	—	—	12,082,499
Deferred gain on disposal of equipment	—	236,734	138,167	16,787	—
Obligation under capital lease	—	—	14,129	10,179	5,994
Warrant liabilities	—	—	—	—	69,020,000
Deferred tax liability	—	—	2,103,235	6,485,378	5,030,055
Commitments and contingencies	—	—	—	—	—
SHAREHOLDERS' EQUITY					
Common stock (2006, 2007: TNH—paid in capital 2008: International Petroleum—250,000 shares authorized, 5,000 shares each HK$1 issued and outstanding; 2009, 2010: SinoTech	4,379,386	4,379,386	643	10,000	10,000(1)

—500,000,000 shares authorized, 100,000,000 shares each $0.0001 issued and outstanding)					
Additional paid in capital	—	6,355,479	32,770,308	70,393,825	67,110,399
Accumulated other comprehensive income	314,236	1,375,709	3,661,210	3,301,824	5,487,243
Retained earnings (accumulated deficit)	11,151,392	19,264,557	11,643,104	5,220,208	(8,464,518)
Total equity	15,845,014	31,375,131	48,075,265	78,925,857	64,143,124
Total liabilities and equity	**$ 27,002,693**	**$ 35,930,138**	**$ 59,036,469**	**$ 95,214,628**	**$ 165,232,519**

(1) On June 9, 2010, the shareholders of Superport incorporated SinoTech to hold 100% of the equity interest in Superport. As SinoTech was incorporated for the purpose of being an intermediate holding vehicle between Superport and the ultimate shareholders, the incorporation of SinoTech and the transfer of equity interests in Superport to SinoTech is treated as a pooling of interest as the ultimate shareholders before and after the acquisition of Superport by SinoTech is the same. On October 12, 2010, as part of a corporate reorganization, SinoTech issued 99,990,000 ordinary shares with par value of US$0.0001 each, to all the shareholders of Superport in exchange for all their beneficial interests in Superport.

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Exchange Rate Information

This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in the City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.6905 to $1.00, the noon buying rate in effect as of September 30, 2010. The noon buying rate as of March 25, 2011 was RMB6.5568 to $1.00. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all.

The following table sets forth information concerning exchange rates between Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you.

	Renminbi per U.S. dollar noon buying rate			
Period(1)	**Period end**	**Average(2)**	**High**	**Low**
		(RMB per $1.00)		
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
Most recent six months:				
September 2010	6.6905	6.7396	6.8102	6.6869
October 2010	6.6707	6.6678	6.6912	6.6397
November 2010	6.6670	6.6538	6.6892	6.6330
December 2010	6.6000	6.6497	6.6745	6.6000
January 2011	6.6017	6.5964	6.6364	6.5809
February 2011	6.5713	6.5761	6.5965	6.5520
March 2011 (through March 25, 2011)	6.5568	6.5660	6.5743	6.5510

(1) For all dates through December 31, 2008, exchange rates between Renminbi and U.S. dollars are presented at the noon buying rate in the City of New York for cable transfers in Renminbi per U.S. dollars as certified for customs purposes by the Federal Reserve Bank of New York. For January 1, 2009 and all later dates and periods, the exchange rate refers to the noon buying rate as set forth in the H.10 statistical release of the U.S. Federal Reserve Board.

(2) Annual averages are calculated using the average of the rates on the last business day of each month during the relevant year. Monthly averages are calculated using the average of the daily rates during the relevant month.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable

D. RISK FACTORS

Risk Factors Relating to Our Industry

The cyclical nature of the oil and gas industry, including a prolonged decline in, and the volatility of, oil and gas prices, could adversely affect the demand for our services and impact our business.

Demand for our enhanced oil recovery, or EOR, services is dependent on the level of expenditures by the oil and gas industry. Therefore, the willingness of our customers to make expenditures is critical to our operations. The industry's level of spending on oilfield services has traditionally been volatile as a result of sensitivities to oil and gas prices and generally dependent on the market's view of future oil and gas prices. In the event that oil and gas companies reduce their expenditures in EOR services, their purchases of our services may be significantly reduced. Oil and gas prices have recently been fluctuating and are affected by many factors that are beyond our control, including the following:

- the level of worldwide oil and gas exploration and production;
- the cost of exploring for, producing and delivering oil and gas;
- demand for energy, which is affected by worldwide economic activity and population growth;
- the ability of the Organization of Petroleum Exporting Countries, or OPEC, to set and maintain production levels for oil;
- the discovery rate of new oil and gas reserves;
- political and economic uncertainty, socio-political unrest and regional instability or hostilities;
- technological advances affecting energy exploration, production and consumption;
- changes in existing laws and regulations affecting the oil and gas industry; and
- the availability of and cost in raising capital for exploration and production companies, as a reduction in these companies' capital budgets would reduce the demand for our services.

The level of new exploration activity in the oil and gas industry is sensitive to the market's view of future oil and gas prices. New speculative exploration activities increase when oil and gas prices are high and halt when market sentiment wanes. Oil and gas production activity is less susceptible to the volatility in oil and gas prices as compared to exploration activity, and the demand from our customers, who are oil and gas producers, for our recovery services in mature oil and gas fields is correspondingly less affected by fluctuating oil and gas market prices. However, our customers generally react to declining oil and gas prices by reducing oil and gas production activity and expenditures. This has in the past adversely affected and may in the future adversely affect our business. As a result of market concerns about the deepening economic recession, oil prices decreased by 74.9% from $146.08 per barrel in July 2008 to $36.61 per barrel in December 2008. We are unable to predict future oil and gas prices or the level of oil and gas industry activity. A prolonged low level of activity in the oil and gas industry will adversely affect the demand for our services and our financial condition, results of operations and cash flows.

Increasing competitiveness of alternative energy sources may lead to less demand for oil and gas in the medium- to long-term, and in turn, our services.

The increasing competitiveness of alternative energy sources, including solar and wind power, may lead to less demand for oil and gas in the medium- to long-term, and in turn, our services. Without the benefit of government subsidies or mandates, alternative energy sources have generally not been competitive with oil and gas. However, changes in technology and consumer preferences have begun to alter fuel choices, an example being the growing popularity of alternative fueled vehicles. Furthermore, alternative energy sources have been increasingly competitive due to governmental support in the forms of tax relief and subsidies for alternative energy providers, the adoption of cap and trade regimes, carbon taxes, increased efficiency standards and incentives or mandates for renewable energy. Governments are also promoting research into new technologies to reduce the cost and increase the scalability of alternative energy sources. These measures could reduce demand for oil and gas in the medium- to long-term, thereby reducing demand for our services.

Risk Factors Relating to Our Business

Historically, we have been largely dependent on customers who are affiliates of a PRC state-owned oil and gas company; we have limited bargaining power with these customers and, as a result, we may have entered into and may continue to agree to contractual provisions that are disadvantageous to us; furthermore, the loss of one or more of these customers could adversely affect our financial condition and results of operations.

Our major customers are affiliates of China National Petroleum Corporation, or CNPC, the PRC's largest state-owned oil and gas producer, and Liaoning Ouya Dongdi Coalbed Gas Technology Development Co., Ltd., or Liaoning Methane, a major non-state-owned gas company. As a result of intense competition to procure EOR contracts from these customers, we have limited bargaining power and may have entered into and may continue to enter into contractual provisions that are disadvantageous to us. For example, in our technical services agreement with an affiliate of CNPC with respect to the provision of our MDF services at the Huabei oilfield, we are required to deliver a target volume of crude oil annually to the customer. If we fail to meet the target production output in a given year, the service fee payable to us may be reduced by a set percentage for that year. If the target production output is not met within 30 days of our failing to meet the production target at year end, the customer has the right to terminate the agreement and is entitled to a refund of all service fees already paid. Historically, we have been dependent upon these customers for a significant portion of our revenues. In the fiscal years ended September 30, 2009 and 2010, CNPC's subsidiaries and affiliates, either directly or indirectly through our subcontractors, represented 82.1% and 43%, respectively, of our sales. In the fiscal year ended September 30, 2008, CNPC's subsidiaries and affiliates, either directly or ultimately through third party service providers, represented all of our sales. See Note L to our consolidated financial statements included elsewhere in the annual report for further details. The revenues and earnings we derive from our contracts with these customers will be materially adversely affected if these agreements are terminated, unless we are able to enter into a satisfactory substitute arrangement.

Certain of our material agreements will expire soon and if such agreements are not renewed or extended upon expiration, our business and results of operations may be materially adversely affected.

Our service agreements with our customers generally have fixed terms of two to five years, after which the agreements expire. Our agreements with respect to the Dagang oilfield and Liaohe oilfield expire on December 31, 2011, and December 31, 2012, respectively. We cannot assure you that our major customers will choose to renew or extend the terms of their agreements with us. In addition, we may not be able to secure contracts with new customers on similar terms. If we are unable to renew or extend our current customer agreements or secure agreements with new customers on similar terms, our business and results of operations would be materially adversely affected.

We rely on an exclusive license to use our LHD equipment and the patent for our MDF technology. If a third party infringes our intellectual property rights, claims that we have infringed such third party's rights or uses our licensed technology in the PRC, we may not be able to enforce our rights or enforcement may be costly and lengthy.

The two technologies that are central to our EOR services are, in the case of the lateral hydraulic drilling, or LHD, technology incorporated into our LHD equipment, subject to an exclusive license in the PRC and, in the case of our molecular deposition film, or MDF, technology, patent protected. We received an exclusive right to use the LHD equipment in the PRC from Jet Drill Well Services, LLC, or Jet Drill, which obtained the exclusive right to market the LHD technology in the PRC from the holders of the patents underlying the LHD technology. There can be no assurance that third parties that have the licenses to market the LHD technology outside the PRC, or purchasers of LHD equipment outside the PRC, will not import the LHD technology or equipment into the PRC and compete against us. Furthermore, because the patents underlying the LHD technology are not registered in the PRC, a third party that is able to independently develop, reverse-engineer or otherwise obtain the LHD technology may use the LHD technology in the PRC and compete with us. In addition, third parties may use similar technologies that do not infringe on the LHD technology. In such circumstances, it may be difficult to ensure our continued exclusive use of the LHD equipment in the PRC and our technological competitive advantage.

In addition, third parties may infringe or misappropriate our proprietary technologies or other intellectual property rights and cause a material and adverse effect on our business, financial condition or operating results. It could be difficult and expensive to police unauthorized use of proprietary technology and to enforce our rights to our proprietary technology. Our ability to protect our intellectual property may be compromised in the event that any of our management members or employees in possession of our confidential proprietary information leaves the Company. Also, we may be required to litigate to enforce our rights to our proprietary information or determine the validity and scope of the proprietary rights of others. We cannot assure you that the outcome of such potential litigation will be in our favor. Litigation may be costly and may divert management attention and other resources away from our business. An adverse determination in any such litigation against us will impair our intellectual property rights and would harm our business, prospects and reputation. In addition, we would have to bear all costs arising from such litigation if we are unable to recover them from other parties. The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

Although we have not been involved in any intellectual property rights disputes, we cannot assure you that such disputes, which may result in significant legal and other costs and may distract management from operating our business, will not arise.

If we are unable to fund capital expenditures or obtain additional sources of liquidity when we need it, our business may be adversely affected. In addition, if we obtain equity financing, the issuance of our equity securities could cause dilution for our shareholders. To the extent we obtain the financing through the issuance of debt securities, our debt service obligations could increase and we may become subject to restrictive operating and finance covenants.

We anticipate that we will continue to make substantial capital investments to purchase additional lateral hydraulic drilling, or LHD, equipment to expand our services, hire additional personnel to operate our additional equipment, maintain LHD units and replace drilling equipment. For the fiscal years ended September 30, 2009 and 2010, we invested approximately $13,537 and $47.5 million, respectively, for capital expenditures. We estimate that our capital expenditures for the fiscal year ended September 30, 2011 will be in the range of $70 million to $80 million, which includes expenditures for the procurement of new LHD equipment to be added in fiscal year 2011 and the prepayment of additional LHD units to be delivered in fiscal year 2012.

If we are unable to obtain adequate financing, we may be unable to successfully maintain our operations and accomplish our growth strategy. For example, in 2006, as a result of inadequate financing, we entered into a subcontract arrangement with a third party contractor to perform our obligations under our MDF services agreement for the Dagang oilfield.

Historically, we have financed our capital expenditures through internally generated funds and through bank loans, the proceeds of which were used to purchase LHD units. These significant capital investments require cash that we could otherwise apply to other business needs. In addition, we may be unable to generate sufficient cash internally or obtain alternative sources of capital to fund our proposed capital expenditures, take advantage of business opportunities or respond to competitive pressures. If we ever determine that our cash requirements exceed our available cash on hand, we may seek to issue debt or equity securities or obtain credit facilities. Any issuance of equity securities could cause dilution for our shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and finance covenants. Our ability to obtain external financing in the future is also subject to a number of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by companies in our industry;
- economic, political and other conditions in the PRC and elsewhere; and
- the uncertain economic prospect and tightened credit markets resulting from the recent global economic slowdown and financial market crisis.

If we are unable to obtain funding in a timely manner or on commercially acceptable terms, or at all, our growth prospects and future profitability may be materially adversely affected. Adverse changes in the capital markets could make it difficult to obtain capital or obtain it at attractive rates.

If our technologies or equipment become obsolete and if we are unable to develop or acquire new technologies, methods or applications, our potential for growth may be limited.

The market for our EOR services is characterized by changing specialized technology, methods and applications. As a result, our success is dependent upon our ability to develop or acquire new technologies, methods and applications of existing technologies on a cost effective basis and to introduce them into the marketplace in a timely manner. Our in-house research and development department seeks out new EOR technologies, methods and applications that would enable us to deliver increased oil production to our customers and researches ways to improve our existing technologies and methodologies. While we intend to continue committing substantial financial resources and effort to our research and development department, we may not be able to successfully acquire more advanced technologies, develop improvements to our existing technologies and methodologies, or otherwise differentiate our technologies and services from those of our competitors. Our clients may not consider our proposed technologies and services to be of value to them; or if the proposed technologies and services are of a competitive nature, our clients may not view them as superior to our competitors' technologies and services. If we are unable to adapt to evolving markets and technologies, develop new technologies and services, or acquire or maintain technological advantages, our business and operating results may be materially and adversely affected.

We face significant competition in the PRC oilfield services industry, and if we fail to compete effectively, we may lose customers and our profitability may be adversely affected.

The PRC oilfield services industry is competitive and fragmented. It includes a few private enterprises capable of competing in our markets on a local basis and in-house EOR operations of subsidiaries of major state-owned oil and natural gas companies that possess substantially greater financial and other resources than we do for researching and developing EOR technologies. In addition, such in-house EOR operations may benefit from relationships with their state-owned parent that we do not have. We believe that our main competition comes from the development by our state-owned oil and gas company customers of in-house technology for drilling directional or horizontal wells and conducting EOR. For example, acid fracturing is conducted in-house by major oilfields, thermal recovery is utilized at Liaohe oilfield and polymer recovery is being tested at Daqing oilfield. Although our EOR services currently generally provide better results than in-house efforts of our customers, our operations may be adversely affected if our customers successfully develop and utilize their own cost effective EOR technologies such that they no longer require our services. Furthermore, although few private enterprises are active in the field of EOR services because of the high technological barrier to entry as they would have to provide advanced and unique technologies that major oilfields' in-house services are unable to provide, our current competitors or new market entrants may introduce new EOR services with better recovery enhancement results, cost effectiveness, service availability, technical proficiency, and price than our services. Finally, competition among oilfield services providers is also affected by each provider's reputation for safety and quality. If our safety record or the quality of our service declines, we may not be able to maintain our competitive position or profitability.

We are subject to significant operational risks and hazards that may not be fully covered by our insurance policies.

Substantially all of our EOR operations are subject to hazards that are customary for oil and natural gas drilling operations, including blowouts, reservoir damage, loss of well control, cratering, oil and gas well fires and explosions, natural disasters, pollution and mechanical failure. We do not carry insurance covering these hazards. Any of these risks could result in damage to or destruction of drilling equipment, personal injury and property damage, suspension of operations or environmental damage. We only carry insurance coverage required by law, which may not be sufficient to cover all of our potential losses or liabilities. We maintain insurance over all our LHD equipment and we generally maintain employers' liability insurance covering death or work injury of employees, as well as public liability insurance covering injury to visitors. Moreover, our insurance coverage is based on PRC insurance standards, which provide significantly lower levels of compensation than international standards.

The occurrence of an event not fully insured, or the failure of an insurer to meet its insurance obligations, could result in substantial losses. Because of our relatively small size, an uninsured loss could be far more detrimental to our operations and future prospects than it would be to one of our larger competitors. We cannot assure you that insurance will continue to be available to cover any or all of these risks, or, even if available, that insurance premiums or other costs will not rise significantly in the future, so as to make the cost of such insurance prohibitive.

Failure to comply with environmental regulations could harm our business.

We are subject to various PRC national and local environmental laws and regulations in the areas where we operate, including those governing the use, storage, discharge and disposal of hazardous substances. Environmental authorities have inspected the operations of our customers, which included inspections of the services of our on-site personnel. As of the date of this annual report, we had not received any regulatory notices or warnings in connection with, nor been the subject of any environmental investigations, orders or incidents arising out of, violations of environmental laws. We have policies in place to ensure compliance with environmental regulations. However, if more stringent compliance or clean-up standards under environmental laws or regulations are imposed, or the results of future testing and analyses of our operations indicate that we are responsible for the release of hazardous substances, we may be subject to remediation liability and increased environmental compliance costs.

We have subcontracted the performance of our MDF contracts to, and with respect to certain LHD agreements contracted directly with, third party oilfield services providers and should any of these providers default in the performance of the obligations under our MDF or LHD contracts or otherwise engage in misconduct, we may be liable for such default or misconduct and our reputation, business and results of operations could be adversely affected.

We have subcontracted the performance of our MDF service agreements to two third party oilfield service providers, Hebei Daofu Petroleum Prospecting Technology Development Co., Ltd., or Hebei Daofu, and Panjin Hanyu Oil Technology Development Co., Ltd., or Panjin Hanyu. Pursuant to these subcontract arrangements, Hebei Daofu and Panjin Hanyu provide the MDF services we are obligated to provide under our MDF service agreements and we also provide certain technical support services to Hebei Daofu and Panjin Hanyu and assist them in procuring our MDF solution from our exclusive supplier. As these subcontract arrangements do not relieve us of liability for the performance of the underlying MDF service agreements, a failure by a subcontractor to perform its obligations under the subcontract arrangement would constitute a default by us under the relevant service agreement. In addition, a default by a subcontractor may harm our relationship with the MDF customer and may jeopardize our ability to renew or extend our current agreements, or procure new agreements with, these customers or their affiliates. Furthermore, we may not be able to ensure that our subcontractors refrain from misconduct or unlawful activities, including but not limited to, making improper payments to our customers, potential customers or governmental officials in violation of applicable laws and regulations. We also recently entered into agreements for our LHD services with Hebei Daofu and Panjin Hanyu, pursuant to which they contract directly with the oilfield operators. Similar to our subcontract arrangements for our MDF services, a default by Hebei Daofu or Panjin Hanyu under their agreements with the oilfield operators or misconduct or unlawful activities carried out by Hebei Daofu or Panjin Hanyu could harm our relationships with these customers or their affiliates. Also, our direct contractual relationship with Hebei Daofu and Panjin Hanyu under these agreements exposes us to additional credit and default risk that we would not otherwise face if we contracted directly with the oilfield operators that have substantially more financial resources. In such circumstances our business, prospects and the price of our ADSs could be adversely affected if we are implicated in a subcontractor's misconduct.

Our MDF and most of our LHD service fees are paid by our subcontractors and we are therefore exposed to the credit risk of our subcontractors.

Fees for our MDF and most of our LHD services are not paid to us directly by our customers. Instead, we rely on our subcontractors to collect the fees earned for our services and to pay us either our contractual share of those fees or a pre-set monthly fee. Although our subcontractors have not previously failed to make timely payments to us, there can be no assurance that they will continue to make timely payments or be able to collect our service fees in a timely manner from our oil company customers, if at all. Our ability to collect our service fees from our subcontractors depends in part on the creditworthiness of our subcontractors and their diligence in collecting service fees from our oil company customers. Furthermore, if our oil company customers make payment to our subcontractors for our services but our subcontractors default in their obligation to pay us our fees, we may not have any recourse against our oil company customers to collect such fees. Accordingly, a default by our subcontractors to pay our service fees may have an adverse effect on our financial condition, results of operations and liquidity.

We purchase all our LHD equipment from a sole manufacturer through an import agent and all our molecular deposition film solution from a single supplier. If we encounter difficulties procuring supplies in a timely manner or on commercially reasonable terms or if our supplier becomes insolvent, we could experience operational disruptions or loss of rights to intellectual property and fail to satisfy our contractual requirements, which may harm our business.

We concentrate our purchases of equipment and molecular deposition film solution from a small group of suppliers who we consider to be reliable. We rely exclusively on Jet Drill to manufacture our LHD units and Dongying Luda Petrochemical Equipment Co., Ltd., or Dongying Luda, to import our LHD units and provide ancillary services. We purchase our LHD units from Jet Drill through Dongying Luda, which acts as our import agent for the purchase of these units. In addition to import-related services, Dongying Luda provides us with services related to the assembly, testing and fine-tuning of our LHD equipment and sells us ancillary tools and equipment. We entered into an agreement in December 2010 to purchase 10 additional LHD units. The first two new units were delivered in March 2011, and we are currently testing these units. We expect to take delivery of the remaining eight units by December 2011. If Jet Drill fails to deliver LHD units on a timely basis, or ceases to manufacture LHD equipment, we could fail to satisfy our contractual requirements as we may have insufficient LHD units or no longer be able to acquire any additional LHD units. In addition, should Jet Drill or any of its affiliates, collectively the Jet Drill Companies become insolvent or enter bankruptcy proceedings, the patent holders from whom the Jet Drill Companies license the LHD technology may terminate their licenses to the Jet Drill Companies and thereby invalidate our exclusive license from Jet Drill. Furthermore, if Dongying Luda becomes unable to act as our import agent for the supply of LHD units, then we may be unable to readily locate a suitable substitute import agent with the experience and technical ability to provide the value-added ancillary services we currently receive from Dongying Luda. As a result, our business, results of operations and financial condition may be materially adversely affected.

In addition, we purchase the MDF solution used in our MDF services from Tianjin Shanchuan Petroleum Chemicals Co., Ltd., or Tianjin Shanchuan, an independent third party, pursuant to an exclusive supply agreement with a term of five years, expiring in April 2013. If Tianjin Shanchuan, with whom we have a long-standing relationship, fails to perform its obligations under its contract with us, we may be unable to find a suitable chemical manufacturer on a timely basis to meet our obligations under our MDF contracts, which could harm our relationships with our MDF customers and result in an adverse effect on our results of operations.

As a result of our reliance on Jet Drill, Dongying Luda and Tianjin Shanchuan, should there occur a disruption in supply by these suppliers, and if we cannot source products that meet our quality, quantity and cost requirements from other suppliers in a timely manner or on commercially reasonable terms, we could experience operational disruptions. Our ability to effectively provide services to our customers pursuant to our contractual obligations may be severely affected, which would harm our business.

Our controlling shareholder has substantial influence over our company and his interests may not be aligned with your interests.

Mr. Qingzeng Liu, our chairman, beneficially owns approximately 51.27% of our outstanding shares as of the date of this annual report. As such, Mr. Liu has substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for your ADSs as part of a sale of our company. These actions may be taken even if they are opposed by our other shareholders.

In addition, Mr. Liu is the chief executive officer and executive director of Sky China Petroleum Services Ltd., or Sky China, a Singapore-listed company engaged in providing petro-engineering technical services for its customers in the oil and gas industry in the PRC. Sky China provides services related to oil-well drilling, oil extraction engineering, leasing of drilling equipment and tertiary oil recovery. Sky China's business activities, which primarily focus on drilling and equipment leasing, currently do not compete with ours. Sky China's customers are primarily subsidiaries of CNPC. Mr. Liu owes fiduciary duties to Sky China and, as the chairman of our board of directors, to us. As a result, Mr. Liu may have conflicts of interest when faced with decisions that could have different implications for Sky China on the one hand and us on the other hand. If conflicts of interest occur with respect to decisions to be made by Mr. Liu, this could have a material adverse effect on us.

There are risks relating to our acquisition strategy. If we are unable to successfully integrate and manage businesses that we have acquired and any businesses acquired in the future, our results of operations and financial condition could be adversely affected.

One of our key business strategies is to acquire technologies, operations and assets that are complementary to our existing business. There are financial, operational and legal risks inherent in any acquisition strategy, including increased financial leverage, ability to obtain additional financing, increased interest expense, and difficulties involved in combining disparate company cultures and facilities.

The success of any completed acquisition will depend on our ability to integrate effectively the acquired business into our existing operations. The process of integrating acquired businesses may involve unforeseen difficulties and may require a disproportionate amount of our managerial and financial resources. In addition, possible future acquisitions may be larger and for purchase prices significantly higher than those paid for earlier acquisitions. We cannot assure you that we will be able to continue to identify suitable acquisition opportunities, negotiate acceptable terms, obtain financing for acquisitions on acceptable terms or successfully acquire identified targets. Our failure to achieve consolidation savings, to incorporate the acquired businesses and assets into our existing operations successfully or to minimize any unforeseen operational difficulties could have a material adverse effect on our financial condition and results of operation.

Our independent registered public accounting firm has identified material weaknesses and control deficiencies in our internal control over financial reporting. If we are unable to correct these weaknesses and deficiencies, our ability to accurately and timely report our financial results or prevent fraud may be adversely affected, and investor confidence and the market price of our securities may be adversely affected.

Prior to our initial public offering, we had been a private company with limited accounting personnel and other resources for addressing our internal control over financial reporting. In connection with the audit of our consolidated and other financial statements included in this annual report, we and our independent registered public accounting firm identified the following control deficiencies, which amounted to "material weaknesses" as defined under the standards established by the Public Company Accounting Oversight Board: (i) insufficient U.S. GAAP qualified accounting and finance personnel and (ii) ineffective process for documenting and applying key accounting policies and procedures.

To remediate these material weaknesses, we have undertaken to improve our internal controls, including the following:

- identifying and hiring additional personnel with U.S. GAAP and SEC reporting experience;
- providing training to our finance personnel to improve their knowledge of U.S. GAAP and SEC reporting requirements and deadlines;

- holding regular meetings of the audit committee and resuming regular communication between the committee and our independent registered public accounting firm;

- establishing an internal audit function; and

- standardizing the period-end closing checklist as well as the consolidation and reporting package across all subsidiaries with specific timing and content requirements to enhance controls over period closing and financial reporting processes.

We have engaged an internal control adviser with the necessary expertise to perform an internal control audit pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404. We have also begun to formulate policies relating to internal control over financial reporting, including the preparation of a comprehensive accounting policies and procedures manual, containing, among other things, detailed, expanded closing checklists, to guide our financial personnel in addressing significant accounting issues and assist them in preparing financial statements in compliance with U.S. GAAP and SEC requirements.

Following our initial public offering, we have become a public company in the United States and are subject to the Sarbanes-Oxley Act of 2002 and applicable rules and regulations thereunder. Section 404 will require that we include a report of management on our internal control over financial reporting in our annual report on Form 20-F beginning with our annual report for the fiscal year ending September 30, 2011. In addition, beginning with our annual report for the fiscal year ending September 30, 2012, we expect that we will be required to include in such annual report a report of our independent registered public accounting firm that attests to and reports on management's assessment of the effectiveness of our internal controls over financial reporting if we are an accelerated filer or a large accelerated filer. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, to the extent that it conducts its own independent review, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us.

During the course of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404, we may identify additional deficiencies in our internal control over financial reporting. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could harm our operating results and lead to a decline in the trading price of our securities. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the NASDAQ Global Select Market, regulatory investigations and civil or criminal sanctions.

We may be unable to attract and retain skilled and technically knowledgeable employees, which could adversely affect our business.

Our success depends upon attracting and retaining skilled and technically knowledgeable employees. A number of our employees are geologists and highly trained technicians, and our failure to continue to attract and retain such individuals could adversely affect our ability to compete in the oilfield services industry. We may confront significant and potentially adverse competition for these skilled and technically knowledgeable personnel, particularly during periods of increased demand for oil and gas. Additionally, at times there may be a shortage of skilled and technical personnel available in the market, potentially compounding the difficulty of attracting and retaining these employees. As a result, our business, results of operations and financial condition may be materially adversely affected.

Our success depends on the services of key members of our management, the loss of any of whom could disrupt our business operations.

We depend to a large extent on the services of our major shareholder, senior management team and directors. In particular, our controlling shareholder, Mr. Qingzeng Liu, and our chief executive officer, Mr. Guoqiang Xin, have in-depth knowledge of the operation, technology and management of companies in the oilfield services industry, having served at a CNPC subsidiary before joining us. With their knowledge and experience, the service of our major shareholder, senior management team and directors is important to our future prospects and development as we rely on their expertise in developing our business strategies and maintaining our operations. The loss of the service of members of this group of individuals and the failure to find replacements with comparable experience and expertise could disrupt and adversely affect our operations.

We may be exposed to monetary fines by the local social insurance authority and housing authority and claims from our employees in connection with our non-compliance with regulations with respect to contribution of social insurance and housing provident funds for employees.

As required by Chinese regulations, we participate in various statutory employee social insurance and other benefit plan that are organized by relevant governments authorities, including compulsory pension, unemployment, medical, work-related injury and maternity insurance, and housing provident funds. TNH must make monthly contributions at statutory rates of each employee's average monthly income in the preceding year, up to a maximum amount specified by the local authorities from time to time. TNH has not fully made contributions for all of its employees since its establishment. We may be required by the relevant authorities in Tianjin to pay the outstanding amount within a specified time limit and may also be subject to a late fee of 0.2% per day of the outstanding social insurance amount and a monetary fine of RMB10,000 ($1,465) to RMB50,000 ($7,325) for non-compliance in payment of housing provident funds. TNH employees are also entitled to claim payment of such funds individually. So far, we have not received any notice from the local authorities or any claim from our current and former employees regarding our non-compliance in this regard. We have made a provision of approximately $1.2 million and $1.8 million in our financial statements as of September 30, 2009 and September 30, 2010, respectively, for the outstanding obligations, the late fee and penalties which may apply to us. However, if any of the foregoing occurs, the provision made in our financial statements may not be sufficient to cover all related costs and expenses including legal costs, and our reputation, financial condition and results of operations could be materially and adversely affected.

The loss of our exclusive right to use LHD equipment in the PRC may materially adversely affect our business and results of operations.

Our exclusive right to use Jet Drill's LHD equipment in the PRC relies in part on the validity and effectiveness of the underlying U.S. patents. Three of the patents underlying the LHD technology, or the Base Patents, expire on October 1, 2013 and a fourth underlying patent expires on March 1, 2019. The expiration of any of these patents, or the invalidation of Jet Drill's or its affiliates' rights to the LHD technology, may impair the validity or effectiveness of our exclusive right to use LHD equipment in the PRC. Particularly, the Jet Drill Companies obtained the exclusive right to market the technology as embodied in the Base Patents in the PRC from the holder, or the Holder, of the Base Patents in 2008. The Holder, who acquired such patents from their original owner in 2006, has subsequently transferred the patents to a third party. Neither the transfer of the patents from their original owner to the Holder, nor the subsequent transfer of the patents from the Holder to the third party, was recorded with the United States Patent and Trademark Office, or the USPTO, until October 6, 2010.

As a result, there can be no assurance that the validity or the enforceability of Jet Drill's rights to the LHD technology will not be challenged by third parties who may have purchased such patents in good faith for value, prior to October 6, 2010. Accordingly, we cannot assure you that our exclusive right to use LHD equipment in the PRC will not be challenged by third parties in the future.

Our near-term growth strategy and prospects depend on the competitive advantage afforded us by our exclusive right to use the LHD equipment in the PRC. Moreover, our ability to enforce our exclusive right may be impaired upon the expiration or invalidation of any of the underlying LHD patents or the disclosure or independent development by third parties of related LHD technology. Similarly, in the event of a default by any of the Jet Drill Companies in their obligations to maintain the exclusivity of our license, the extent to which we may recover damages in an action for breach will be limited by the financial resources of the Jet Drill Companies. As a result, the loss of our exclusive right to use LHD equipment in the PRC may materially affect our business and results of operations.

If we grant share options, restricted shares or other equity incentives in the future, our operating results could be materially adversely affected.

We are authorized to issue share options, restricted shares or other equity incentives for up to 50,000,000 ordinary shares in the future to our management and other personnel under our 2010 equity incentive plan. We account for share-based compensation by recognizing, as an expense, the fair value of share options and other equity incentives based on the fair value of equity-classified awards on the date of the grant, with such compensation expense recognized generally over the period in which the recipient is required to provide service in exchange for the equity award. We granted share options to Mr. Boxun Zhang, our chief financial officer, and Ms. Jing Liu, our independent director, in connection with the completion of our initial public offering in November 2010. As a result of our grant of options, restricted shares and other equity incentives to our employees and directors, we could incur significant compensation expenses which could materially reduce our net income, and thereby significantly dilute your investment in our ADSs.

Failure to comply with PRC regulations regarding the registration requirements for employee equity incentive plans may subject our PRC citizen employees or us to fines and other legal or administrative sanctions.

On March 28, 2007, the SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Share Option Plan of Overseas-Listed Company, or the Share Option Rule. Under the Share Option Rule, PRC citizens who are granted share options or other employee equity incentive awards by an overseas publicly-listed company are required, through a PRC agent who may be a PRC subsidiary of such overseas publicly-listed company, to register with the SAFE and complete certain other procedures related to the share options or other employee equity incentive plans. We and our PRC citizen employees who are granted share options or other equity incentive awards under our 2010 equity incentive plan, or PRC optionees, will be subject to the Share Option Rule once we become an overseas publicly-listed company. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and legal or administrative sanctions.

Risk Factors Relating to the PRC

Adverse changes in political, economic and other policies of the Chinese government could have a material adverse effect on the overall economic growth of the PRC, which could materially and adversely affect the growth of our business and our competitive position.

Substantially all of our business operations are conducted in the PRC. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in the PRC. The Chinese economy differs from the economies of most developed countries in many respects, including:

- the degree of government involvement;
- the level of development;
- the growth rate;
- the control of foreign exchange;
- the allocation of resources;
- an evolving regulatory system; and
- lack of sufficient transparency in the regulatory process.

While the Chinese economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among various sectors of the economy. The Chinese economy has also experienced certain adverse effects due to the recent global financial crisis. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in the PRC is still owned by the Chinese government. The continued control of these assets and other aspects of the national economy by the Chinese government could materially and adversely affect our business. The Chinese government also exercises significant control over Chinese economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Furthermore, since all oilfields in the PRC are owned by national oil and gas companies, the Chinese government can significantly influence the policies, strategies and priorities of these companies, and hence the demand for EOR services, including demand for our LHD and MDF services.

Any adverse change in the economic conditions or government policies in the PRC could have a material adverse effect on overall economic growth and the level of EOR expenditures by national oil companies, which in turn could lead to a reduction in demand for our services and consequently have a material adverse effect on our businesses.

Under the new EIT Law, we may be classified as a "resident enterprise" of the PRC and be subject to PRC taxation on our worldwide income.

The new Enterprise Income Tax Law, or EIT Law, provides that enterprises established outside of the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. In addition, a recent circular issued by the State Administration of Taxation on April 22, 2009, regarding the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside of the PRC as "resident enterprises" clarified that dividends and other income paid by such offshore "resident enterprises" will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognized by non-PRC enterprise shareholders. This recent circular also subjects such offshore "resident enterprises" to various reporting requirements with the PRC tax authorities. Under the implementation regulations to the new EIT Law, a "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the recent circular further provided that certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises will be classified as "resident enterprises" if all of the following are located or resident in the PRC: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders' meetings; and half or more of the directors with voting rights or senior management. However, as this circular only applies to enterprises established outside of the PRC that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of "de facto management bodies" for overseas incorporated enterprises that are controlled by individual PRC residents like us. Therefore, although substantially all of our management is currently located in the PRC and all of our revenues arise from our operations in the PRC, it remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. If the PRC tax authorities determine that we are a "resident enterprise," we may be subject to enterprise income tax at a rate of 25% on our worldwide income, which may have a material and adverse impact on our financial condition and results of operations and the dividends paid by us to our investors may be subject to PRC withholding tax.

Dividends we receive from our operating subsidiary located in the PRC may be subject to PRC withholding tax.

The EIT Law provides that a maximum income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are "non-resident enterprises," to the extent such dividends are derived from sources within the PRC, and the State Council has reduced such rate to 10%, in the absence of any applicable tax treaties that may reduce such rate, through the implementation regulations. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our operating subsidiary, TNH, located in the PRC. If we are required under the EIT Law to pay income tax for any dividends we receive from TNH, the amount of dividends, if any, we may pay to our shareholders and ADS holders may be materially and adversely affected.

According to the Double Taxation Arrangement (Hong Kong), Notice 112 and Notice 601, dividends paid to enterprises incorporated in Hong Kong are subject to a withholding tax of 5% provided that a Hong Kong resident enterprise owns over 25% of the PRC enterprise distributing the dividend and can be considered as a "beneficial owner" and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). Thus, as International Petroleum Services Corporation Limited, or International Petroleum, is a Hong Kong company and owns 100% of TNH, under the aforementioned arrangement dividends paid to us through International Petroleum by TNH may be subject to the 5% income tax if we and International Petroleum are considered as "non-resident enterprises" under the EIT Law and International Petroleum is considered as a "beneficial owner" and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). If International Petroleum is not regarded as the beneficial owner of any such dividends, it will not be entitled to the treaty benefits under the Double Taxation Arrangement (Hong Kong). As a result, such dividends would be subject to normal withholding income tax of 10% as provided by the PRC domestic law rather than the favorable rate of 5% applicable under the Double Taxation Arrangement (Hong Kong).

Dividends payable by us to our foreign investors and gains on the sale of our ADSs or ordinary shares may become subject to taxes under PRC tax laws.

Under the EIT Law and implementation regulations issued by the State Council, a 10% PRC income tax is applicable to dividends payable to investors that are "non-resident enterprises," which do not have an establishment or place of business in the PRC or which have such establishment or place of business but have income not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. Similarly, any gain realized on the transfer of ADSs or shares by such investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. It is unclear whether dividends paid on our ordinary shares or ADSs, or any gain realized from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and would as a result be subject to PRC tax. If we are considered a PRC "resident enterprise," then any dividends paid to our overseas shareholders or ADS holders that are "non-resident enterprises" may be regarded as being derived from PRC sources and, as a result, would be subject to PRC withholding tax at a rate of 10%. In addition, if we are considered a PRC "resident enterprise," non-resident enterprise shareholders of our ordinary shares or ADSs may be eligible for the benefits of income tax treaties entered into between the PRC and other countries. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are "non-resident enterprises," or if you are required to pay PRC income tax on the transfer of our ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially and adversely affected.

The enforcement of the Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and our results of operations.

On June 29, 2007, the National People's Congress of the PRC enacted the Labor Contract Law, which became effective on January 1, 2008. The Labor Contract Law establishes more restrictions and increases costs for employers to dismiss employees under certain circumstances, including specific provisions related to fixed-term employment contracts, non-fixed-term employment contracts, task-based employment, part-time employment, probation, consultation with the labor union and employee representative's council, employment without a contract, dismissal of employees, compensation upon termination and for overtime work, and collective bargaining. According to the Labor Contract Law, unless otherwise provided by law, an employer is obliged to sign a labor contract with an indefinite term with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts. Severance pay is required if a labor contract expires without renewal because the employer refuses to renew the labor contract or provides less favorable terms for renewal. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from 5 to 15 days, depending on the number of the employee's working years at the employer. Employees who waive such vacation time at the request of employers shall be compensated for three times their regular salaries for each waived vacation day. As a result of these new measures designed to enhance labor protection, our labor costs are expected to increase, which may adversely affect our business and our results of operations. In addition, the PRC government in the future may enact further labor-related legislation that increases our labor costs and restricts our operations.

The PRC legal system embodies uncertainties which could limit the legal protections available to you and us.

As our main operating entity and substantially all of our assets are located in the PRC, PRC laws and the PRC legal system in general may have a significant impact on our business operations. Although the PRC's legal system has developed rapidly over the last several decades, PRC laws, regulations and legal requirements remain underdeveloped relative to the United States. Moreover, PRC laws and regulations change frequently and their interpretation and enforcement involve uncertainties. For example, the interpretation or enforcement of PRC laws and regulations may be subject to unpublished government rules or policies. In addition, the relative inexperience of the PRC's judiciary in some cases may create uncertainty as to the outcome of litigation. These uncertainties could limit our ability to enforce our legal or contractual rights or otherwise adversely affect our business and operations. Furthermore, due to the existence of unpublished rules and policies, and since newly issued PRC laws and regulations may have a retroactive effect, we may not be aware of our violation of certain PRC laws, regulations, policies or rules until after the fact. Accordingly, we cannot predict the effect of future developments in the PRC legal system, particularly with respect to the oil and gas industry. These uncertainties could limit the legal protections available to you and us.

If the China Securities Regulatory Commission, or CSRC, or another PRC regulatory agency, determines that CSRC approval was required in connection with our initial public offering, we may become subject to penalties.

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Regulations, which became effective on September 8, 2006. Under these regulations, the prior approval of the CSRC is required for the overseas listing of offshore special purpose vehicles that are directly or indirectly controlled by PRC companies or individuals and used for the purpose of listing PRC onshore interests on an overseas stock exchange. We believe, based on the opinion of our PRC legal counsel, Tian Yuan 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 because we are not an offshore special purpose vehicle, as defined in the M&A Regulations, and the M&A Regulations do not apply to the acquisition of us by Premium Sino Finance, a company wholly owned by Mr. Qingzeng Liu.

However, since the new regulations have only recently been adopted, there remains some uncertainty as to how these regulations will be interpreted or implemented. If the CSRC or another PRC regulatory agency subsequently determines that the CSRC's approval was required for our initial public offering, we may face sanctions by the CSRC or another PRC regulatory agency. If this happens, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from our initial public offering into the PRC, restrict or prohibit payment or remittance of dividends by our PRC subsidiary to us, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs.

Under the M&A Regulations, the acquisition of a domestic enterprise by a foreign investor must be approved by the Ministry of Commerce, or MOFCOM, or its authorized local branch, and an asset appraisal report issued by an independent asset appraiser must 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 Limited, or International Petroleum, acquired 100% of the equity interest in TNH in 2007 without such an asset appraisal report. However, the acquisition has been 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 100% of the equity interest in TNH since 2007. This acquisition by International Petroleum and the price of this acquisition have not been challenged by the approving authority since then. 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. See Item 4.A "History and Development of the Company" for further information on the Supplementary Agreement.

The M&A Regulations establish more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in the PRC.

The M&A Regulations establish additional procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex, including requirements in some instances that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a Chinese domestic enterprise. We may grow our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

A failure by our shareholders or beneficial owners who are PRC citizens or residents in the PRC to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities or subject us to liability under PRC laws, which could adversely affect our business and financial condition.

In October 2005, China's State Administration of Foreign Exchange, or SAFE, issued the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular 75. SAFE Circular 75 states that PRC citizens or residents must register with the relevant local SAFE branch or central SAFE in connection with their establishment or control of an offshore entity established for the purpose of overseas equity financing involving a roundtrip investment whereby the offshore entity acquires or controls onshore assets or equity interests held by the PRC citizens or residents. In addition, such PRC citizens or residents must amend their SAFE registrations when the offshore special purpose company undergoes material events relating to increases or decreases in investment amount, transfers or exchanges of shares, mergers or divisions, long-term equity or debt investments, external guarantees, or other material events that do not involve roundtrip investments. In May 2007, SAFE issued guidance to its local branches regarding the operational procedures for such registration, which provides more specific and stringent requirements on the registration relating to SAFE Circular 75. The guidance imposes obligations on onshore subsidiaries of the offshore special purpose company to coordinate with and supervise the beneficial owners of the offshore entity who are PRC citizens or residents to complete the SAFE registration process.

We are committed to complying, and to ensuring that our shareholders who are PRC citizens or residents comply, with the SAFE Circular 75 requirements. We understand that Mr. Qingzeng Liu, our ultimate individual controlling shareholder who is a PRC resident, has completed his registration with SAFE Tianjin branch in 2005 for his outbound investments in Premium Sino Finance and other SPVs under Premium Sino Finance. We have been informed by SAFE Tianjin branch that SAFE Circular 75 does not apply to the acquisition of the 90% equity interests in Superport Limited by Premium Sino Finance because no offshore financing activities have occurred in connection with the above acquisition by Premium Sino Finance, Superport Limited or any other offshore SPV in our Group. Accordingly, Mr. Qingzeng Liu intends to update his registration with SAFE for his equity interests in Premium Sino Finance. However, we may not be fully informed of the identities of all our beneficial owners who are PRC citizens or residents, and we cannot compel our beneficial owners to comply with the SAFE Circular 75 requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC citizens or residents have complied with, and will in the future make or obtain any applicable registrations or approvals required by, SAFE Circular 75 or other related regulations. Failure by such shareholders or beneficial owners to comply with SAFE Circular 75 could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects. See Item 3.D "—Restrictions under PRC law on our PRC subsidiary's ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our businesses."

A failure to comply with PRC regulations regarding the registration of share options and restricted shares of our employees who are PRC citizens may subject such employees or us to fines and legal or administrative sanctions.

Pursuant to the Implementation Rules of the Administrative Measures on Individual Foreign Exchange, or the Individual Foreign Exchange Rules, promulgated on January 5, 2007 by SAFE and a relevant guidance issued by SAFE in March 2007, PRC citizens who are granted shares or share options by an overseas-listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas-listed company or other qualified PRC agents, to register with SAFE and complete certain other procedures related to the share option or other share incentive plan. Foreign exchange income from the sale of shares or dividends distributed by the overseas-listed company must be remitted into the PRC. In addition, the overseas-listed company or its PRC subsidiary or other qualified PRC agent is required to appoint an asset manager or administrator and a custodian bank, and open foreign currency accounts to handle transactions relating to the share option or other share incentive plan. If we grant our PRC citizen employees incentive shares or share options in the future, we and our PRC citizen employees who are PRC incentive shareholders or option holders, will be subject to these rules. If we or our PRC incentive shareholders or option holders fail to comply with these rules, we or our PRC incentive shareholders or option holders may be subject to fines and legal or administrative sanctions.

PRC government restrictions on the convertibility of Renminbi may limit our ability to effectively utilize our revenues and funds and the ability of our PRC subsidiary to obtain financing.

Our revenues and a substantial portion of our costs and expenses are denominated in Renminbi, which is currently not a freely convertible currency, with the remainder of our costs and expenses in U.S. dollars. In order for us to effectively utilize our revenues and the funds raised in our initial public offering, we need to conduct currency exchanges between Renminbi and other currencies. Under PRC regulations as of the date of this annual report, Renminbi is convertible for "current account transactions," which include, among other things, dividend payments and payments for the import of goods and services. Our PRC subsidiary may also retain foreign exchange in their respective current account bank accounts for use in payment of international current account transactions. Although the Renminbi has been fully convertible for current account transactions since 1996, we cannot assure you that the relevant PRC government authorities will not limit or eliminate our ability to purchase and retain foreign currencies for current account transactions in the future.

Conversion of Renminbi into foreign currencies, and of foreign currencies into Renminbi, for payments relating to "capital account transactions," which principally include investments and loans, generally requires the approval of SAFE and other relevant PRC governmental authorities. Restrictions on the convertibility of the Renminbi for capital account transactions could affect the ability of our PRC subsidiary to make investments overseas or to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

If we finance our PRC subsidiary through additional capital contributions, the amount of these capital contributions must be approved by MOFCOM in the PRC or its local counterpart. On August 29, 2008, SAFE promulgated Circular 142, a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The notice requires that Renminbi 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 may not be used for equity investments within the PRC unless specifically provided for otherwise in its business scope. In addition, SAFE strengthened its oversight of 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 changed without approval from SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used for purposes within the company's approved business scope. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Regulations.

We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiary or with respect to future capital contributions by us to our PRC subsidiary. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we receive from our initial public offering and to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

Restrictions under PRC law on our PRC subsidiary's ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our businesses.

A majority of our revenues are earned by our PRC subsidiary. However, PRC regulations restrict the ability of our PRC subsidiary to make dividends and other payments to their offshore parent company. PRC legal restrictions permit payments of dividends by our PRC subsidiary only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Our PRC subsidiary is also required under PRC laws and regulations to allocate at least 10% of its annual after-tax profits determined in accordance with PRC GAAP to a statutory general reserve fund until the cumulative amount in such fund reaches 50% of the company's registered capital. Allocations to this statutory reserve fund can only be used for specific purposes and are not transferable to us in the form of loans, advances or dividends. As of September 30, 2009 and September 30, 2010, our PRC subsidiary had allocated $5.1 million and $7.2 million, respectively, to these statutory reserve funds. The total amount of our retained earnings was $11.6 million as of September 30, 2008 and $5.2 million as of September 30, 2009, and our total accumulated losses as of September 30, 2010 were $8.5 million. Any limitations on the ability of our PRC subsidiary to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

In addition, under the EIT law, the *Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates*, or Notice 112, which was issued on January 29, 2008, the *Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income*, or the Double Taxation Arrangement (Hong Kong), which became effective on January 1, 2007, and the *Notice of the State Administration of Taxation Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties*, or Notice 601, which became effective on October 27, 2009, dividends from our PRC subsidiary paid to us through our Hong Kong subsidiary may be subject to a withholding tax at a rate of 10%, or at a rate of 5% if our Hong Kong subsidiary is considered as a "beneficial owner" that is generally engaged in substantial business activities and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). "Beneficial owner" under the relevant PRC rules refers to any person who owns or has control over income or any rights or assets which give rise to such income. Notice 601 further provides that "beneficial owner" could be an individual, a company or any other organization that is generally engaged in substantial business activities and that an agent or a conduit company shall not be regarded as a "beneficial owner." Furthermore, the ultimate tax rate will be determined by treaty between the PRC and the tax residence of the holder of the PRC subsidiary. We are actively monitoring the proposed withholding tax and are evaluating appropriate organizational changes to minimize the corresponding tax impact.

If we are found to have failed to comply with applicable laws, we may incur additional expenditures or be subject to significant fines and penalties.

Our operations are subject to PRC laws and regulations applicable to us. However, the scope of many PRC laws and regulations are uncertain, and their implementation could differ significantly in different localities. In certain instances, local implementation rules and their implementation are not necessarily consistent with the regulations at the national level. Although we strive to comply with all applicable PRC laws and regulations, we cannot assure you that the relevant PRC government authorities will not determine that we have not been in compliance with certain laws or regulations.

We may suffer reputational harm and the value of our ADSs may be affected if, due to our strong relationship with PetroChina, we become the target of or are otherwise negatively affected by any public campaign that seeks to persuade or influence PetroChina or its parent company, CNPC, to sever business ties with certain sanctioned countries.

We understand that CNPC, the parent company of PetroChina, certain affiliates of which are our largest customers, has conducted business activities in Iran, Sudan, Syria and Cuba, which are identified by the U.S. State Department as state sponsors of terrorism and are subject to U.S. economic sanctions and export controls. We do not have any direct or indirect ties with these countries and do not have any plan or intention to have any business dealings with these countries. As a result of CNPC's business dealings, direct or indirect, with these countries, in recent years certain organizations and investors have conducted public campaigns to persuade CNPC and PetroChina, a company listed on the New York Stock Exchange, to end business contacts, direct or indirect, with Iran and Sudan. In response to these public campaigns, certain institutional investors have divested their holdings of PetroChina's securities. To the extent that CNPC continues to engage, directly or indirectly, in business activities in these sanctioned countries, CNPC or PetroChina may become the subject of similar efforts by organizations and investors. Such efforts may negatively impact our reputation as a US-listed service provider to affiliates of PetroChina and investor sentiment with respect to our ADSs may be affected. Investors in the United States may believe that the value of their investment in us may be adversely affected due to our business dealings with PetroChina, or they may choose not to invest in, and to divest any investments in, issuers that are associated even indirectly with CNPC and PetroChina. Any negative investor sentiment as a result of such reputational issues may cause the price of our ADSs to decline and adversely affect the value of your investment in us.

Any future outbreak of a severe form of H1N1 influenza, severe acute respiratory syndrome or avian flu in the PRC, or any similar adverse public health developments, may disrupt our business and operations.

Adverse public health epidemics or pandemics could disrupt businesses operations and economic activities in the PRC. For example, in 2009, occurrences of H1N1 influenza were reported throughout the PRC, and since 2005, there have been reports on the occurrences of avian influenza in various parts the PRC, including a number of confirmed human cases that resulted in fatalities. From December 2002 to June 2003, the PRC and certain other countries experienced an outbreak of a new and highly contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. During May and June of 2003, many businesses in the PRC were temporarily closed by the PRC government to prevent transmission of SARS. The World Health Organization has announced that there is a high likelihood of an outbreak of avian flu in Asia, with the potential to be as disruptive as if not more disruptive than SARS. Any recurrence of the SARS outbreak, an avian flu outbreak, a severe H1N1 outbreak, or the development of a similar health hazard in the PRC, may disrupt our business and operations and prevent us from providing our services in a timely manner.

Fluctuations in exchange rates could have an adverse effect on our results of operations and may have a material adverse effect on your investment.

Our revenues and a substantial portion of our costs and expenses are denominated in Renminbi, which is currently not a freely convertible currency, with the remainder of our costs and expenses in U.S. dollars. Fluctuations in currency exchange rates have had a limited impact on our results of operations in the past, as our customers have made payment to us in Renminbi. However, if we expand to overseas markets, sales of our services to international customers may be denominated in U.S. dollars. Continued fluctuations in exchange rates, particularly among the U.S. dollar and Renminbi, could result in foreign exchange losses and affect our gross and net profit margins.

Furthermore, the change in value of the Renminbi against the U.S. dollar, Euro and other currencies is affected by, among other things, changes in the PRC's political and economic conditions. 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 the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. 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 the U.S. dollar. As a significant portion of our costs and expenses is denominated in Renminbi, the revaluation in July 2005 and potential future revaluation has and could further increase our costs. In addition, any significant revaluation of the Renminbi may have a material adverse effect on our revenues and financial condition, and the value of, and any dividends payable on, our ordinary shares in foreign currency terms. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

Risks Relating to Our ADSs

The trading price of our ADSs is likely to be volatile, which could result in substantial losses to investors.

The trading price of our ADSs is likely to be volatile and could fluctuate widely in response to factors relating to our business as well as external factors beyond our control. Factors such as variations in our financial results, announcements of new business initiatives by us or by our competitors, recruitment or departure of key personnel, changes in the estimates of our financial results or changes in the recommendations of any securities analysts electing to follow our securities or the securities of our competitors could cause the market price for our ADSs to change substantially. At the same time, the securities markets may from time to time experience significant price and volume fluctuations that are not related to the operating performance of particular companies. For example, in late 2008 and early 2009, the securities markets in the United States, the PRC and other jurisdictions experienced the largest decline in share prices since September 2001 due to the global economic and financial crisis. These market fluctuations may also have a material adverse effect on the market price of our ADSs.

In addition, the performance and fluctuation of the market prices of other companies with business operations located mainly in the PRC that have listed their securities in the United States may affect the volatility in the price of and trading volumes for our ADSs. In recent years, a number of PRC companies have listed their securities, or are in the process of preparing for listing their securities, on U.S. stock markets. Some of these companies have experienced significant volatility, including significant price declines in connection with their initial public offerings. The trading performances of these PRC companies' securities at the time of or after their offerings may affect the overall investor sentiment towards PRC companies listed in the United States and consequently may impact the trading performance of our ADSs. These broad market and industry factors may significantly affect the market price and volatility of our ADSs, regardless of our actual operating performance. Any of these factors may result in large and sudden changes in the trading volume and price for our ADSs.

Substantial future sales or perceived sales of our ADSs or ordinary shares by existing shareholders could cause the price of our ADSs to decline.

If our existing shareholders sell, indicate an intention to sell, or are perceived to intend to sell, substantial amounts of our ordinary shares in the public market after the 180-day contractual lock-up period and other legal restrictions on resale discussed in this annual report lapse, the trading price of our ordinary shares could decline. As of the date of this annual report, we had 131,578,948 outstanding ordinary shares, including ordinary shares represented by ADSs. The representative of the underwriters of our initial public offering may, in its sole discretion, permit our officers, directors, warrant holders and shareholders to sell their ordinary shares prior to the expiration of the lock-up agreements. After the lock-up agreements pertaining to our initial public offering expire (180 days or more from November 3, 2010), all of our outstanding ordinary shares will be eligible for sale in the public market, but they will be subject to volume limitations under Rule 144 under the U.S. Securities Act of 1933, as amended, or the Securities Act. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our ordinary shares could decline.

As a company incorporated in the Cayman Islands, we may adopt certain home country practices in relation to corporate governance matters. These practices may afford less protection to shareholders than they would enjoy if we complied fully with the NASDAQ Global Select Market corporate governance listing standards.

As a non-U.S. company with shares listed on the NASDAQ Global Select Market, we are subject to the NASDAQ Global Select Market corporate governance listing standards. However, in reliance on Rule 5615(a)(3) of the NASDAQ Listing Rules, which permits a foreign private issuer to follow the corporate governance practices of its home country, we have adopted certain corporate governance practices that differ significantly from the NASDAQ Global Select Market corporate governance listing standards. Specifically, we have not adopted a formal written charter or passed board resolutions with respect to the nominations process for appointees to our board of directors as required by Rule 5605(e)(2) of the NASDAQ Listing Rules. In addition, our directors will neither be nominated by a majority of our independent directors in a vote in which only independent directors participate nor by a nominations committee comprised solely of independent directors as required by Rule 5605(e)(1) of the NASDAQ Listing Rules, and instead will be selected or recommended by the board of directors. Such home country practice differs from the NASDAQ Global Select Market corporate governance listing standards because there are no specific provisions under the Companies Law of the Cayman Islands imposing such requirements. As a result, our executive directors, one of whom is also our major shareholder, may have greater power to make or influence major decisions than they would if we complied with all the NASDAQ Global Select Market corporate governance listing standards. While we may adopt certain practices that are in compliance with the laws of the Cayman Islands, such practices may differ from more stringent requirements imposed by the NASDAQ Global Select Market rules and as such, our shareholders may be afforded less protection under Cayman Islands law than they would under the NASDAQ Global Select Market rules applicable to U.S. domestic issuers.

We may become a passive foreign investment company, or PFIC, which could result in adverse U.S. tax consequences to U.S. holders.

Based on our financial statements, relevant market and shareholder data, and the projected composition of our income and valuation of our assets, including goodwill, we do not expect to be a passive foreign investment company, or a PFIC, for the taxable year ending September 30, 2011, and we do not expect to become one in the future, although there can be no assurance in this regard. If we become a PFIC, U.S. holders of our ordinary shares or ADSs may become subject to increased tax liabilities under United States federal income tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, for any taxable year we will be classified as a PFIC for United States federal income tax purposes if either (i) 75% or more of our gross income in that taxable year is passive income or (ii) the average percentage of our assets (which includes cash) by value in that taxable year which produce or are held for the production of passive income is at least 50%. See Item 10.E "Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company."

You may not be able to participate in any future rights offerings and may experience dilution of your holdings in relation to any such offerings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. The depositary may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, you may be unable to participate in our rights offerings and may experience dilution of your holdings as a result.

You may not be able to exercise your right to vote.

As an ADS holder, you may only exercise voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depositary. Upon receipt of your voting instructions, the depositary will endeavor to vote the underlying ordinary shares in accordance with these instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the ordinary shares underlying your ADSs.

Pursuant to our amended and restated memorandum and articles of association, we may convene a shareholders' meeting upon a 10-day notice. When a shareholder's meeting is convened, you may not receive sufficient advance notice to withdraw the ordinary shares underlying your ADSs to allow you to vote with respect to any specific matter. If we give timely notice and ask it to, the depositary will notify you of the upcoming vote and arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to instruct the depositary to vote the ordinary shares underlying your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if the ordinary shares underlying your ADSs are not voted as you requested.

Anti-takeover provisions in our charter documents may discourage a third party from acquiring us, which could limit our shareholders' opportunities to sell their shares at a premium.

Our amended and restated memorandum and articles of association include provisions that could limit the ability of others to acquire control of us, modify our structure or cause us to engage in change-of-control transactions. For example, our board of directors will have the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix the powers and rights of these shares, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares in the form of ADSs or otherwise. Preferred shares could thus be issued quickly with terms calculated to delay or prevent a change in control or make removal of management more difficult. In addition, if our board of directors issues preferred shares, the market price of our ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected. The above provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of us in a tender offer or similar transaction.

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than under U.S. law, you may have less protection of your shareholder rights than you would under U.S. law.

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Cayman Islands Companies Law (2010 Revision), as amended, and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, the rights of minority shareholders to institute actions and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. Furthermore, shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

You will have limited ability to bring an action against us or against our directors and officers, or to enforce a judgment against us or them, because we are incorporated in the Cayman Islands, because we conduct a majority of our operations in the PRC and because the majority of our directors and officers reside outside the United States.

We are incorporated in the Cayman Islands and conduct our operations primarily in the PRC. A substantial majority of our assets are located outside the United States and most of our directors and officers reside outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in the PRC in the event that you believe that your rights have been infringed under the applicable securities laws or otherwise. Even if you are successful in bringing an action of this kind in United States courts, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment of United States courts against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions taken against our management, our board of directors or our controlling shareholders than they would as public shareholders of a corporation incorporated in a jurisdiction in the United States.

Your ability to protect your rights as shareholders through the U.S. federal courts may be limited because we are incorporated under Cayman Islands law.

Cayman Islands companies may not have standing to initiate a derivative action in a federal court of the United States. As a result, your ability to protect your interests if you are harmed in a manner that would otherwise enable you to sue in a United States federal court may be limited to direct shareholder lawsuits.

The voting rights of holders of ADSs are limited in several significant ways by the terms of the deposit agreement.

Holders of our ADSs may only exercise their voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Upon receipt of voting instructions from a holder of ADSs in the manner set forth in the deposit agreement, the depositary will endeavor to vote the underlying ordinary shares in accordance with these instructions. Under our amended and restated memorandum and articles of association and Cayman Islands law, the minimum notice period required for convening a general meeting is 10 days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter at the meeting. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the shares underlying your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if the shares underlying your ADSs are not voted as you requested.

The depositary of our ADSs will, except in limited circumstances, grant to us a discretionary proxy to vote the ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, which could adversely affect your interests and the ability of our shareholders as a group to influence the management of our company.

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders' meetings if you do not vote, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- voting at the meeting is made on a show of hands.

The effect of this discretionary proxy is that you cannot prevent our ordinary shares underlying your ADSs from being voted, absent the situations described above, and it may make it more difficult for holders of ADSs to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

You may not receive distributions on our ordinary shares or any value for them if it is unlawful or impractical for us to make them available to you.

The depositary of our ADSs has agreed to pay you the cash dividends or other distributions it or the custodian for our ADSs receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of our ordinary shares your ADSs represent. However, the depositary is not responsible if it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed pursuant to an applicable exemption from registration. The depositary is not responsible for making a distribution available to any holders of ADSs if any government approval or registration is required for such distribution. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of our ADSs, ordinary shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our ordinary shares or any value for them if it is unlawful or impractical for us to make them available to you. These restrictions may have a material and adverse effect on the value of your ADSs.

You may be subject to limitations on the transfer of your ADSs.

Your ADSs, represented by American depositary receipts, are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our books or the books of the depositary are closed, or at any time if we think or the depositary thinks it is necessary or advisable to do so in connection with the performance of its duty under the deposit agreement, including due to any requirement of law or any government or governmental body, or under any provision of the deposit agreement.

Item 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our History

We commenced operation in October 2004 as TNH. On October 12, 2007, International Petroleum Services Corporation Limited, or International Petroleum, a company incorporated in Hong Kong and then wholly owned by Mr. Ernest Cheung, entered into an equity transfer agreement with Mr. Guoqiang Xin, who serves as our current CEO, Mr. Fengkai Liu and Mr. Fengshan Liu, the then shareholders of TNH, under which:

- Mr. Guoqiang Xin transferred his 94.60% of the equity interest in TNH to International Petroleum for a consideration of RMB33,205,000;
- Mr. Fengkai Liu transferred his 5% of the equity interest in TNH for a consideration of RMB1,755,000; and

- Mr. Fengshan Liu transferred his 0.40% of the equity interest in TNH for a consideration of RMB140,000.

The equity acquisition under the equity transfer agreement, or the 2007 Acquisition, was approved by the local counterpart of the Ministry of Commerce, or MOFCOM, in Tianjin on December 18, 2007 and a Certificate of Approval for Foreign Invested Enterprise in the PRC was issued by the Tianjin Municipal Government on December 21, 2007. TNH obtained a new business license on January 10, 2008 to change its corporate status to a wholly foreign owned enterprise, or WFOE.

To enable us to raise equity capital from investors outside of the PRC, we set up an offshore holding company structure by establishing Superport Limited, a British Virgin Islands incorporated company, in March 2009 to hold 100% of the equity interest in International Petroleum on May 4, 2009 for a consideration of HK$5,000. On May 6, 2009, under an equity transfer agreement entered into between Mr. Ernest Cheung, the sole shareholder of Superport Limited, Premium Sino Finance Limited, or Premium Sino Finance, a British Virgin Islands incorporated company, whose sole director and shareholder is Mr. Qingzeng Liu, who serves as our current Chairman, Premium Sino Finance acquired 90% of the outstanding share capital of Superport Limited for a consideration of HK$45,000,000, or the 2009 Acquisition. The remaining 10% of the outstanding share capital of Superport Limited were acquired by Wise Worldwide Limited, or Wise Worldwide, a British Virgin Islands incorporated company, from Mr. Ernest Cheung for a consideration of HK$5,000,000. Subsequently, Wise Worldwide transferred some of the shares in Superport Limited it held to Prosperia International Limited, a British Virgin Islands incorporated company, and King Da Investment Fund Limited, a Cayman Islands incorporated company.

In furtherance of certain oral agreements reached in connection with the 2007 Acquisition and 2009 Acquisition and in order to remunerate Mr. Ernest Cheung and Mr. Guoqiang Xin for the financial performance of TNH subsequent to those acquisitions, on November 30, 2009, Premium Sino Finance, Mr. Guoqiang Xin and Mr. Ernest Cheung entered into a supplemental agreement, under which the parties agreed, among other things, that:

- the fair value of TNH in 2007, or the TNH 2007 valuation, shall be 4.5 times of the audited net profit recorded by TNH in 2007; while the fair value of TNH in 2009, or the TNH 2009 valuation, shall be 5 times of the average of audited net profits recorded by TNH in 2008 and 2009 respectively;

- Premium Sino Finance shall pay Mr. Ernest Cheung an additional consideration, or the additional consideration, for the 2009 Acquisition, which is equivalent to the difference between the TNH 2009 valuation and the HK$50,000,000 Premium Sino Finance and Wise Worldwide paid to Mr. Ernest Cheung for the 2009 Acquisition; and

- Mr. Ernest Cheung instructs Premium Sino Finance to pay to Mr. Guoqiang Xin, out of the additional consideration, an amount equivalent to the difference between the TNH 2007 valuation and the RMB35,100,000 Mr. Ernest Cheung paid to Mr. Guoqiang Xin for the 2007 Acquisition.

We incorporated SinoTech Energy Limited, or SinoTech, in the Cayman Islands on June 9, 2010 as our listing vehicle. SinoTech became our ultimate holding company on October 12, 2010 when it issued shares to the existing shareholders of Superport Limited in exchange for all of the outstanding shares of Superport Limited.

We completed our initial public offering of our ADSs on the NASDAQ Global Select Market on November 8, 2010.

See Item 5.B. "Liquidity and Capital Resources—Capital Expenditures" for a description of our principal capital expenditures since the beginning of our last three financial years. We entered into an agreement in December 2010 to purchase 10 additional LHD units. See Item 14. "Material Modifications to the Rights of Security Holders and Use of Proceeds—E. Use of Proceeds."

Our principal executive offices are located at 3/F, No. 19 Ronghua South Road, Beijing Economic-Technological Development Area, Beijing 100176, People's Republic of China. Our telephone number at this address is +86-10-8712-5555. Our registered office in the Cayman Islands is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., 400 Madison Avenue, 4th Floor, New York, New York 10017, United States.

B. BUSINESS OVERVIEW

We are a fast-growing and profitable provider of EOR services in the PRC. We believe we are a leading domestic non-state-owned player in the PRC's EOR sector. We provide innovative EOR services to major oil companies in the PRC using leading edge technologies, which include certain patented LHD technologies, which we have an exclusive right to use in the PRC, and a MDF technology for which we hold a PRC patent. We also provide technical services to CBM customers using the LHD technology.

Our LHD services increase crude oil or methane gas output by using a high-pressure water jet to drill horizontal holes in multiple directions from an existing vertical well to the surrounding reservoirs, thereby increasing the quantity of the flow of oil and methane gas. Based on pilot tests conducted over a period of three months at our customer sites, the 18 oil wells across five major oil fields in the PRC where we tested the LHD technology showed on average an increase in daily production volumes of approximately 230% and the seven coalbed methane wells where we tested the LHD technology showed on average an increase in daily production volumes of approximately 976%.

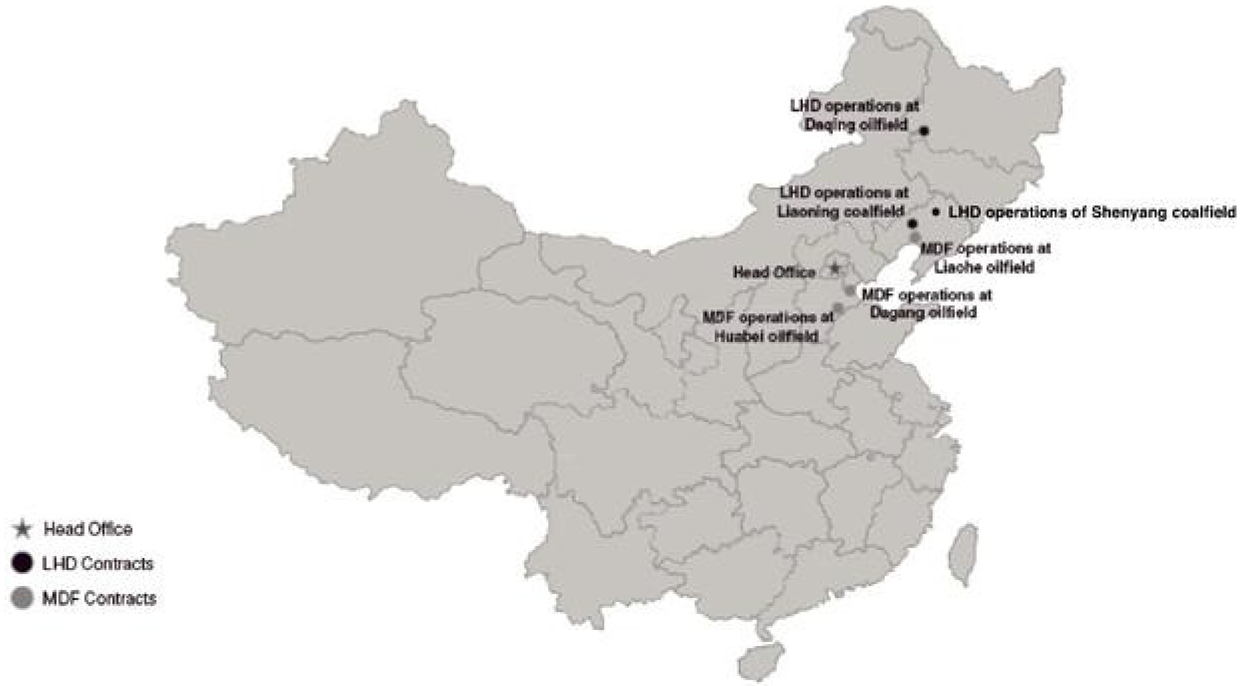
Our MDF technology increases oil recovery from mature wells by displacing the residual oil that adheres to sedimentary rock or sand in the oil reservoir. When the MDF chemical solution is injected into the reservoir and encounters the oily sand, it creates an ultra thin film that separates crude oil from sand content, thereby enabling the oil to flow more freely and to be efficiently extracted by the oil pump. The utilization of our MDF solution has resulted in oil production rate increases of approximately 17% and approximately 36% at trial wells at the Dagang and Liaohe oilfields, respectively, over the course of three months, according to a report prepared by Beijing Ji'ao in 2008 which was commissioned by us.

With our expertise and experience in such technologies, we believe that we have positioned ourselves well within the growing PRC oilfield services market to provide EOR services to large PRC oil and gas companies. We have captured service contracts with large PRC oil companies that are affiliates of China National Petroleum Corporation, or CNPC, and believe we are well positioned to capture additional contracts with CNPC affiliates and other major PRC oil companies going forward.

Our sales have grown at a CAGR of 41.2% from $9.6 million in the period from October 13, 2004 (inception of TNH) to September 30, 2005 to $38.2 million in the fiscal year ended September 30, 2009. Our net income increased at a CAGR of 45.9% from $3.2 million in the period from October 13, 2004 (inception of TNH) to September 30, 2005 to $14.5 million in the fiscal year ended September 30, 2009. In the fiscal year ended September 30, 2010, we had sales of $45.3 million and a net loss of $13.7 million. Our sales are diversified across our three sections contributing 37.5%,62.5% and nil of our total sales in the fiscal year ended September 30, 2009, and 46.8%, 42.8% and 10.4% of our total sales in the fiscal year ended September 30, 2010, from our LHD, MDF and consulting sections, respectively.

Our Services

The following map shows the geographic distribution of the oil and coalfields at which we currently provide our LHD and MDF services directly to oil and coalfield operators:



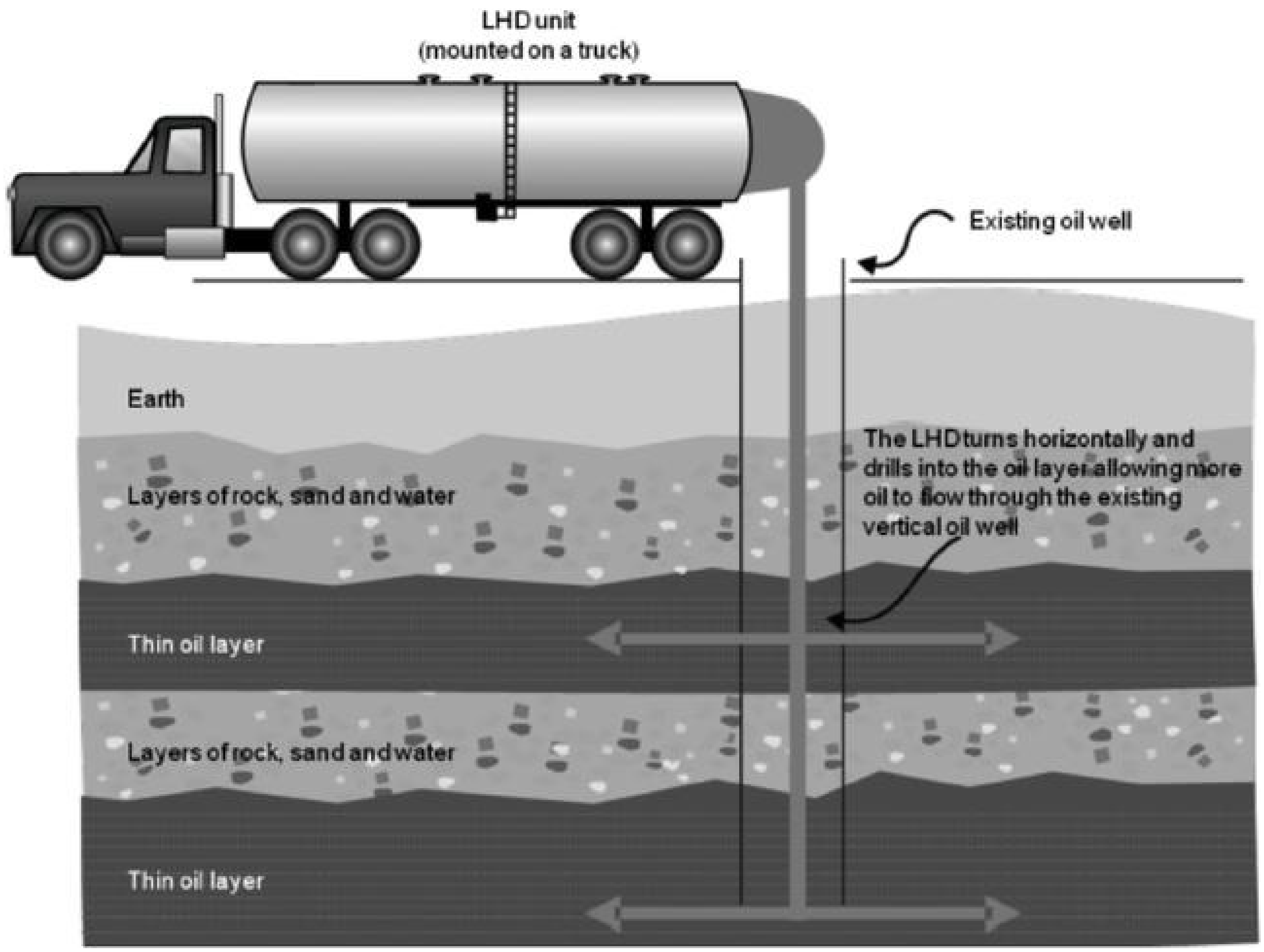
Lateral Hydraulic Drilling

Our LHD technology is designed to enhance production in oil wells and coalfields by increasing the quantity of the flow of oil and methane gas to the vertical wellbore from the surrounding reservoirs. Our LHD units use high-pressure water jets to drill horizontal tunnels in multiple directions from the vertical wellbore, thereby increasing the number of points of contact between the wellbore and the reservoir and improving the flow of oil and methane gas. The time that it takes to complete drilling at customer sites ranges from four to eight days for oil wells, and almost the same length of time for CBM wells. The average drilling distance is 354 meters per well for oil wells and 992 meters per well for CBM wells for the fiscal year ended September 30, 2010. Each LHD unit generally services approximately 48 to 60 wells per year.

As a low-cost horizontal drilling technology, LHD has the potential to extract reserves in low production vertical wells not otherwise accessible by traditional EOR techniques. There are 120,000 in the PRC that would benefit from the LHD technology. The LHD technology is considered most suitable for existing vertical production wells with low yields. In the PRC, the abandonment of development wells is rare—wells producing only three barrels per day are often still kept in operation.

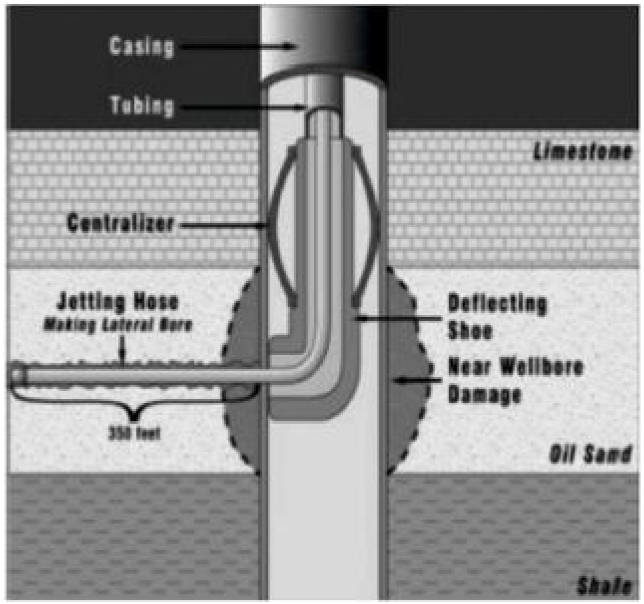
Our LHD equipment is mounted on trucks that can be driven on normal roads and highways to the site of a customer's oil or coalbed methane field. Each LHD unit is equipped with a high pressure jet motor for pumping pressurized water, a computerized monitoring system with proprietary software for monitoring and controlling various aspects of the drilling operation, devices used to collect operating data which can be seen by the LHD operator using the monitoring system above ground, a high pressure water jet and ancillary equipment to guide the jet horizontally and coil tubing used to deliver the high-pressure fluid used for drilling.

The following diagram illustrates the LHD service process:



The LHD process entails using a specialized cutting assembly to cut an approximately one-inch diameter hole in the vertical wellbore casing through which the nozzle of the jetting hose passes. A deflecting shoe directs the jetting hose to the opening in the wellbore. The jetting hose consists of a 2,000 to 3,000 meter flexible coil tubing which can turn over 90 degrees for directional drilling. The high-pressure water jet then drills a tunnel extending laterally through the casing, through the near wellbore damage, or debris collected near the wellbore as a result of perforating the casing and the drilling process, and into the rock formation. The procedure bores one to two-inch diameter lateral drainage tunnels radiating out at multiple angles into the reservoir, similar to the spokes of a wagon wheel. The jetting hose has both forward and backward-facing water jets. The forward jet drills the lateral tunnel while the rear jet propels the jetting hose forward and clears away rock and other debris from the tunnel. Our customers can use the LHD technology in conjunction with other EOR technologies such as acidizing or fracturing to improve the ability of the surrounding rock formation to transmit oil or methane gas.

The following diagram illustrates the drilling process inside a wellbore:



Prior to commencing the LHD process, our engineers consult with the customer to obtain technical details about the geological conditions and oil and methane gas production profiles of the service block. Based on this information, our engineers develop a drilling plan to maximize oil and methane gas production. In order to maximize the utilization of our equipment, our drilling plan typically focuses on servicing several adjacent wells within one service block. We assign five to six staff, including engineers and technical personnel, to each LHD unit. These on-site personnel are responsible for formulating the drilling plan, transporting equipment to the work site, preparing the well for insertion of the jetting hose, operating the LHD unit, monitoring drilling progress and recording the distance drilled for purposes of calculating our fee.

Our initial testing of our LHD equipment took place in 2007 at Changqing oilfield where we had five test wells. These wells achieved production rate increases ranging from approximately 50% to 460% based on pilot tests conducted by us during the past three years, each test occurring over a three-month long period. One of these wells had no oil yield prior to the application of our LHD services. However, after the application of our LHD services, it achieved a crude oil yield of approximately 3.62 tons per day.

We currently own and operate 10 LHD units. We purchased 10 additional units in December 2010. The first two new units were delivered in March 2011 and we are currently testing these units. We expect to take delivery of the remaining eight units by December 2011.

As of the date of this annual report, we have agreements in place to provide our LHD services at Daqing oilfield, Liaoning coalfield and Shenyang coalfield.

The following chart summarizes certain terms of our LHD services agreements.

LHD Contract	**Daqing Oilfield**	**Liaoning Coalfield**	**Shenyang Coalfield**
Term	Initial contract: April 1, 2010 - March 31, 2012 Second contract: May 24, 2010 - May 23, 2013	October 26, 2009 - October 25, 2011	January 1, 2011 - December 31, 2012
Type of field	Oil	Coalbed methane	Coalbed methane
Number of LHD units	4	1	1
Customer	Daqing Huajian Petroleum Technology Service Co., Ltd.	Liaoning Ouya Dongdi Coalbed Gas Technology Development Co., Ltd.	Shenyang Rising Methane Technology Service Co., Ltd.
Fee (RMB/meter drilled)	2,500	900	900
Company's services	• Prepare and implement technical plan • Provide LHD unit as well as other necessary equipment and instrumentation • Provide on-site personnel	• Prepare and implement technical plan • Provide LHD unit as well as other necessary equipment and instrumentation • Provide on-site personnel	• Prepare and implement technical plan • Provide LHD unit as well as other necessary equipment and instrumentation • Provide on-site personnel
Number of wells serviced(1):			
Year ended September 30, 2009	62	49	N.A.
Year ended September 30, 2010	97	51	N.A.
Number of meters drilled			
Year ended September 30, 2009	20,535	51,880	N.A.
Year ended September 30, 2010	34,370	50,595	N.A
Cost of sales for the period			
Year ended September 30, 2009	$2,118,341	$2,295,317	N.A.
Year ended September 30, 2010	$4,250,177	$2,545,400	N.A.
Average cost of sales per meter drilled			
Year ended September 30, 2009	$103.16	$44.24	N.A.
Year ended September 30, 2010	$123.66	$50.31	N.A.

(1) Includes wells serviced by us at the relevant location prior to the current contract term.

Agreements relating to Daqing Oilfield

We started providing LHD services at the Daqing oilfield from November 2009. Currently we have two contracts with Daqing Huajian Petroleum Technology Service Co., Ltd., which Daqing Huajian entered into on April 1, 2010 and May 24, 2010, respectively. We have a commercial understanding with Daqing Huajian that we will provide our LHD services until the end of the two year term in accordance with the first contract. Under these agreements, we are liable for any safety or environmental accidents caused by us.

Agreement relating to Liaoning Coalfield

We entered into a one-year technical service contract in October 2008 with Liaoning Ouya Dongdi Coalbed Gas Technology Development Co., Ltd., or Liaoning Methane, to provide LHD services, equipment and tools at certain coalfields in Liaoning, the PRC. Upon successful completion of this contract, we entered into a new services agreement with Liaoning Methane in October 2009 with a term of two years. Under this agreement, we are liable for any safety or environmental accidents caused by us.

Agreement relating to Shenyang Coalfield

We entered into a two-year service contract in January 2011 with Shenyang Rising Methane Technology Service Co., Ltd, or Shenyang Methane, to provide LHD services, equipment and tools at Shenyang coalfield, the PRC. Under this agreement, we are liable for any safety or environmental accidents caused by us.

Letters of Intent

In September and October 2010, we entered into letters of intent with PetroChina Coalbed Methane Co., Ltd. and Zhejiang Oilfield Company, both of which are affiliates of CNPC, and agreed to develop the LHD market in Hancheng, Shanxi Province and at the Zhejiang Oilfield.

LHD Service Contracts

In furtherance of our letters of intent with affiliates of CNPC in July and November 2009, pursuant to which we intended to enter into service contracts to provide our LHD services to these CNPC affiliates, we entered into technical service contracts in August 2010 with Panjin Hanyu and Hebei Daofu to provide our LHD services at certain oilfields with respect to which Panjin Hanyu and Hebei Daofu will procure contracts with affiliates of PetroChina. Under these contracts, Panjin Hanyu and Hebei Daofu agreed to contract directly with the oilfield operators, handle payment collections and bear responsibility for potential safety and environmental liabilities. Pursuant to the original terms of these agreements, we agreed to pay each of Panjin Hanyu and Hebei Daofu annual service fees of RMB1.36 million and RMB4.0 million, respectively, payable quarterly, for their contracting and administrative roles. Each of the contracts with Panjin Hanyu and Hebei Daofu also originally provided that we will be paid a service fee of RMB2,500 per meter drilled. These payment terms were modified in December 2010 to change our fee structure and cap our fees such that we are no longer paid on a per meter drilled basis. Pursuant to our contract with Panjin Hanyu, which has a term of three years, Panjin Hanyu has agreed to use our LHD services for at least 200 oil wells at the Jilin Oilfield and Liaohe Oilfield. Under our contract with Hebei Daofu, which also has a three-year term, Hebei Daofu has agreed to assist us in developing the LHD services market with respect to the Huabei, Dagang, Shengli, Jidong and Zhongyuan Oilfields and enter into service contracts with the oilfield operators. Hebei Daofu has agreed to use our LHD services for at least 600 oil wells. In September 2010, we deployed one LHD unit to the Jilin Oilfield and two LHD units to the Dagang Oilfield, which have since commenced operations.

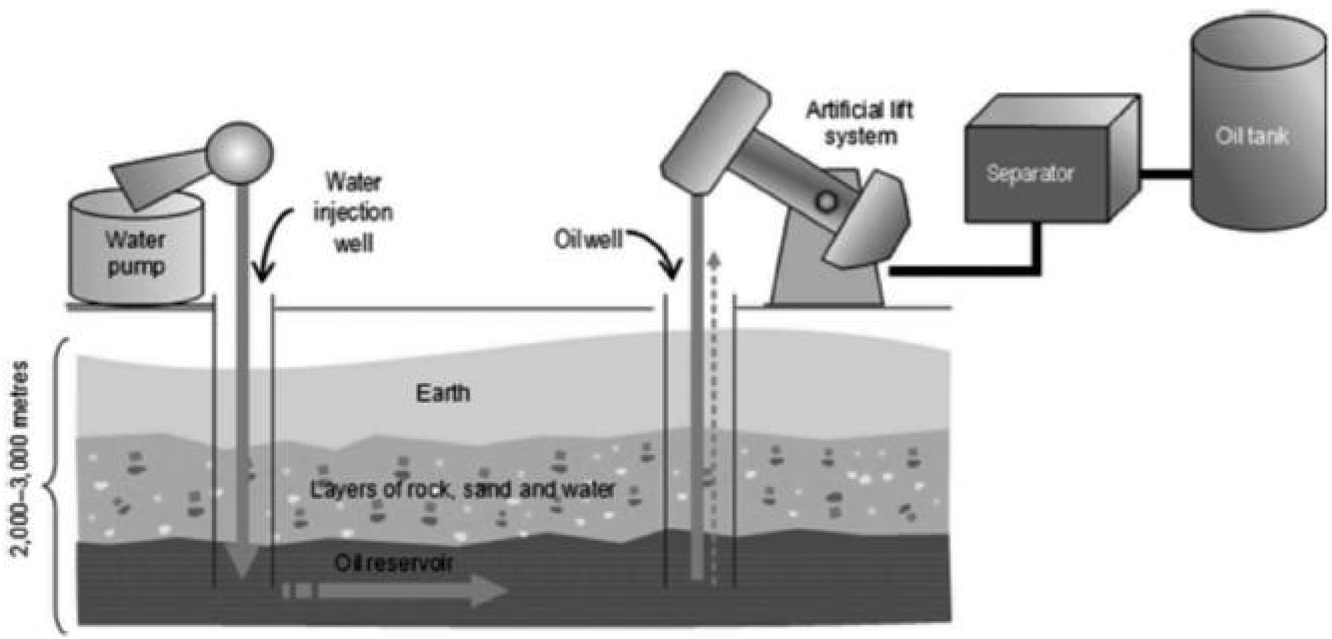
In December 2010, we modified our agreements with Hebei Daofu and Panjin Hanyu. Under the terms of our modified agreement with Hebei Daofu, we are obliged to supply three LHD units and one testing unit. Hebei Daofu will pay us a fixed annual service fee for each LHD unit of RMB50 million and a fixed annual service fee for each testing unit of RMB2 million. These fees are payable by Hebei Daofu to us on a monthly basis at RMB12.7 million per month. Under the terms of our modified agreement with Panjin Hanyu, we are obliged to supply two LHD units and one testing unit. Panjin Hanyu will pay us a fixed annual service fee for each LHD unit of RMB50 million and a fixed annual service fee for each testing unit of RMB2 million. These fees are payable by Panjin Hanyu to us on a monthly basis at RMB8.5 million per month. Under each of the contracts with Panjin Hanyu and Hebei Daofu, we are responsible for formulating a construction plan for each well, supplying spare parts without charge within a specified quota, repairing equipment annually bearing the expenses, providing technical training and updates and supervising the construction quality on-site.

Molecular Deposition Film Technology

Our MDF technology increases oil recovery from mature wells by displacing the residual oil that adheres to sedimentary rock or sand in the oil reservoir. When the MDF chemical solution encounters the oily sand, it creates an ultra thin film that separates the oil from the sand, thereby enabling the oil to flow more freely and to be more efficiently extracted by the oil pump.

Our customers utilize our MDF services as a part of tertiary recovery, or the final stage of recovery in the production life of a well that is preceded by primary and secondary oil recovery methods. In the primary stage of recovery, oil is extracted from the oil reservoir by an artificial lift system such as a pump. Over time, the volume of oil in the reservoir declines, thus reducing the pressure in the wellbore. With insufficient pressure in the wellbore, the artificial lift system cannot effectively draw out oil. In order to maintain pressure in the reservoir and direct the flow of oil towards the production well, the oilfield operator typically installs a network of water wells that inject water to substitute the volume of oil that has been extracted. The use of a water network is a secondary recovery method known as "waterflooding," which displaces the residual oil in the reservoir by injecting water into the oil reservoir. The water physically sweeps the displaced oil to adjacent production wells, from which the artificial lift system extracts the oil. After the secondary phase of oil recovery, oilfield operators may also implement various tertiary recovery methods, including the use of our MDF services, to improve the flow of oil in the reservoir and the production of the well.

The following diagram illustrates the MDF service process:



The MDF solution is dispersed into the oil reservoir through the network of water injection wells. In order to deploy the MDF solution, it is blended directly at the existing water injection facilities and pumped downhole into the water well. The MDF solution is water soluble and does not increase the viscosity of the injection water, which means that no additional injection capacity is required to pump the mixture into the reservoir. The MDF solution separates the oil from the sand content in the reservoir and the oil can subsequently flow freely towards the wellbore for extraction by the artificial lift system. Once lifted to the surface, the oil is separated from the water, gas, mud and sand, and the oil is transferred to an oil tank. A meter records the production tonnage at the entry point into the oil tank.

Our MDF technology can be used only in certain geological conditions. The geological conditions for MDF usage include suitable temperature, pressure, viscosity of the oil, porosity of the rock formation, and the water content of the reservoir as a result of waterflooding. The amount of MDF solution required to enhance production at a particular oilfield also depends on geological conditions. For example, we estimate that in the Dagang oilfield, one ton of MDF solution yields approximately 750 tons of incremental oil production. At the Huabei oilfield, we estimate that one ton of MDF solution yields approximately 152 tons of incremental oil production.

Prior to commencing injection of our MDF solution into a customer's wells, our engineers meet with the customer, conduct preliminary tests of the service block's oil and water wells network and analyze production data provided by the customer. Our engineers then develop an MDF implementation plan for different well groups and sections of the oilfield based on the technical information they have collected. This plan includes a determination of the optimal amount of our MDF solution to inject into the reservoir.

As the customer's MDF implementation plan is carried out, our on-site technicians, together with the customer's technical personnel, monitor the production data at the entry point into the customer's oil tank. In order to enhance recovery, we may also employ other chemical agents together with our MDF solution if the geological conditions of the oilfield require further treatment. For example, at the Dagang oilfield, as a result of the high viscosity and sand content of the oil, we apply a viscosity reduction agent, de-sanding powder and other chemicals to the reservoir. In contrast, the Huabei and Liaohe oilfields do not require the use of additional chemical agents to facilitate extraction.

As of the date of this annual report, we have the following agreements in place to provide our MDF services for three oilfields operated by affiliates of CNPC.

The following chart summarizes certain terms of our MDF services agreements. We renewed our MDF contracts at Dagang and Liaohe oilfields. We also entered into a new MDF contract at Liaohe oilfield for an additional 64 wells:

MDF Contract	Dagang Oilfield	Liaohe Oilfield	Liaohe Oilfield	Huabei Oilfield
Term	January 1, 2006 - December 31, 2011	January 1, 2007 - December 31, 2012	January 1, 2011 - December 31, 2012	July 17, 2008 - January 1, 2012
Customer	PetroChina Dagang Oilfield Branch	PetroChina Liaohe Oilfield Branch	PetroChina Liaohe Oilfield Branch	PetroChina Huabei Oil Field Company
Price (RMB/ton)	480	680	600	330
Production target (tons/year)	264,330	180,000	85,000	75,000
Actual production, 2010 (tons)	281,383	193,695	N.A.	75,531
Actual production, 2009 (tons)	270,002	184,774	N.A.	76,795
Actual production, 2008 (tons)	298,029	183,507	N.A.	N.A. (actual commencement of MDF services occurred in January 2009)
Actual production, 2007 (tons)	317,922	184,127	N.A.	N.A.

MDF Contract	Dagang Oilfield	Liaohe Oilfield	Liaohe Oilfield	Huabei Oilfield
Penalty for missing target annual production	RMB50 per ton of production shortfall	None	None	If annual target not met, Company is charged a penalty of 3% of the annual service fee. If production target is still not met within 30 days, the customer may terminate the agreement and is entitled to a refund of service fees already paid.
Number of oil wells	178	110	64	49
Company's services	• Prepare MDF injection plan • Implement MDF injection plan • Provide monitoring instrumentation and injection equipment • Purchase MDF solution • Pay for staff salaries • Provide training of on-site employees of customer	• Prepare MDF injection plan • Implement MDF injection plan • Purchase MDF solution and relevant equipment for the injection	• Prepare MDF injection plan • Implement MDF injection plan • Purchase MDF solution and relevant equipment for the injection	• Prepare MDF injection plan • Implement MDF injection plan • Purchase MDF solution • Pay for staff salaries

The following chart summarizes certain terms of our MDF subcontract agreements:

MDF Subcontract	Dagang Oilfield	Liaohe Oilfield	Liaohe Oilfield	Huabei Oilfield	Total
Term	October 1, 2009 - December 31, 2011	February 5, 2007 - December 31, 2012	January 1, 2011 - December 31, 2012	April 1, 2010 - January 1, 2012	
Subcontractor	Hebei Daofu Petroleum Prospecting Technology Development Co., Ltd.	Panjin Hanyu Oil Technology Development Co., Ltd.	Panjin Hanyu Oil Technology Development Co., Ltd.	Hebei Daofu Petroleum Prospecting Technology Development Co., Ltd.	
Subcontractor's fee (RMB/ton)	N.A.	380	N.A.	N.A.	
Company's fee (RMB/month, unless otherwise stated)	4,600,000	300 per ton	2,000,000	1,225,000	
Subcontractor's services	• Implement MDF injection plan • Ensure the safety of production and environmental protection	• Implement MDF injection plan • Bear cost of MDF solution and all other materials after June 2007 • Manage and maintain the equipment previously purchased and installed by Company	• Implement MDF injection plan • Bear cost of MDF solution and all other materials • Manage and maintain the equipment previously purchased and installed by Company	• Implement MDF injection plan	
Company's services	• Prepare the MDF injection plan • Provide technical support • Assist in purchasing MDF solution	• Provide technical support and engineers for technical guidance • Bear cost of MDF solution before June 2007 • Provide previously	• Provide technical support and engineers for technical guidance • Provide previously purchased and installed equipment for Subcontractor's use	• Prepare the MDF injection plan • Provide technical support • Assist in purchasing MDF solution	

purchased and installed equipment for Subcontractor's use

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MDF Subcontract	Dagang Oilfield	Liaohe Oilfield	Liaohe Oilfield	Huabei Oilfield	Total
Number of wells serviced(1):					
Year ended September 30, 2009	140	110	N.A.	49	299
Year ended September 30, 2010	140	110	N.A.	49	299
Number of tons of crude oil extracted					
Year ended September 30, 2009	295,989	184,819	N.A.	57,225	538,032
Year ended September 30, 2010	—	190,375	N.A.	38,045	228,430
Cost of sales for the period					
Year ended September 30, 2009	$6,550,976	$1,762,048	N.A.	$1,103,384	$ 9,416,408
Year ended September 30, 2010	$517,784	$1,761,241	N.A.	$774,936	$ 3,053.961
Average cost of sales per ton of crude oil extracted					
Year ended September 30, 2009	$22.13	$9.53	N.A.	$19.28	$ 17.50
Year ended September 30, 2010	—	$9.25	N.A.	$20.37	$ 11.10

(1) Includes wells serviced by us at the relevant location prior to the current contract term.

Agreements relating to Dagang Oilfield

We entered into a technical services agreement with PetroChina Dagang Oilfield Branch, or PetroChina Dagang, in January 2006 to provide our MDF services at the Dagang oilfield. Under this agreement, we assume all investment risks thereunder, including risks relating to the imposition of fines for fire prevention, safety and environmental matters and other legal liabilities that may arise after commencement of the relevant project. In addition, we are required to abide by PetroChina Dagang's onsite rules and procedures, submit to safety supervision, maintain the on-site environmental condition of the relevant service blocks and assume safety and environmental liabilities relating to those blocks. Furthermore, we are solely responsible for any damage to the production capacity of relevant blocks arising as a result of any mistake in the oil recovery production measures or materials provided by us. In February 2006, in order to reduce our upfront investment costs for equipment and facilities, we subcontracted our performance under the technical services agreement to Dagang Shengkang Oil Technology Development Co., Ltd., or Dagang Shengkang. Subsequently, in September 2009, at the request of Dagang Shengkang, and with the consent of PetroChina Dagang, we subcontracted our services to Hebei Daofu under a cooperation agreement. We have the right to cancel the cooperation agreement and resume providing MDF services directly to PetroChina Dagang if Hebei Daofu breaches the cooperation agreement or the technical services agreement with PetroChina Dagang. We provide certain technical support and MDF procurement services to Hebei Daofu pursuant to a separate technical services agreement. We renewed this agreement to extend its expiration date for an additional year to December 2011.

Agreements relating to Liaohe Oilfield

We entered into a technical services agreement with PetroChina Liaohe Oilfield Branch, or PetroChina Liaohe, in January 2007 to provide our MDF services at Liaohe oilfield in Panjin City, Liaoning Province, the PRC. Under this agreement, PetroChina Liaohe is responsible for safety and environmental matters within the operations area and we must comply with PetroChinaLiaohe's rules and procedures relating to onsite safety and environmental matters. In late January 2007 we subcontracted, with PetroChina Liaohe's consent, the provision of our MDF services to Panjin Hanyu Oil Technology Development Co., Ltd., or Panjin Hanyu, for the remainder of the term of our original agreement with PetroChina Liaohe. We subcontracted to Panjin Hanyu in order to benefit from Panjin Hanyu's local business expertise and relationship network and their knowledge of local conditions at the Liaohe oilfield. Panjin Hanyu was established in 2006 and is mainly engaged in oilfield services related to oil and gas well recovery, and the sale of drilling equipment parts. We also entered into a separate service agreement with Panjin Hanyu in February 2007 that set forth our obligations to provide necessary technical support and guidance to Panjin Hanyu. We renewed this agreement to extend its expiration date for an additional two years to December 2012. We also entered into a new MDF contract at Liaohe oilfield to service an additional 64 wells.

Agreements relating to Huabei Oilfield

We entered into a technical services agreement with PetroChina Huabei Oilfield Branch, or PetroChina Huabei, in July 2008 to provide our MDF services at Huabei oilfield in Renqiu, the PRC, commencing in January 2009. Under this agreement, each party is responsible for its own compliance with health, production safety and environmental regulations. In addition, we are required to abide by PetroChinaHuabei's onsite rules and regulations and are liable for any losses resulting from our violation of them. Furthermore, each party is obligated to ensure that the other party's use of equipment, material, work procedures and craftsmanship, software and other intellectual property provided by such first party is not in violation of any third party intellectual property rights and agrees to bear responsibility for liabilities arising out of such violations and indemnify the party receiving such intellectual property. In the event of any violation of a third party's rights, the providing party shall be liable for the losses suffered by the other party. We are also obligated to purchase insurance coverage for all of our equipment and personnel and make a claim with the insurer in the event of accidents of the equipment or personal injuries. PetroChina will be liable for the accidents of equipment or personal injuries caused by its fault in the amount of any loss that is in excess of the compensation provided by the insurer under the insurance coverage. However, PetroChina will not be liable for any claims that are not covered by insurance policy. In April 2010 we subcontracted, with PetroChinaHuabei's consent, the provision of our MDF services to Hebei Daofu for the remainder of the term of our original agreement with PetroChina Huabei. We subcontracted to Hebei Daofu in order to allocate more personnel to our LHD service contracts. We also provide technical support to Hebei Daofu in connection with this contract.

Consulting

In September 2010, we entered into a marketing development agreement with Tianjin Botenear Petroleum Engineering Co., Ltd., or Tianjin Botenear, to develop the oilfield service market for directional well drilling technology within the territory of the Republic of Kazakhstan. We have completed the procurement of oilfield service contracts for Tianjin Botenear for at least 40 oil wells, pursuant to which Tianjin Botenear will be responsible for implementing the services under those contracts. Tianjin Botenear has agreed to pay us a service fee in the amount RMB32,000,000 for our market development services.

Our Suppliers

LHD Units

Our LHD units are manufactured by Jet Drill. During the manufacturing stage, our engineers work with Jet Drill's engineers to customize the LHD units to our specifications, which are based on our customers' requirements and the geological and operational conditions at our customers' well sites.

We purchase our LHD units from Jet Drill through Dongying Luda which acts as our import agent for the purchase of LHD units. Under our LHD purchase arrangement, we enter into an LHD equipment purchase agreement with Dongying Luda and Dongying Luda enters into a purchase agreement with Jet Drill. Dongying Luda is a professional oil service equipment manufacturer and importer in the PRC. In addition to import-related services, Dongying Luda provides us with services related to the assembly, testing and fine-tuning of our LHD equipment and sells us ancillary tools and equipment. Jet Drill provides a 12-month warranty on its LHD units under its sales contract with Dongying Luda and a warranty pursuant to our exclusive license agreement covering material and workmanship defects. Under a back-to-back arrangement with Dongying Luda, Dongying Luda provides us with the same 12-month warranty. Jet Drill also provides training covering operating and maintenance to our LHD operators at their headquarters in Louisiana.

MDF Solution

We entered into a five-year supply contract with Tianjin Shanchuan, a chemical manufacturer affiliated with Professor Manglai Gao, or Professor Gao, on May 8, 2008 to manufacture and supply our MDF chemicals exclusively for us or parties designated by us. The price of MDF chemicals charged by Tianjin Shanchuan is calculated according to the base price quoted by Tianjin Shanchuan at the beginning of each year. Our subcontractors estimate the total amount of the MDF chemical required for the whole year based on our technical plan. Our subcontractors, with our authorization, then purchase the required amount of MDF solution from Tianjin Shanchuan. The payment schedule is subject to adjustment at the time of Tianjin Shanchuan's acceptance of purchase orders from time to time. In addition to the MDF solution, we purchase a limited amount of other chemical agents from Tianjin Shanchuan for the treatment of the oil reservoir, including viscosity reduction agent and de-sanding powder. See "—Intellectual Property—Patent for MDF Technology."

MDF Equipment

In order to focus on our service-based business model, we currently do not own any equipment related to MDF injection. For the Liaohe oilfield, we entered into a sale-leaseback arrangement on July 12, 2007 with Hebei Daofu whereby we sold to Hebei Daofu our MDF injection equipment and monitoring facilities and Hebei Daofu leased this equipment and facilities back to us for a monthly fee. As a result, Hebei Daofu is responsible for the ongoing maintenance and repair costs of the leased equipment and facilities. Similarly, Hebei Daofu purchased from us the MDF injection equipment used for our contract at the Dagang oilfield.

Our Customers

We market our services to customers in the PRC with mature oil wells that can benefit from our MDF or LHD technologies. In the year ended September 30, 2010, our ultimate customers were CNPC (including its subsidiary, PetroChina), either directly or ultimately through third party service providers, Daqing Huajian, and Liaoning Methane, which accounted for 43%, 27.9% and 14.8%, respectively, of our sales during that period. In the year ended September 30, 2009, our ultimate customers were CNPC (including its subsidiary, PetroChina), either directly or ultimately through third party service providers, and Liaoning Methane, which accounted for 73.1% and 18.3%, respectively, of our sales during that period. In the year ended September 30, 2008, all of our sales were derived from our contracts with CNPC.

The following table sets forth percentages of our total sales for the fiscal years ended September 30, 2008, 2009 and 2010 by location of the oilfield/coalfield:

Oilfield/Coalfield Location (Ultimate Customer)	% of Total Sales for Fiscal Year Ended September 30, 2008	Fiscal Year Ended September 30, 2009	Fiscal Year Ended September 30, 2010
Dagang (PetroChina Dagang, an affiliate of CNPC)	39.7%	34.0%	23.0%
Liaohe (PetroChina Liaohe, an affiliate of CNPC)	24.8%	21.2%	19.9%
Changqing (PetroChina Changqing Oilfield Company, an affiliate of CNPC)	35.5%	18.3%	—
Liaoning (Liaoning Methane)	—	17.9%	14.8%
Heilongjiang (Daqing Huajian)	—	—	27.9%
Other	—	8.6%	14.4%

Sales and Marketing

Our sales and marketing strategy is targeted at increasing market awareness of our brand and service offerings, promoting the use of our technologies, gaining new business from other major oilfields and coalfields across the PRC and promoting repeat business from existing clients. Our executive management team is actively involved in business development and managing our key client relationships. Our marketing efforts focus on performing trials of our technology at potential customers' oilfields, allowing us to showcase the potential improvements in oil production our technology can bring. We have tested our LHD units at various oilfields, including Dagang, Daqing and Changqing. We market our MDF technology by communications and promotions of our test results, which demonstrate scenarios where we have achieved significant increases in production. In addition, we station our engineers near each MDF and LHD site to provide on-site supervision and technical advice to our customers, which we believe strengthens our relationships with customers.

Employees

As of September 30, 2009, we had over 60 employees, most of whom have significant oil services industry expertise and many of whom have previously worked for PetroChina or CNPC. All of our employees work on a full-time basis. We had a total of 63 and 53 employees as of September 30, 2007 and 2008, respectively. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes. Our employees have not entered into any collective bargaining agreements. As of September 30, 2010, we had 104 employees, which comprised of 61 operation staff, 13 technology staff, four marketing staff, seven finance staff and 19 administration and human resource staff.

Competition

Our competitors in the EOR services sector consist primarily of the in-house oilfield services divisions at the large Chinese state-owned oil companies, namely, CNPC, Sinopec and CNOOC, and private oilfield services providers. The state-owned oilfield services divisions also provide EOR services at the fields where we operate. These oilfield services divisions generally focus on more routine EOR technologies and tend to be slower to adapt to newer technologies.

The state-owned oilfield services divisions generally receive preference in the awarding of EOR projects by their parent or affiliate companies. As a result, not all EOR projects are subject to public bidding and smaller, private oilfield service companies may be effectively precluded from participating in such projects or, even where public bidding is conducted, the state-owned division may be given preference.

Private oilfield service providers in the PRC's EOR space are few. While many companies sell chemicals like surfactants and polymers, and a few provide field design, engineering and project management services, few, if any, provide both. Furthermore, private Chinese oilfield services companies with significant asset bases are virtually unknown.

In terms of EOR techniques, MDF competes against other polymer techniques.

Intellectual Property

Exclusive License for LHD in the PRC

The LHD technology used in the drilling units that we purchase from Jet Drill is patented in the U.S. under patent numbers 5,413,184, 5,853,056, 6,125,949 and 6,283,230. The holders of the patents underlying the LHD technology are a U.S.-based oil and gas company and a U.S.-based licensor of proprietary well enhancement techniques and devices. The LHD patents cover certain processes and apparatuses implemented by Jet Drill's equipment. Three of the LHD patents, or the Base Patents, expire in October 2013 and a fourth patent expires in March 2019. Pursuant to an exclusive marketing agreement with the predecessor to the holder of the Base Patents, a director of Trinity Energy Holdings, LLC, or Trinity Energy, which is the parent company of Power Hydraulics and Jet Drill, obtained the exclusive right to market the LHD technology in the PRC until 2015, with an automatic five-year extension upon expiration. The director assigned the exclusive marketing agreement to Trinity Energy and its subsidiaries. Pursuant to an exclusive license agreement with the holder of the fourth patent, an affiliate of Jet Drill obtained the exclusive right to use in the PRC, until at the earliest 2019, certain lateral drilling technology based on the fourth patent and the patent holder's proprietary know-how and trade secrets. In October 2010, we obtained an exclusive license to purchase or use Jet Drill's LHD equipment, which includes the LHD technology based on the four underlying patents, in the PRC pursuant to an amended and restated technology license agreement with Jet Drill. Under this agreement, the Jet Drill Companies have agreed to sell LHD units in the PRC only to us. The agreement has an initial 10-year term and may be renewed by us for three-year terms perpetually. With respect to the development of technologies, methods, know-how or other intellectual property during the course of our engagements with our LHD customers, our agreements with our LHD customers do not contain provisions relating to ownership of intellectual property or allocation of liabilities with respect to intellectual property.

Patent for MDF Technology

The first generation of the MDF technology was co-developed and patented by Professor Gao and Mr. Kai Yu in 1999. In 2001 Mr. Yu granted to Professor Gao the right to use, license, assign or otherwise dispose of the patent. Professor Gao patented the second generation of the MDF technology in 2002. In May 2010, we acquired the second generation MDF patent from Professor Gao. As part of the sale of the patent, Professor Gao agreed to indemnify us if the patent infringed on any third party's intellectual property rights. This MDF patent expires in 2022. Tianjin Shanchuan, an affiliated company of Professor Gao, had previously obtained an exclusive license for an unlimited term from Professor Gao to manufacture the MDF solution based on the first generation patent. In May 2008, before we had purchased the second generation MDF patent, we entered into an exclusive five-year supply contract with Tianjin Shanchuan, for Tianjin Shanchuan to manufacture and supply the MDF solution exclusively for our use. We purchased the second generation MDF patent in order to have greater control over the manufacturing process of the MDF solution and thereby achieve cost savings. In May 2010, Professor Gao signed an undertaking to us on behalf of himself and Mr. Yu that they would not take any action with respect to the first generation patent without our consent. Upon the expiration of our exclusive supply agreement with Tianjin Shanchuan, we intend to enter into a new exclusive supply agreement with Tianjin Shanchuan for its continued manufacture of the MDF solution. With respect to our technical services agreements with our MDF customers, our agreements contain provisions governing the ownership of new technologies developed during the course of our engagement. Under our agreements for the Dagang and Liaohe Oilfields, new technological developments realized by a party during the course of the agreement belong to such party. In contrast, under our agreement for the Huabei Oilfield, new technological developments, including methods, inventions and discoveries resulting from our services belong to PetroChina Huabei, although we have a royalty-free license to use such technology. We currently subcontract our services under these agreements to third party contractors and, as of the date of this annual report, have not developed new MDF technologies as a result of services provided to these customers.

Development and Sourcing of New Technologies and Applications

Our research and development efforts focus on sourcing, co-developing and implementing advanced oil recovery technologies that are suitable for coalbed methane wells and mature oil wells in the PRC. For example, we pioneered the use of LHD in CBM fields in the PRC. We have a team of engineers, geologists and technical specialists with significant experience in the EOR industry and CBM that devote a portion of their time to researching the latest EOR technologies and searching for potential additions to our current portfolio. Our team also works to find ways of improving the performance of our technologies by conducting tests and analyses of our LHD and MDF technologies.

Workplace Safety

We have adopted a set of safety procedures and standards, based on standard practice for the EOR industry and our years of experience in delivering our specialized EOR services. We conduct regular and required maintenance of our equipment and work sites to ensure proper and safe working conditions are maintained. Our technical and operations personnel that visit customers' sites also are required by our customers to follow their on-site safety requirements and are subject to supervision by the customers' operations personnel.

Environmental Matters

We are subject to national and local environmental protection laws and regulations in the PRC. See Item 4.B "Government Regulations—Regulations on Environmental Protection." Under the current PRC environmental laws, if the PRC government finds our operations to be in violation of applicable PRC environmental laws or regulations, we will be given a period of time to remedy the violation. We have not been subject to any sanctions by PRC environmental authorities for non-compliance with respect to our operations. As we are primarily a service provider, we are not considered an oil exploration and production company and thus not subject to the PRC regulations that apply specifically to oil exploration and production companies. We do not have any material discharge of pollutants in the ordinary course of our business. Based on the research of Professor Gao, our own internal tests and feedback from our customers, we do not believe that the release of our MDF solution into the ground as part of our MDF services results in underground pollution or contamination.

Insurance

We maintain insurance over all our LHD equipment and we generally maintain employers' liability insurance covering death or work injury of employees, as well as public liability insurance covering injury to visitors. While we believe that our insurance coverage is comparable to similarly situated companies in the PRC, it may not be sufficient to cover all losses and liabilities we may incur. We do not maintain key man life insurance for any of our senior management or key personnel.

We do not maintain business disruption insurance, which is available only to a limited extent in the PRC. We have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, we face risks associated with not having business disruption insurance coverage. See Item 3.D "Risk Factors—Risk Factors Relating to Our Business—We are subject to significant operational risks and hazards that may not be fully covered by our insurance policies."

Government Regulations

Below is a summary of the most significant PRC regulations and requirements that affect our business activities in the PRC and the industry in which we operate.

Market Entry for Foreign Investment

The principal regulation governing foreign ownership of oilfield services business in the PRC is the Foreign Investment Industrial Guidance Catalogue, or the Guidance Catalogue, which was issued in 1995 and revised respectively in 2002, 2004 and 2007. Under the current Guidance Catalogue which came into effect on December 1, 2007, the oilfield services business belongs to permitted foreign investment industry. Foreign investment in oilfield services businesses in the PRC is allowed subject to approval from the MOFCOM and/or the local counterpart authorized by the MOFCOM in accordance with the business scale and total amount of investment. The investment of International Petroleum in TNH was legally approved by the Bureau of Commerce of Tianjin municipality in 2007 and TNH obtained the foreign-invested enterprise approval certificate. The capital increase of TNH in 2009 was also legally approved by such government authority and the relevant approval certificate has been renewed and registered accordingly.

Regulations on Protection of Intellectual Property Rights

The PRC has adopted legislation governing protection of intellectual property rights, including copyrights, trademarks and patents. The PRC is a signatory to the main international conventions governing protection of intellectual property rights and became a member of the Agreement on the Trade Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

Patent

The PRC Patent Law, adopted in 1984 and revised in 1992 and 2000 respectively, and the Implementing Rules of the PRC Patent Law, promulgated by the State Council in 2001 and revised in 2002 and 2010 respectively, govern and protect the proprietary rights to registered patents. The State Intellectual Property Office, or SIPO, handles patent registration and grants a term of 20 years to inventions and a term of 10 years to utility models and designs. The protection to patent rights may be terminated before expiry of the term granted as a result of the failure of the registrant to pay the annual registration fee accordingly. Patent license agreements and transfer agreements must be filed with the SIPO for record. On May 5, 2010 TNH acquired from Professor Gao the MDF technology, patent number ZL02158199.1, from Beijing Bineng Chemical Technology Co., Ltd., a company that holds the patent for Professor Gao, and duly registered such transfer of patent rights with SIPO.

Trademark

The PRC Trademark Law, adopted in 1982 and revised in 2001, protects the proprietary rights to registered trademarks. The Trademark Office under the State Administration of Industry and Commerce handles trademark registration and grants a term of 10 years to registered trademarks and another 10 years to trademarks as requested upon expiry of the prior term. Trademark license agreements and transfer agreements must be filed with the Trademark Office for record.

Regulations on Environmental Protection

The Standing Committee of the National People's Congress promulgated the PRC Environment Protection Law on December 26, 1989 and other laws from time to time on prevention of pollution in various particular areas. The purpose of these laws and regulations is to set out the legal framework for the prevention and removal of environmental pollution, contamination and other public hazards, and to safeguard public health. The State Administration for Environmental Protection, or SAEP, is primarily responsible for the supervision and administration of environmental protection work nationwide and formulating national standards on environment quality and waste discharge limits and standards. Local environmental protection authorities at county level and above are responsible for the environmental protection in their jurisdictions and are required to implement a uniform system of supervision and administration in relation to environment protection.

The environmental impact assessment shall be conducted for any new, renovated or rebuilt construction projects discharging contaminated wastes or hazards to the environment, such as waste gas, water, deposits, dusts, pungent gases and radioactive matters as well as noise, vibration and magnetic radiation. The State implements a waste discharge permit system. Enterprises producing environmental contamination and other public hazards must incorporate environmental protection work into their planning and establish environmental protection systems. Enterprises discharging contaminated wastes in excess of the discharge standards prescribed by SAEP must pay non-standard discharge fees in accordance with state regulations and be responsible for the relevant cure. With regard to any violation of the relevant regulations on discharge of pollutants, environmental protection authorities may require the enterprise responsible for such violation to stop the discharge of pollutants and rectify the problem prior to a certain deadline, impose a fine, or suspend/close the enterprise's business.

TNH does not have any material discharge of pollutants in the ordinary course of its business unless there is an unpredictable accident. TNH has been in compliance with the relevant environment protection regulations and has not been in violation of any environment protection regulations or been punished for breach of environment protection regulations.

Occupational Health and Safety

The Standing Committee of the National People's Congress promulgated the PRC Safe Production Law on 29 June, 2002 which sets out the legal framework to achieve and ensure safety in the production and operation activities of enterprises. Under the Safe Production Law, enterprises are required to establish internal safety systems and regulations, set up internal organization or appoint responsible personnel for safety affairs, to provide necessary safe working conditions and to strictly follow the State or industrial standards in relation to safe production. Enterprises which do not satisfy the facilities and conditions required under the laws and the State or industrial standards are not allowed to start or continue their production or operation activities. Enterprises shall also set up obvious safety caution signals on those production or operation sites, facilities or equipment where there is a material potential risk for safety and shall further provide protective uniforms and personal care products to the field employees for their personal protection.

The PRC Law on the Prevention and Treatment of Occupational Diseases which was promulgated on 27 October, 2001 and became effective on May 1, 2002 requires that work environment and conditions established or provided by employers shall meet the occupational health standards and requirements of the State, and that employers shall further adopt and implement measures to assure employees' access to occupational health protection. The employers shall also participate in social insurance for work-related injury in accordance with the law and declare to and be supervised by the relevant health authorities if the employers are engaged in those harmful projects listed in the Occupational Diseases Catalogue.

TNH did not experience any incident of injury or death due to violation of health and safety regulations during our operation record. TNH has adopted a set of safety and occupational health protection procedures and standards, based on the specifications and guidelines set out under the PRC laws and regulations and the internal rules applied by oilfields to which TNH provides technical services. TNH also conducts regular and required maintenance on its equipment and work sites to ensure proper and safe working conditions are maintained. TNH recently finalized its occupational health, safety and environment, or HSE, procedures and obtained HSE certification in November 2010.

Regulations on Foreign Exchange

Pursuant to the Foreign Exchange Administration Regulations promulgated in 1996 and amended in 1997 and in 2008 and various rules issued by the State Administration of Foreign Exchange, or SAFE, and other relevant PRC government authorities, the Renminbi is freely convertible for current account, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account, such as direct investment, loan and repatriation of investment, unless the prior approval of SAFE is obtained. A domestic institution or individual that makes direct investment or issues or trades negotiable securities or derivative products overseas shall complete registration with SAFE. Approval or record shall be obtained or filed before such registration if it is so required by the state.

In addition, any loans to TNH, a foreign-invested enterprise, cannot, in the aggregate, exceed the difference between its approved total investment amount and its approved registered capital amount. Furthermore, any foreign loan must be registered with SAFE or its local counterpart for the loan to be effective. Any increase in the amount of the total investment and registered capital must be approved by MOFCOM or its local counterpart.

Payment for transactions that take place within the PRC must be made in Renminbi. The foreign exchange income of a domestic institution or individual may be repatriated to the PRC or kept overseas. The conditions and term for such foreign exchange income to be kept overseas shall be determined by SAFE in light of the balance of international payments and the needs for foreign exchange administration. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local counterpart.

SAFE promulgated Circular No. 142 in August 2008 with respect to the administration of conversion of foreign exchange capital contribution of foreign invested enterprises, which clarifies that RMB converted from foreign exchange capital contribution can only be used for the activities within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investment or acquisition unless otherwise approved in its business scope. In addition, the SAFE strengthened its oversight of 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 changed without SAFE's approval and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used for purposes within the company's approved business scope. Violations of SAFE

Circular No. 142 may result in severe penalties, including substantial fines as set forth in the *Foreign Exchange Administration Regulation*. As a result, SAFE Circular No. 142 may significantly limit our ability to transfer the net proceeds from our initial public offering to our PRC subsidiary, which may adversely affect the continued growth of our business.

Tax

Income Tax

Our PRC subsidiary is incorporated in the PRC and is governed by applicable PRC income tax laws and regulations. Prior to January 1, 2008, entities established in the PRC were generally subject to a 30% state and 3% local enterprise income tax rate. There were various preferential tax treatments promulgated by national tax authorities that were available to foreign-invested enterprises or enterprises located in certain areas of the PRC. In addition, some local tax authorities may allow enterprises registered in their tax jurisdiction to enjoy lower preferential tax treatments according to local preferential tax policy.

Under the new EIT Law and its implementation regulations, both of which became effective as of January 1, 2008, Foreign Invested Enterprises, or FIEs, and domestic companies are subject to a uniform income tax rate of 25% and the EIT Law revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, the EIT Law and the Circular on Implementing Transitional Preferential Policies for Enterprise Income Tax issued by the State Council on December 26, 2007 provide a five-year transition period starting from its effective date for those enterprises which were established before the promulgation date of the EIT Law and which were entitled to a preferential lower income tax rate under the then effective tax laws or regulations. TNH, our wholly owned subsidiary in PRC, became a FIE after the promulgation date of the EIT Law, so it was not entitled to any preferential income tax treatment in 2007 and is subject to the standard income tax rate of 25% from 1 January, 2008.

In addition, according to the EIT Law and its implementation rules and the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or the Double Taxation Arrangement (Hong Kong), effective as of January 1, 2007, and the Notice of the State Administration of Taxation Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties, or Notice 601, which became effective on October 27, 2009, any dividends payable to us by TNH will be subject to the PRC withholding tax at the rate of 5% if International Petroleum is not deemed to be a "resident enterprise" of the PRC and is considered as a "beneficial owner" that is generally engaged in substantial business activities and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong), or 10% if it is deemed as a "non-resident enterprise" but not a "beneficial owner" under Notice 601. If International Petroleum is considered a "resident enterprise", it will be subject to enterprise income tax at the rate of 25% on its worldwide income, however, under the EIT Law, the dividends paid by one resident enterprise to another resident enterprise are exempted from income tax. See Item 3.D "Risk Factors—Risk Factors Relating to the PRC."

Under the EIT Law, enterprises established outside the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and will generally be subject to the uniform 25% enterprise income tax rate on their global income. Under the Implementation Regulations of the EIT Law, the term "de facto management body" is defined as a body which substantially manages, or has control over the business, personnel, finance and assets of an enterprise. According to a Circular promulgated by the PRC State Administration of Taxation, or SAT, on 22 April 2009, or Circular No. 82, enterprises which are incorporated offshore while controlled by PRC domestic enterprise will be regarded as "resident enterprise" for PRC enterprise income tax purpose under the rule of "de facto management body", if they satisfy all the four criteria set forth in this Circular No. 82, including (1) the senior management members and the premises for performance of their duties are primarily located in the PRC; (2) decisions regarding financial and human resources affairs are made by or subject to approval of organizations or people located in the PRC; (3) the main assets, financial records, company chops, minutes and records of board meetings and shareholders' meetings are kept inside the PRC; (4) half or more than half of the directors or senior management members with voting power resides in the PRC frequently. We believe we are not an offshore enterprise controlled by PRC domestic enterprise and neither do we qualify for all of the above four criteria, and thus, we shall not be deemed as a PRC resident enterprise for income tax purpose under this Circular No. 82. However, as this Circular No. 82 only applies to enterprises established outside of the PRC that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of "de facto management bodies" for overseas incorporated enterprises that are controlled by individual PRC residents like us. There can be no assurance that the PRC authorities will not amend the rules regarding "de facto management body" above to the effect that such rules will apply to enterprises like us or our wholly owned subsidiary in Hong Kong, International Petroleum, in the future. Should it happen and we are not able to adjust accordingly to avoid its application, we or International Petroleum may be treated as a PRC resident enterprise for enterprise income tax purposes and our business, results of operations and financial condition would be materially and adversely impacted. Furthermore, it is possible that future guidance issued with respect to the new resident enterprise classification could result in a situation where a 10% withholding tax is imposed on dividends we pay to our non-PRC shareholders and with respect to gains derived by our non-PRC shareholders from transferring our shares or ADSs. The resident enterprise rule could be applied to International Petroleum with similar consequences.

On December 10, 2009, SAT issued a Circular to Strengthen the Income Tax Administration on Income Derived from Transfer of Equity Interests in Enterprises by Non-PRC Residents, or Circular No. 698. Circular No. 698 provides, among other things that (1) a non-PRC resident shall file with the competent PRC tax authority and pay its PRC income tax within 7 days from the transfer of the equity it holds in a PRC enterprise if such income tax has not been withheld and paid on behalf of such non-PRC resident; and (2) if an offshore de facto controlling person transfers its indirect equity in a PRC enterprise though the transfer of its equity in an offshore intermediary holding company, and the tax rate on such income in the jurisdiction where the intermediary holding company is located is below 12.5% or such income is exempted from income tax, then the offshore de facto controlling person shall submit the equity or share transfer agreement and other relevant materials to the competent PRC tax authority for examination and determination of its tax liabilities. If the competent PRC tax authority determines that the purpose for transferring the equity in the offshore intermediary holding company by the offshore de facto controlling person is to transfer the equity in a PRC enterprise and is a tax evasion arrangement without fair commercial purpose, the PRC tax authority may, subject to the final examination by SAT, determine the nature of such transaction and adjust the tax liabilities according to the economic substance of such transaction.

Business Tax

Enterprises in the PRC are generally subject to business tax at rates ranging from 3% to 5% on revenue generated from providing services and revenue generated from the transfer of intangibles such as copyrights. Related surcharges for city maintenance and construction and education add-on are further imposed with business tax at the rate of 10% of business tax paid by the taxpayer.

Regulation of Dividend Distribution

Pursuant to the *Foreign Exchange Administration Regulation* promulgated in 1996, as amended in 1997 and 2008, and various regulations issued by the SAFE and other relevant PRC government authorities, the PRC government imposes restrictions on the convertibility of Renminbi into foreign currencies and, in certain cases, on the remittance of currency out of the PRC. The PRC Wholly Foreign-owned Enterprise Law issued in 1986, as amended in 2000, the Implementing Rules of the Wholly Foreign-owned Enterprise Law issued in 1990, as amended in 2001 and the newly revised *PRC Company Law*, effective as of January 1, 2006 are the principal regulations governing distribution of dividends of wholly foreign-owned enterprises. Under these regulations, wholly foreign-owned enterprises in the PRC may distribute dividends only out of their accumulated profits determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in the PRC are required to contribute at least 10% of their after-tax profits based on PRC accounting standards each year to its general reserves fund until the accumulative amount of the reserve fund reaches 50% of the registered capital of such wholly foreign-owned enterprise. The reserve fund cannot be distributed as cash dividends. A wholly foreign-owned enterprise may also allocate a portion, as determined at the discretion of its board of directors, of its after-tax profits to its staff welfare and bonus fund, which would not be distributed to the investors, either.

SAFE Circular No. 75

In October 2005, SAFE issued a Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Fund-raising and Inbound Investment via Offshore Special Purpose Companies, or Circular No. 75, which became effective as of November 1, 2005, and was further supplemented by various implementing notices issued by SAFE. Under Circular No. 75, PRC residents must register with the relevant local SAFE their establishment or control of offshore special purpose vehicles, or SPVs, established for the purpose of overseas equity financing involving onshore assets or equity interests held by them, and must also make filings with the local counterpart of SAFE thereafter within 30 days from the occurrence of certain material events, such as change in share capital or merger and acquisition. Failure of such PRC residents to comply with the registration procedures set forth under Circular No. 75 or its subsequent implementing rules may result in penalties, including imposition of restrictions on such PRC subsidiaries' foreign exchange activities and their abilities to distribute dividends to such SPVs.

Our ultimate individual shareholder, Mr. Qingzeng Liu, who is a PRC citizen and resident, has completed his registration with SAFE Tianjin branch in 2005 for his outbound investments in Premium Sino Finance and other SPVs under Premium Sino Finance. We have been informed by SAFE Tianjin branch that SAFE Circular 75 does not apply to the acquisition of the 90% equity interests in Superport Limited by Premium Sino Finance because no offshore financing activities have occurred in connection with the above acquisition by Premium Sino Finance, Superport Limited or any other offshore SPV in our Group. Accordingly, Mr. Qingzeng Liu intends to update his registration with SAFE for his equity interests in Premium Sino Finance upon the closing of this offering. However, we may not be fully informed of the identities of all our beneficial owners who are PRC citizens or residents, and we cannot compel our beneficial owners to comply with the SAFE Circular 75 requirements. Furthermore, we cannot assure that our ultimate individual shareholders will continue to be in strict compliance with such registration obligations under Circular No. 75 or other relevant provisions and if any of them doesn't satisfy his or her obligations in this respect, our ability to conduct foreign exchange activities, including without limited to TNH's ability to borrow foreign exchange loans and to distribute dividends to us, may be restricted or adversely affected. See Item 3.D "Risk Factors—Risk Factors Relating to the PRC—Restrictions under PRC law on our PRC subsidiary's ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our businesses."

Employee Stock Option Plans or Incentive Plans

In December 2006, the People's Bank of the PRC promulgated the Administrative Measures on Individual Foreign Exchange, or the Individual Foreign Exchange Regulations, setting forth the requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under the current account and the capital account. In January 2007, SAFE issued the implementation rules for the Individual Foreign Exchange Regulations which, among other things, specified the approval and registration requirement for certain capital account transactions such as a PRC citizen's participation in employee share ownership and share option plans of overseas listed companies.

On March 28, 2007, SAFE promulgated the Operating Procedures on Administration of Foreign Exchange for PRC Individuals' Participation in Employee Share Ownership Plans and Employee Share Option Plans of Overseas Listed Companies, or the Share Option Rules. Under the Share Option Rules, PRC citizens who are granted incentive shares or share options by an overseas-listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas-listed company or other qualified PRC agents, to register with SAFE and complete certain other procedures related to the share option or share incentive plan. Foreign exchange income from the sale of shares or dividends distributed by the overseas-listed company must be remitted into the PRC. In addition, the overseas-listed company or its PRC subsidiary or any other qualified PRC agent is required to appoint an asset manager or administrator and a custodian bank, and open foreign currency accounts to handle transactions relating to the share option or share incentive plan. As of the date of this annual report, we granted share options to Mr. Boxun Zhang, our chief financial officer, and Ms. Jing Liu, our independent director, both of whom are PRC citizens and are subject to these rules.

M&A Rules

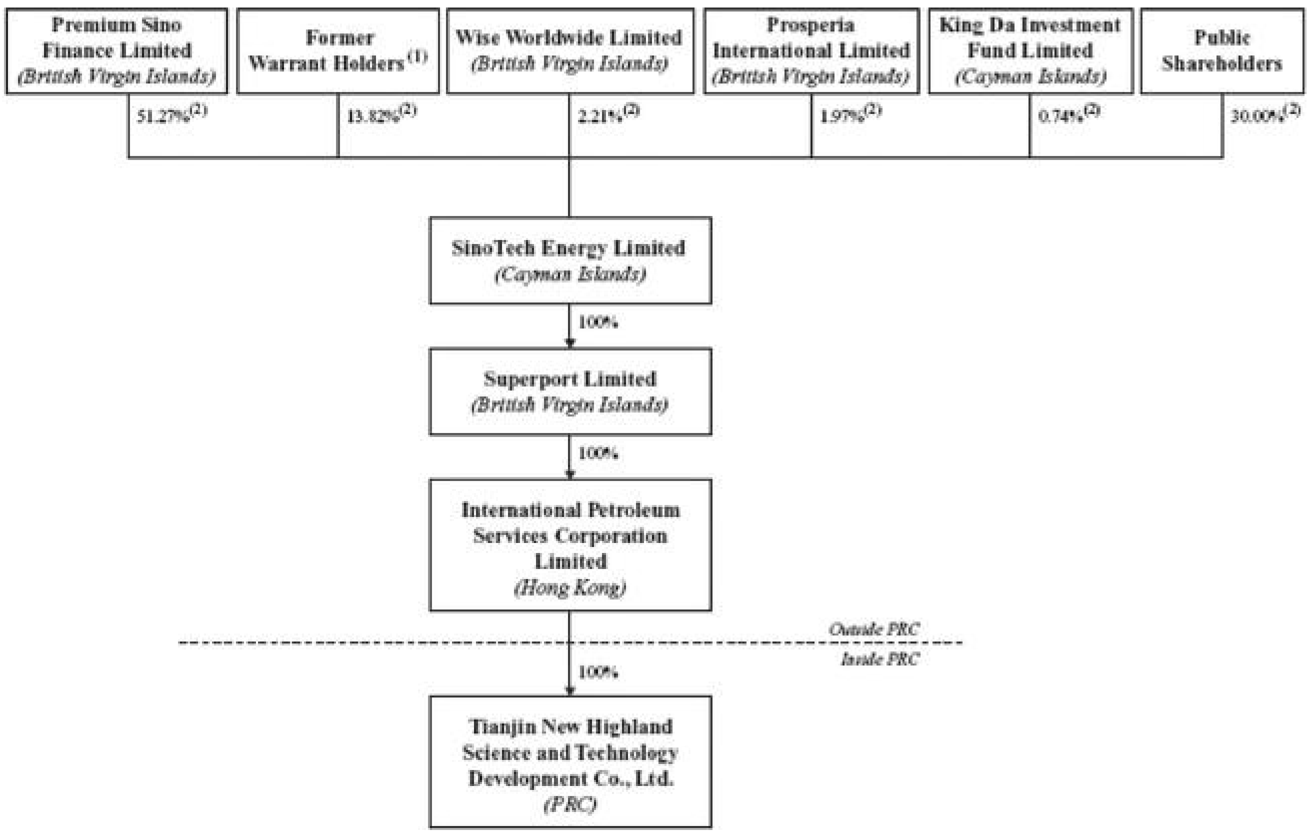
On August 8, 2006, six PRC regulatory agencies, including MOFCOM, and CSRC, jointly promulgated the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Regulations, which became effective on September 8, 2006 and was further amended on June 22, 2009. Under 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.

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."

C. ORGANIZATIONAL STRUCTURE

The following diagram illustrates our corporate structure and the place of organization of each of our subsidiaries as of the date of this annual report:



Note:

(1) Represents the warrant holders who have exercised all warrants issued by Premium Sino Finance to purchase the shares in our company held by Premium Sino Finance as of the commencement of the trading of our ADSs on the NASDAQ Global Select Market, including Deutsche Bank AG, Hong Kong Branch, CCB International Asset Management Limited, Sequoia Capital China Funds, Ample Fame Limited, Good Merit International Limited, Action Century Limited and Target Millions Limited.

D. PROPERTY, PLANTS AND EQUIPMENT

Our principal offices are located in the Beijing Economic-Technological Development Area, Beijing, the PRC, with approximately 1,640 square meters of office space for which we have two leases that expire on June 30, 2013. We also have a lease for approximately 950 square meters of office space in Tianjin Economic Development Area, Tianjin, the PRC that expires on December 31, 2013. Our offices are leased on what we believe to be commercially reasonable terms. We believe that we can obtain additional space for our offices on reasonable terms to meet our future requirements. For information on our LHD units, see Item 4.B "Business Overview—Our Services —Lateral Hydraulic Drilling."

Item 4A. UNRESOLVED STAFF COMMENTS

None.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Item 3. Key Information—D. Risk Factors" or in other parts of this annual report on Form 20-F.

For the purposes of this section, we refer to the period from October 1, 2007 to October 12, 2007 as "Predecessor Period October 2007", the fiscal year ended September 30, 2008 as "Predecessor Period 2008", the period from October 1, 2008 to May 5, 2009 as "Predecessor Period May 2009", the period from May 6, 2009 to September 30, 2009 as "Successor Period September 2009" and the fiscal year ended September 30, 2010 as "Successor Period 2010".

Presentation of Our Financial Condition and Results of Operations

We conducted two acquisitions and major restructuring transactions during the three fiscal years ended September 30, 2010. See Item 4.A "Our History and Corporate Structure—Our History." Our financial statements for these periods were presented to reflect these transactions.

We commenced operations in 2004 as TNH. On October 12, 2007, International Petroleum, a company wholly owned by Mr. Ernest Ka Kui Cheung, acquired TNH. This acquisition, or the 2007 Acquisition, was accounted for using the purchase method. Due to the impact of the changes arising from the purchase accounting adjustment described in Note C to the consolidated financial statements included elsewhere in this annual report, the income statement presentation for the fiscal year ended September 30, 2008 separates the results into two periods: (1) Predecessor Period October 2007 and (2) Predecessor Period 2008. International Petroleum was incorporated on September 10, 2007 for the purpose of being a holding vehicle, and did not engage in any business or operations before the acquisition.

Superport was incorporated on March 20, 2009 as an intermediate holding vehicle between International Petroleum and Mr. Cheung. The incorporation of Superport and the acquisition of International Petroleum by Superport was treated as a transaction under common control in a manner similar to a pooling of interest.

On May 6, 2009, Premium Sino Finance and Wise Worldwide acquired all of the equity interest in Superport from Mr. Cheung. As a result of this change in the ownership of Superport, push-down accounting was applied to establish a new basis of accounting in Superport's consolidated financial statements, effective May 6, 2009. The fair value of the assets and liabilities of Superport and its wholly owned subsidiaries have been pushed down and reflected in our consolidated financial statements in connection with the acquisition of all of the equity interest of Superport by the new owners on May 6, 2009. Superport on a combined basis prior to May 6, 2009 is referred to as the "predecessor" and after May 5, 2009 is referred to as the "successor". Due to the impact of the changes arising from the push-down accounting adjustments described in Note D to the consolidated financial statements included elsewhere in this annual report, the income statement presentation for the fiscal year ended September 30, 2009 separates the results into two periods: (1) Predecessor Period May 2009 and (2) Successor Period September 2009.

On June 9, 2010, the shareholders of Superport incorporated SinoTech to hold 100% of the equity interest in Superport. As SinoTech was incorporated for the purpose of being an intermediate holding vehicle between Superport and the ultimate shareholders, the incorporation of SinoTech and the transfer of equity interests in Superport to SinoTech is treated as a reorganization under common control in a manner similar to a pooling of interest. On October 12, 2010, as part of a corporate reorganization, SinoTech had undergone a share split, and the authorized share capital and issued share capital of the Company has increased to 500,000,000 shares and 10,000 ordinary shares with par value of $0.0001 each respectively, 99,990,000 new shares of par value of $0.0001 were issued to all the shareholders of Superport in exchange for all their beneficial interests in Superport.

SinoTech became our holding company, holding 100% of the equity interest in Superport as a result of share transfers effective as of October 12, 2010.

All ordinary shares and per share amounts presented in the accompanying consolidated financial statements have been retrospectively adjusted for all Successor periods presented to give effect to the share split. The par value of each ordinary share have been retrospectively adjusted as if it had been in proportion to the 1 to 10,000 forward split.

A. OPERATING RESULTS

Overview

We are a fast-growing and profitable provider of EOR services in the PRC. We believe we are a leading domestic non-state-owned player in the PRC's EOR sector. We provide innovative EOR services to major oil and CBM companies in the PRC using leading edge technologies, which include certain patented LHD technologies, which we have an exclusive right to use in the PRC, and MDF technology for which we hold a PRC patent.

Our LHD services increase crude oil or methane gas output by using a high-pressure water jet to drill horizontal holes in multiple directions from an existing vertical well to the surrounding reservoirs, thereby increasing the quantity of the flow of oil and methane gas. Our MDF technology increases oil recovery from mature wells by displacing the residual oil that adheres to sedimentary rock or sand in the oil reservoir.

With our expertise and experience in such technologies, we believe that we have positioned ourselves well within the PRC oilfield services market to provide EOR services to large PRC oil and gas companies. We have captured service contracts with large PRC oil companies that are affiliates of China National Petroleum Corporation, or CNPC, and believe we are well positioned to capture additional contracts with CNPC affiliates and other major PRC oil companies going forward.

Our sales have grown at a CAGR of 22.4% from $20.1 million in the fiscal year ended September 30, 2006 to $45.3 million for Successor Period 2010. In Successor Period 2010, we had sales of $45.3 million and a net loss of $8.0 million. Our sales are diversified across our three sections contributing 46.8%, 42.8% and 10.4% of our total sales for Successor Period 2010 from our LHD oil recovery, MDF oil recovery and consulting businesses, respectively.

Factors Affecting our Financial Performance and Results of Operations

The most significant factors that affect our financial performance and results of operations are:

- industry demand;
- contract pricing and term;
- price and availability of LHD equipment; and
- effectiveness of our LHD and MDF technologies.

Industry Demand

Our business and sales growth depend on the demand of oil and gas companies in the PRC for EOR services, which is driven largely by the growing supply-demand imbalance generated by the growth of the PRC's domestic demand for oil and decline in domestic oil production. the PRC is the world's second largest oil consumer and the fastest growing user of both oil and gas. The PRC's demand for oil is projected to reach 12 million barrels per day by 2015, representing a CAGR of 5.6% over 2009 consumption levels. In 2009, the PRC's total oil production of 1,383 million barrels, which only supported 44% of the consumption need. All large oilfields in the PRC have likely been discovered and the fields in production have reached a level of maturity where maintaining production levels will be difficult. This has been driving the need to rely on mature oil wells in the PRC, leading to demand for EOR services. The total annual EOR expenditures in the PRC is estimated to be approximately $3.5 billion in 2009. Our sales growth and profitability depends on our ability to leverage on this demand to renew our existing contracts and enter into additional contracts.

Contract Pricing and Term

We negotiate the price of our EOR services based on our costs, the prevailing market price for other EOR services at the time that we enter into our services agreements with our customers, taking into account various other factors including, among others, the amount and scope of services required by the customer, the duration of the services agreement, and the strength and history of our relationship with a particular customer. We believe that our ability to compete in pricing is derived primarily from the cost efficiency our EOR technologies have relative to traditional methods of extracting oil from mature oilfields and oil wells such as desanding and sand control, acidization, vis-breaking and profile controlling. See "—Effectiveness of our LHD and MDF Technologies" below. We are paid on a per meter drilled basis for some of our LHD services. We have entered into subcontracts for a majority of our LHD services under which we are paid at fixed periodical amounts under the subcontract terms. We initially entered into our contracts for MDF services where we were paid on a per ton of crude oil extracted basis. We have since entered into subcontracts for all of our MDF contracts and are currently paid at fixed periodical amounts under the subcontract terms. The ease at which our LHD technology jetting hose can drill lateral bores into oil sand and the amount of oil we are able to extract from using MDF technology depends on the responsiveness of the oil wells and oilfields to our technology. Our profitability depends on the unique geology of individual oil wells and oilfields. We may enter into new contracts for our MDF business, which may be priced on a per ton of crude oil extracted basis. Our service agreements with our customers generally have fixed terms of two to five years. Our financial performance and results of operations will depend on our ability to renew or extend the terms of our agreements with our customers upon expiration of the current term.