

- IN-DEPTH
- STANDARD
- FINANCIAL
- REGISTRATION

- NORMAL
- EXPRESS
- URGENT

Sample Report

COMPANY CREDIT INVESTIGATION REPORT

Subject:	Baoding New Energy Drill Pipe Co., Ltd.
Unicredit Reference:	AD-10201
Date Prepared:	June 30, 2008

BEIJING UNICREDIT INVESTIGATION CONSULTANT COMPANY LIMITED

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Company Credit Investigation Report
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IDENTIFICATION

Company Name	Baoding New Energy Drill Pipe Co., Ltd.
Registered Address	No. 102, Donghuan Road, Baoding, Hebei
Operating Address	No. 102, Donghuan Road, Baoding, Hebei
Phone	+86-312-5028120
Fax	+86-312-5028121
Postal Code	071051
Incorporation Date	December 20, 1995
Legal Status	Sino-foreign equity joint company
Size in Its Line	Fairly large
Industry Code	3612, petroleum drilling and exploration special equipments manufacturing
Import & Export License	Yes (self-running) (issued by Hebei Foreign Trade and Economic Cooperation Department in December 1995)
Registry	Baoding Municipal Administration for Industry and Commerce
Business License No.	130600400000570
Taxation Registration No.	130600601644717
Customs Registration No.	1309932177
Registered Capital	140,130,000
Capital Verification Agency	Tianjian Huazheng Zhongzhou (Beijing) Certified Public Accountants Co Ltd
Legal Representative	PAN Jian , Board Chairman
Operation Period	December 20, 1995- December 19, 2017
Legal Business Scope	Production, processing and sales of drill pipe and spare parts
Line of Business	Production and sale of petroleum drilling equipments
Credit Rating	A

**Currency in this report is Renminbi unless otherwise stated.*

AFFILIATES

Branches

Name	Address	Telephone	Principal
Baoding New Energy Drill Pipe Co., Ltd. Beijing Branch Company	No. 68, Anli Road, Chaoyang District, Beijing	+86-10-82963109	LIN Xinhua
Baoding New Energy Drill	No. 11, Zhouwei Road,	+86-22- 67752463	WU Jinrui

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Pipe Co., Ltd. Tianjin Branch Company	hebei District, Tianjin		
Baoding New Energy Drill Pipe Co., Ltd. Urumqi Branch Company	No. 8, Taiyuan Road, Xinshi District, Urumqi, Xinjiang	+86-991- 2592214	TANG Yue

Subsidiaries

None

Shared Companies

None

Affiliated Companies

Name	Affiliated Relation
China Minmetals Petroleum Materials Co., Ltd.	The same holding shareholder
Beichen Ceramics Industry Co Ltd	The same holding shareholder
China Hualing Petroleum Equipment Co Ltd	The same holding shareholder
Baoji Petroleum Steel Pipe Co., Ltd.	The same holding shareholder
Baoji Oilfield Machinery Co., Ltd.	The same holding shareholder
China Chengde Star Petroleum Equipment Company	The same holding shareholder
Jinan Diesel Engine Co., Ltd.	The same holding shareholder
Xianyang Petroleum Steel Tube & Steel Rope Co., Ltd.	The same holding shareholder
China Petroleum Materials Baoding Company	The same holding shareholder
China Petroleum Materials Chengdu Company	The same holding shareholder
China Petroleum Materials Guangzhou Company	The same holding shareholder
China Petroleum Materials Kunshan Company	The same holding shareholder
China Petroleum Materials Shanghai Company	The same holding

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	shareholder
China Petroleum Materials Shenyang Company	The same holding shareholder
China Petroleum Materials Tianjin Company	The same holding shareholder
China Petroleum Materials Wuhan Company	The same holding shareholder
China Petroleum Materials Xi An Co.	The same holding shareholder
China Petroleum Materials Zhengzhou Company	The same holding shareholder

CAPITAL STRUCTURE

Before shareholders change on December 12, 2007

Name	Investment	% Ownersh ip	Invest In
CNPC Huabei Petroleum	33,230,000	23.71%	Cash
JFE Steel Corporation	45,750,000	32.65%	Cash, equipment
Metal One Corporation	13,720,000	9.79%	Cash
China Petroleum Material & Equipment (Group) Corporation	20,000,000	14.27%	Cash
Marubeni-Itochu Steel Inc. (Japan)	27,430,000	19.58%	Cash
Total	140,130,000	100%	-----

After shareholders change on December 12, 2007

Name	Investment	% Ownership	Invest In
China Petroleum Material & Equipment (Group) Corporation	70,610,000	50.39%	Cash
Metal One Corporation	10,976,000	7.83%	Cash
JFE Steel Corporation	36,600,000	26.12%	Cash, equipment
Marubeni-Itochu Steel Inc. (Japan)	21,944,000	15.66%	Cash
Total	140,130,000	100%	-----

Note 1: In January 2008, China National Petroleum Corporation (CNPC), the higher authority of China Petroleum Material & Equipment (Group) Corporation, was regrouped. It issued inform of peeling off equipment manufacturing business from China Petroleum Material & Equipment

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(Group) Corporation and combining it into CNPC Bohai Equipment Manufacturing Co., Ltd. After restructure, China Petroleum Material & Equipment (Group) Corporation has renamed as China Petroleum Materials Corporation on March 6, 2008. However, Subject does not change relevant information about this change in Baoding Municipal Administration for Industry and Commerce. Thus, shareholder name in official document is still China Petroleum Material & Equipment (Group) Corporation.

Note 2: Subject is carrying out related stock right change. After this exchange, the stock right structure is listed as follows:

Name	Investment	% Ownership	Invest In
CNPC Bohai Equipment Manufacturing Co., Ltd.	70,610,000	50.39%	Cash
Metal One Corporation	10,976,000	7.83%	Cash
JFE Steel Corporation	36,600,000	26.12%	Cash
Marubeni-Itochu Steel Inc. (Japan)	21,944,000	15.66%	Cash
Total	140,130,000	100%	-----

Profile of Holding Shareholder

China Petroleum Materials Corporation

China Petroleum Materials Corporation is a large sized state owned foreign trade company based on former Ministry of Petroleum Industry Materials Supply Bureau, Equipment Bureau and import and export business of Foreign Affairs Bureau. Now, it is responsible for central purchase materials for affiliated companies like China National Petroleum Corporation, Petro China Co., Ltd., etc. The business scope covers purchasing of staple materials, important materials, long turnover materials, safety materials, complete set equipments, materials required by large engineering project, supply of emergent materials and warehouse management of strategy materials, tracing and investigating product quality of suppliers and after sales service. Over development for many years, relying on broad business channels of its investor, it successively establishes longstanding and stable trade cooperative relation with many countries and regions, ad sets up commission purchase and sales relationship with more than 100 factories at home and abroad. It provides agent purchase services for over 20 oil fields, smelting companies and more than 150 petroleum equipments manufacturers. The overall operation trend is very stable.

Address: 12/F, No. 5, Gulouwai Street, Xicheng District, Beijing

Postal Code: 100029

Telephone: +86-10-62096710

Fax: +86-10-62096700

The basic registration information of China Petroleum Materials Corporation

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Registered Address: No. 5, Gulouwai Street, Xicheng District, Beijing

Legal Representative: ZHOU Yongqiang

Legal Status: All people owned company

Registry: State Administration for Industry and Commerce

Registration Number: 100000000010479

Registered Capital: 7,402,067,000

Incorporation Date: February 28, 1990

Operation Period: Permanent

Line of Business: permission operating items: wholesale of compressed gas and liquid gas, inflammable liquid, inflammable solids, spontaneous combustion substance and damp catalyze inflammable substance, poison products and corrosive substance (validity data as of May 7, 2011), internet information service except news, print, education, health care, medicine, medical instrument (validity data as of August 7, 2010); general operating items: supply and sales of ferrous metal, non-ferrous metal, industrial waste metal, coke, charging, heavy oil (including CRUDE OIL), timber, cement, building materials, diamond, chemical products (except dangerous products), oilfield use special chemicals, slurry materials, paper , rubber and products, tire, plastic and products, industry boiler, tractor, electric wire and cable, electric and mechanical equipments and accessories, tool, instruments, components, communicating devices; wholesale and retail of automobile, bidding agent, lease equipments and tool, principal business related technology consulting, technology service and information service; import and export, international freight

Higher Authority: China National Petroleum Corporation

Profile of holding shareholder after stock right change

CNPC Bohai Equipment Manufacturing Co., Ltd.

CNPC Bohai Equipment Manufacturing Co., Ltd. is a wholly owned subsidiary of China National Petroleum Corporation. It is wholly state owned company through merging affiliated companies including 1st Machinery Works of North China Petroleum, Huabei Petroleum Management Bureau Petroleum Machinery Factory, Hebei Huabei Petroleum Machinery & Chemical Co., Ltd., Zhongcheng Equipment Manufacturing Company, Dagang Oilfield Group Zhongcheng Machinery Manufacturing CO., Ltd., Dagang Oil Field Group New Century Machinery Manufacturing Co., Ltd. and China Chengde Star Petroleum Equipment Company in April 2008. It is mainly engaged in manufacturing line pipes, oil country tubular goods, pumping units and subsurface equipment, down hole mud motors, diamond drill bits, mobile drilling rigs, special automobiles and providing rig completing service as well. It is famous professional oil equipments supplier in North China.

DIRECTORS

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Name	Title	Gender	Approximate Age	Education
PAN Jian	Board Chairman	Male	55	University
LIN Baozhi	Vice Board Chairman	Male	50	University
GUO Dong	Director	Male	45	University
LI Jianbo	Director	Male	45	University
XU Wentao	Director	Male	50	University
Yukihiko Ebihara	Director	Male	55	University
Motoaki Matsukura	Director	Male	50	University

LEGAL REPRESENTATIVE/PRINCIPAL

Name	PAN Jian		
Gender	Male		
Approximate Age	53		
ID No.	13010619550611****		
Title	Board Chairman		
Brief CV	Factory Director with No.1 Machinery Plant, Huabei Petroleum Administration, General Manager Assistant with China Petroleum Materials Corporation, Director of Business Department of Huabei Equipments Manufacturing for a long time December 2007-present, Board Chairman with Subject appointed by the Board of Directors		
Criminal record	None		
Years in the Line	Over ten	Over three	Less than three
Years in Management	Over ten	Over three	Less than three
Skill	Administration	Technology	Marketing
Reason of Promotion	Founder	Transferred	Internal Promotion
	Employed	Contracted	Inherited

Name	LIU Zhigang		
Gender	Male		
Approximate Age	48		
ID No.	22010219601206****		
Title	General Manager		
Brief CV	Worked with No.1 Machinery Plant, Huabei Petroleum Administration for a long time Later, General Manager with Subject appointed by the Board of Directors, responsible for daily operation management		
Criminal record	None		

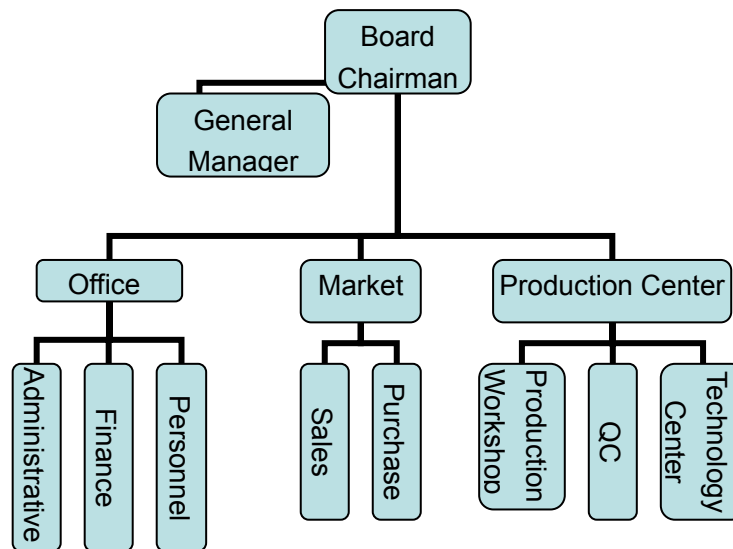
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Years in the Line	Over ten	Over three	Less than three
Years in Management	Over ten	Over three	Less than three
Skill	Administration	Technology	Marketing
Reason of Promotion	Founder	Transferred	Internal Promotion
	Employed	Contracted	Inherited

ORGANIZATION STRUCTURE



Subject's main departments and their respective functions are as follows:

Office (including Administrative Department, Finance Department and Personnel Department)

Administrative Department: 1. In charge of writing, check, submitting and other management of documents handled or issued.

2. In charge of coordinating of decision of company or higher relevant meeting and carrying out these decisions

3. in charge of archive management and logistic work

Financial Department:

1. According to *Accounting Law, Accounting Criteria of Enterprises* and relevant regulations and rules to carry out accounting checking, compile accounting statement, do accounting supervision.

2. In charge of all finance of company and initial draft of accounting management rules.

3. In charge of taxation planning, declaration and tax payment

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Personnel Department:

1. In charge of employing, recruiting, training and preparing works of employees.
2. In charge of implement of social guarantee, welfare and incentive plan.
3. In charge of appraisal standardization and examination of business of employees.
4. In charge of evaluation of post of employees and management of employee archive.

Market (including Sales Department and Purchase Department)

Sales Department: management and maintenance of customers, quality management, marketing, setting down marketing plan, daily import and export

Purchase Department: purchasing of material and check, verify, supervise, executive it; examine, inspect the purchased material and storage material, including transportation, storage, package, maintenance, etc.

Production Center (including Production Department, QC and Technology Center)

Production Department: studying out annual and monthly production plan according to sales plan and order, making out production plan and checking delivery time, control production progress, making sure finish goods as scheduled, management of production flow, work allocation, employee arrangement; management, education, training to workers, cooperating with human resources department to assess, reward and punish

QC: R&D and trial production of products, putting forward improvement suggestion to standard of product, raw materials and processing product, making out and carrying out standard of purchase materials, processing product and finished products, supervising and assisting factory to improve quality and setting up quality management rule

Technology Center:

1. Introducing, R&D and applying new technology, new technique, new materials and new equipments,
2. Research and development products structure, collecting, management and application of related technological materials
3. R&D technology difficulties of production progress

EMPLOYEES

Total Full-time	251
Include:	

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Management	17	Sales	13
Technician	43	Production	169
Financial	9		

Quality	High
Efficiency	High
Number	Stable

FACILITIES

Factory/Business Premise

Address	No. 102, Donghuan Road, Baoding, Hebei			
Number	3 (built in 1989, 1993 and 1998)			
Land Area	66,447 sq m.			
Floor Space	32,500 sq m.			
Ownership of Premises	<input checked="" type="radio"/> Owned by Subject	<input type="radio"/> Leased	<input type="radio"/> Owned by Shareholder(s)	<input type="radio"/> Owned by Higher Authority
Building Structure	<input type="radio"/> Single-story Building	<input type="radio"/> Storied Building	<input type="radio"/> Concrete Structure	<input checked="" type="radio"/> Frame Structure
Appearance	<input type="radio"/> Good	<input checked="" type="radio"/> Average	<input type="radio"/> Relatively bad	
Geographical Location	<input type="radio"/> Good	<input checked="" type="radio"/> Average	<input type="radio"/> Relatively bad	
Mortgaged	<input type="radio"/> All	<input type="radio"/> Partly	<input checked="" type="radio"/> N/A	<input type="radio"/> Unknown
Insured	<input type="radio"/> All	<input checked="" type="radio"/> Partly	<input type="radio"/> N/A	<input type="radio"/> Unknown

*In the People's Republic of China, all lands are owned by the state.

PRODUCTION/OFFICE EQUIPMENT

Type	Number
Medium frequency induction heating equipments	8
Qunecher, tempering furnace	5
Butt welding machine	8
Reducing mill	3
Straightening machine	4
NC thread cutting machine	2
Automatic welding machine	4
Heat-Treatment Equipment of Welded Seam	1

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Annual output	Annual design output: petroleum drill pipe 16,800 tons			
Equipment Utilization Rate	90%			
Mortgaged	<input type="radio"/> All	<input type="radio"/> Partly	<input checked="" type="radio"/> N/A	<input type="radio"/> Unknown
Insured	<input type="radio"/> All	<input checked="" type="radio"/> Partly	<input type="radio"/> N/A	<input type="radio"/> Unknown

PURCHASE/SALES

Purchase/Payment

Raw materials/product	Supplier	Payment Term
NC machine tool	Yamazaki Mazak Corp (Japan)	L/C
Alloy steel, special steels	JEE Steel Corporation	T/T
Billet, alloy steel	Metal One Corporation	T/T
NC machine tool	Yamazaki Mazak Machine Tool (Shanghai) Co., Ltd.	30 days credit
NC thread cutting machine	Hitachi Seiki Ltd. (Japan)	L/C

Suppliers	Payment Record
Yamazaki Mazak Corp (Japan)	88% paid to terms, 12% deferred (within one year), -% deferred (over one year)
JEE Steel Corporation	80% paid to terms, 20% deferred (within one year), -% deferred (over one year)
Metal One Corporation	82% paid to terms, 18% deferred (within one year), -% deferred (over one year)
Yamazaki Mazak Machine Tool (Shanghai) Co., Ltd.	85% paid to terms, 15% deferred (within one year), -% deferred (over one year)
Hitachi Seiki Ltd. (Japan)	86% paid to terms, 14% deferred (within one year), -% deferred (over one year)

Credit Record by Some Major Suppliers

Name of supplier	Yamazaki Mazak Corp (Japan)
Main products/materials supplied	NC machine tool
Payment terms	L/C
Maximum credit amount	3,000,000
Payment record	100% paid to terms

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Remarks of supplier	In time
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Name of supplier	JEE Steel Corporation
Main products/materials supplied	Alloy steel, special steels
Payment terms	T/T
Maximum credit amount	1,000,000
Payment record	90% paid to terms
Remarks of supplier	Normal

Product Sales

Product	Sales Territory/Customer	Sales Term
Double-shouldered drill pipe, sulfate-resistant drill pipe, V150 Hi-grade Steel drill pipe, ARNCO series wear-resistant belt, tungsten carbide wear-resistant belt	China National Petroleum Corporation	30-60 days credit
	China Petroleum Qinghai Oilfield Geermu Refinery Factory	30-60 days credit
	China Offshore Oil Donghai Corporation	30-60 days credit
	China Petrochemical Group Northwest Branch	30-60 days credit
	CNPC Tarim Oilfield Branch	30-60 days credit
	CNPC Bohai Equipment Manufacturing Co., Ltd.	30-60 days credit
	China Petroleum Materials Corporation	30-60 days credit
	Distributors of petroleum drill pipe in Singapore	D/P

Customers	Payment Record
China National Petroleum Corporation	80% paid to terms, 20% deferred (within one year), -% deferred (over one year)
China Petroleum Qinghai Oilfield Geermu Refinery Factory	85% paid to terms, 15% deferred (within one year), -% deferred (over one year)
China Offshore Oil Donghai Corporation	84% paid to terms, 16% deferred (within one year), -% deferred (over one year)
China Petrochemical Group Northwest Branch	82% paid to terms, 18% deferred (within one year), -% deferred (over one year)

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CNPC Tarim Oilfield Branch	90% paid to terms, 10% deferred (within one year), -% deferred (over one year)
CNPC Bohai Equipment Manufacturing Co., Ltd.	85% paid to terms, 15% deferred (within one year), -% deferred (over one year)
China Petroleum Materials Corporation	80% paid to terms, 20% deferred (within one year), -% deferred (over one year)

OPERATION

Year 2006-2007

Sales Region	2006		2007	
	Sales Turnover	Proportion	Sales Turnover	Proportion
Domestic Sales	538,188,000	94.14%	679,323,000	93.98%
Export	33,529,000	5.86%	43,523,000	6.02%
Total	571,717,000	100%	722,846,000	100%

Turnover Summary

Item	Year 2005	Year 2006	Year 2007
Sales Income	358,515,000	571,717,000	722,846,000
Annual Growth Rate	-----	59.47%	26.43%
Total Profit	58,874,000	112,107,000	138,496,000
Annual Growth Rate	-----	90.42%	23.54%

Economic Indicators

Financial Ratio	2005	2006	2007
Industrial Added Value Ratio (%)	28.19	29.96	18.8
Current Ratio (%)	132.51	134.40	111.6
Total Assets Turnover (%)	98.93	105.93	80
Total Asset Contribution Ratio (%)	10.77	12.37	6.3
Liabilities/Assets (%)	53.53	52.63	53.8
Turnover of Current Capital (times/year)	1.61	1.73	1.8
Ratio of Profits to Industrial Cost (%)	8.30	9.21	8.6
Profitability (%)	7.68	8.42	23
Return on Equity (%)	10.93	13.03	12.1

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Return on Assets (%)	5.08	6.17	11.6
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BANKER

Banker	Bank of China, Baoding Branch, Yuhua Sub-branch
Account Number	04123508091001
Deposit	Low 8 figures
Rating by Banker	A
Comment	No detrimental record reported

Mortgage

None

FINANCIAL

Balance Sheet ('000)	12/31/2005	12/31/2006	12/31/2007
Current assets	268,063	356,294	440,498
Including: Cash & Bank	29,522	50,094	19,000
Accounts receivable	87,273	106,764	149,844
Payment in advance	714	1,708	542
Inventories	126,276	160,771	223,752
Other current assets	24,278	36,957	47,360
Total fixed assets	57,618	62,402	55,429
Including: Fixed assets-net value	53,105	62,402	55,429
Construction in progress	4,513	0	0
Long-term investments	0	0	0
Intangible and deferred assets	1,824	422	182
	-----	-----	-----
Total assets	327,505	419,118	496,109
	=====	=====	=====
Current liabilities	122,316	164,695	193,554
Including: Short-term loans	0	0	0
Accounts payable	106,039	141,463	183,148
Advances from customers	4,227	5,037	1,770
Others payable	1,989	2,428	112
Other current liabilities	10,061	15,767	8,524

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Long-term liabilities	0	0	0
Including: Long-term loans	0	0	0
	-----	-----	-----
Total liabilities	122,316	164,695	193,554
Total shareholders' equity	205,189	254,423	302,555
Including: Paid-up capital	140,130	140,130	140,130
Capital surplus	-1,986	-1,941	-1,941
Surplus reserve	14,695	21,376	29,601
Undistributed profits	52,350	94,858	134,765
	-----	-----	-----
Total liabilities and shareholders' equity	327,505	419,118	496,109
	=====	=====	=====

Income Statement ('000)	Year 2005	Year 2006	Year 2007
Principal operating income	358,515	571,717	722,846
Less: Cost of sales	277,966	423,950	542,321
Principal operating tax and the additional	0	0	0
Principal operating profit	80,549	147,767	180,525
Add: Other operating profit	1,804	2,301	2,135
Less: Selling expense	4,802	14,919	22,917
General and administrative expense	22,085	27,497	29,249
Financial expense	-3,668	-4,418	-7,844
Others	0	0	-325
Operating profit	59,134	112,070	138,663
Add: Investment income	0	0	0
Subsidy	0	0	0
Non-operating income	69	59	90
Less: Non-operating expense	329	22	257
Gross profit/loss	58,874	112,107	138,496
Less: Income tax	8,104	28,587	35,690
Net Profit (After tax)	50,770	83,520	102,806

Key Financial Ratio	12/31/2005	12/31/2006	12/31/2007
Current Ratio (Current assets/Current liabilities)	2.19	2.16	2.28
Quick Ratio (Current assets- Inventories/Current liabilities)	1.16	1.19	1.12
Liabilities/Assets	0.37	0.39	0.39

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(Liabilities/Total assets)			
Equity Ratio (Total liabilities/Shareholders' equity)	0.60	0.65	0.64
Current Assets Turnover (Principal operating income/Current assets)	1.34	1.60	1.64
Total Assets Turnover (Principal operating income/Total assets)	1.09	1.36	1.46
Inventory Turnover (Cost of sales/ Inventories)	2.20	2.64	2.42
Accounts Receivable Turnover (Principal operating income/ Accounts receivable)	4.11	5.35	4.82
Average Collection Period (360days/Accounts Receivable Turnover)	88	67	75
Profitability (Gross profits /Principal operating income x100%)	16.42	19.61	19.16
Return on Equity (Net profits/ Total shareholders' equity x 100%)	24.74	32.83	33.98
Return on Assets (Net profits/ Total assets x 100%)	15.50	19.93	20.72

Note: The financial data above are obtained through official channels and have been confirmed by Subject's executives.

FINANCIAL ANALYSIS

Solvency

Subject's long-term solvency is strong and its short-term solvency is above average in its line. Its short-term liquidity is strong and asset security is high.

Turnover

Subject's inventory turnover ability is low and its capital turnover ability is average. Subject's receivable collection is acceptable.

Profitability

Subject's profitability is strong with high return on assets.

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Company Credit Investigation Report
Subject: Baoding New Energy Drill Pipe Co., Ltd.
Ref. No.: AD-10201

HISTORY

Subject is a Sino-foreign equity joint company, established by China Petroleum Material & Equipment (Group) Corporation (renamed as China Petroleum Materials Corporation on March 6, 2008) based on business foundation of 1st Machinery Works of North China Petroleum. It is engaged in production of petroleum drill equipments. It was registered with Baoding Municipal Administration for Industry and Commerce on December 20, 1995. Then, the registration number was “000570”.

In June 1997, Subject was put into formal operation and engaged in production and sales of double-shouldered drill pipe, sulfate-resistant drill pipe, tungsten carbide wear-resistant belt, V150 hi-grade steel drill pipe and ARNCO series wear-resistant belt.

In December 2007, according to rules of registration number of administration for industry & commerce, its registration number was changed to be “130600400000570” instead of “000570”.

BUSINESS SUMMARY & DEVELOPMENT

Status Quo

Subject is a Sino-foreign equity joint company engaged in production of petroleum drill pipes, established by China National Petroleum Corporation (CNPC) through China Petroleum Materials Corporation and based on business integrating of 1st Machinery Works of North China Petroleum. After establishment, it introduced the whole set of production technology and equipments from NKK (Japan) which was renamed as “JFE Steel Corporation” after the merge with Kawasaki Steel Co., Ltd. in September 2002. Making use of raw materials imported from Japan, its product keeps excellent quality and function for many years. Besides, through technology update, it is able to produce API standard high strength drill pipe with steel range from E75 to S135 and outside diameter from 23/8” to 51/2”, double-shouldered drill pipe, internal flush external upset drill pipe, C105SS sulfate-resistant drill pipe, drill pipe apply with NS-1 standard, etc.

Relying on huge business network of parent company, it sets up longstanding business cooperation relation with oil exploiting companies like China Petrochemical Group Northwest Branch and CNPC Tarim Oilfield Branch as well as petroleum exploration materials distributors such as CNPC Bohai Equipment Manufacturing Co., Ltd., China Petroleum Materials Corporation, etc. Except meeting domestic market demand, its products successively are exported to Singapore, Indonesia, Argentina, Malaysia, etc. Subject’s executive disclosed that it accumulatively produces various drill pipes of 115,000 tons and sells 110,000 tons, production and sales volume reaching 96% from June 1997 to the end of December 2007. Its overall operation trend is fairly stable.

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Competitiveness Analysis

Analysis of Advantages

(1) Policy advantage

At present, petroleum industry is one of top five mainstream industries in China. Subject's products have inseparable relation with petroleum industry. Thus, Chinese government's further support to petroleum industry will drive Subject's principal operating business development to certain extent.

(2) Technology strength advantage

Subject is professional petroleum drilling pipe manufacturer underlying of China National Petroleum Corporation (CNPC). After development and technology updating for many years, its current production equipments and technique are in fairly high level in line. All of its processing equipments and raw materials are imported from Japan. Thus, its product design and manufacture quality rank in leading position, possessing obviously competition edge in China.

(3) Fairly stable sales channels

Drilling pipe is necessary products in petroleum exploiting. Subject mainly sells products to oilfields. The final shareholder, China National Petroleum Corporation (CNPC) is one of three monopolies in Chinese petroleum industry. Its huge business network provides liable market guarantee for Subject's products. Presently, Chinese petroleum exploiting industry is flourishing. Above factors will bring stable orders for Subject.

(4) Strong shareholder background provides business support in terms of purchase, supply and sales.

Marubeni-Itochu Steel Inc. (Japan) is a multinational company combined by Itochu Corp (Japan) and steel & iron department of Marubeni Corp (Japan). JFE Steel Corporation is the second largest steel & iron manufacturer in Japan and fifth largest in the world, possessing nearly hundred years of history with entire steel & iron kinds. Metal One Corporation is a steel & iron maker jointly invested by Mitsubishi Corp (Japan) and Nissho Iwai Corporation (Japan) (which now named as "Sojitz Corporation"). China Petroleum Materials Corporation is foreign trade company wholly owned by China National Petroleum Corporation (CNPC). It is responsible for internal central purchase materials in China National Petroleum Corporation (CNPC). It is seen that Subject's Chinese and foreign investors are famous large sized groups in lines, capable of providing strong support for Subject in terms of purchase, supply and sales.

Analysis of Disadvantages

1. Main raw materials supply risk

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Company Credit Investigation Report
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Subject's main raw materials are alloy steel, metal powder and welding materials. They are principal part of petroleum drill pipe, purchase cost of it accounting for more than 51% of the manufacture cost. In addition, Subject's raw materials quality demand is high, and all of raw materials are supplied by Japanese investor. But it spends a lot of time in transportation and this is not good for purchase in time. Also, the price of raw materials easily changes according to market demand, thus, raw materials supply and price fluctuation will directly affect its operation and profit.

(2) Production and operation totally depend on gas and petroleum exploration and investigation condition.

The scale of exploiting and drilling oil & gas has to do with related regional government macro policy, economic development status and consumption demand. If the slump situation of oil & gas industry lasts, oil & gas exploiting, drilling and investment will be restricted, and demand for related petroleum machinery products will decrease, and price will be cut down accordingly. Thus, Subject's product market demand and profitability have fluctuation risk along with oil & gas industry.

(3) Highly concentrated domestic customers

Subject's products are necessary equipments in exploiting oil and gas. However, products sales depends much on national petroleum and natural gas overall development situation. In prevailing energy policy, exploiting license and mine exploring license possessed by China National Petroleum Corporation (CNPC), China Petrochemical Corporation and China National Offshore Oil Corp. cover most of oil and gas resources in China. Subject is company underlying of China National Petroleum Corporation (CNPC), possessing stable sales network resources. However, in terms of sales, it will be influenced by overall exploiting plan of China National Petroleum Corporation (CNPC).

In addition, Subject's industry is becoming more and more international. According with agreement signed between China and WTO, Chinese government will gradually loosen restriction on the foreign companies directly selling petroleum drill machinery. Such kind of restriction will be terminated at last. By then, foreign manufacturers of petroleum drilling machinery will gradually enter into Chinese market and market competition will be more intense. This may brings negative impact to Subject.

(4) Risk of API mark use right period extension

In petroleum machinery manufacturing industry including drilling equipments, oil and gas companies both at home and abroad as well as petroleum machinery purchasers commonly request that related products should have API (American Petroleum Institute) mark which shows that the products comply with relevant standards. The products with this mark are highly recognized in terms of quality and security and have fairly obvious competitive advantage. However, according to the convention of API, the expiration date of the API certification should

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be extended every three years. Technicians from API will examine and check production facilities, technology, product quality and production management of the API applicants. For now, the expiration date of Subject's certification is 2009. It plans to apply for certification date extension in the first half year of 2009. By then, if Subject can not pass the examination, it will not be able to participate overseas bidding businesses. This will bring fairly large negative affect to its operating achievement.

Development Plan

Subject is carrying out stock right change. After finishing, the stock right structure is listed as follows:

Name	Investment	% Ownership	Invest In
CNPC Bohai Equipment Manufacturing Co., Ltd.	70,610,000	50.39%	Cash
Metal One Corporation	10,976,000	7.83%	Cash
JFE Steel Corporation	36,600,000	26.12%	Cash
Marubeni-Itochu Steel (Japan)	21,944,000	15.66%	Cash
Total	140,130,000	100%	-----

Exterior Relations & Risk Comment

Subject is a petroleum drill equipments manufacturer in Hebei with fairly long history. The parent company-China National Petroleum Corporation (CNPC) enjoys quite high reputation in line. Subject is core manufacturer of petroleum drill tools of parent company and its customers keep longstanding cooperative relation with China National Petroleum Corporation (CNPC) and they trust Subject very much. In addition, Subject got API certificate (USA) in May 1997 and obtained ISO9001 certificate in December 1997. Its products successively got honor titles like "Hebei excellent product" and "Hebei famous brand product". Thus, its production technique and product quality get acceptance in market. There is no detrimental credit record and punishment about Subject in Baoding and various administrative institutes of Hebei province.

Industry Summary

Average price of the important industrial raw material, crude oil, increases year by year in recent ten years, which promotes the oil & gas exploratory and extraction activities. Under this environment, China, as the major petroleum exploratory and extraction equipment manufacturers in the world, has made a considerable development in petroleum exploratory and extraction equipment industry. Especially since 2005, Chinese petroleum exploratory and extraction equipment industry is in explosive period with increasing rate of over 50% in the past three years. High oil price is not the only reason but it is mainly because that domestic

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petroleum exploratory and extraction equipment industry has obtained fairly strong competitive power in the world. Meanwhile, Chinese government has adopted “going out” strategy to speed up the extraction power at home and abroad. This stimulated the equipment purchase of PetroChina, Sinopec and CNNOOC. Currently, the character and developing trend of domestic petroleum extraction equipment manufacturing industry are as below:

First, demands for petroleum drill equipment have fairly rapid increasing. Increasing of petroleum price brings active survey and extraction of petroleum and natural gas. As a result, demand of drill equipment is driven. Taking drill machine product for example, compound annual growth rate of global land drill machine was 32.48% from 2002 to 2007; sales revenue of drilling machine equipment 28.49%. North America and China are two most important markets. Output shares in 2007 were 57.9% and 23.3% respectively. It can be estimated that demand for drill equipment is still fairly vigorous in the future. China and Russia will be leading markets.

Second, petroleum drill equipment is monopolized by several countries. Competitive strengths of Chinese companies are increasing gradually. Presently, there are more than 100 countries and districts engaging in survey and extraction of petroleum and natural gas. But only more than 20 counties can manufacture petroleum drill equipment. The competitive strength in USA, China, Russia, Rumania, etc. is fairly strong. Drill machine manufacture level of China has already been in front of Russia. It is equivalent to levels of advanced manufacturers in Europe and USA with 20%~25% lower in cost. National Oil Varco (USA) is the biggest drill machine equipment manufacturer in the world. China Honghua Group Company ranks the second in the world and the first in China among land drill machine manufacturers.

Third, increasing speed of drill equipment manufacture industry in China is accelerated. In passed five years, annual average increasing speed of incomes in the whole industry had reached 45.77% (arithmetic mean) and 64.86% annual average increasing speed of profit. Increasing speed of incomes of petroleum drill equipment was ranked 2nd and increasing speed of profit was 6th machinery industries with the most attention of China in 2007. Proportions of companies in loss and loss value have been decreased gradually. Profit rate is improved. Gradual decreasing trend of cost during this period is obvious. Speed of current asset turnover is faster obviously.

Last, export of drill equipment has fairly rapid increasing. It has fairly large space in the future. According to statistics, petroleum drill equipment in China has fulfilled 9.727 billion export values, a year-on-year growth of 25.92%. Annual average increasing of export from 2003 to 2007 had reached 73.53% (arithmetical average). Seen from export product structure, petroleum steel pipe occupied leading position. Seen from export region structure, USA is the biggest export market of petroleum equipment of China. Export value only occupied 17.55% in 2007. It has further improvement space in the future.

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In all, petroleum drill equipment production industry in China is in rapid development stage presently. Besides, with constant extension of industrial scale and technology level, competitive strength and market share of petroleum drill equipment manufacturers in China are increasing gradually. Under this favorable industrial background, driven by constant increasing market demand, petroleum drill equipment manufacture industry in China will still keep stable increasing trend in the future.

DEVELOPING TREND AND PROSPECT

In recent ten years, total production value of Chinese petroleum exploration industry keeps stable growth trend. Affected by financial crisis, crude oil price drops greatly, and market demand for Asian products from Europe and America decreases sharply, bringing some negative impact to natural gas and petroleum exploration industry. However, it is believed that petroleum is one of the important energy sources; low sales price does not influence industry development. Market demand for petroleum drill equipments is expected to be further expanded. Above all, it is believed that promising prospect of petroleum industry offers broad development space for manufacturers of petroleum exploration equipments like Subject. In addition, Subject's current credit risk is obviously below average in line and normal credit trading is recommended for the time being.

LITIGATION

None

SPECIAL REQUEST

None

TYPES OF INTERVIEW

- On-site
- Telephone

OVERALL ASSESSMENT

Industry Trend	Fairly stable	Short-term Solvency	Strong
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Business Position	Fairly stable	Long-term Solvency	Strong
Business Trend	Fairly stable	Assets Efficiency	Relatively low
Size in Its Line	Fairly large	Profitability	Strong
Background	Strong	Payment Record	Good
Credit Rating	A		

Credit Opinion

Based on our analysis of the current condition of Subject, credit line to a maximum amount of 28,738,000 to Subject could be considered within 3 to 6 months.

----- End of Report -----

Appendix I: CREDIT RATING CALCULATION

1. Credit Rating

INDICATORS	SCORE	WEIGHT	RISK COEFFICIENT
Company History	1	5%	0.05
Shareholder Background	1	10%	0.1
Current Ratio	1	7.5%	0.075
Quick Ratio	1	7.5%	0.075
Liabilities/Assets	1	10%	0.1
Current Assets Turnover	4	5%	0.2
Assets Turnover	3	5%	0.15
Turnover	1	10%	0.1
Profitability	1	5%	0.05
Return on Assets	1	5%	0.05
Bad Credit Record	2	15%	0.3
Staff Strength	2	5%	0.1
Business Trend	2	5%	0.1
Industry Trend	2	2.5%	0.05
Position in the Industry	2	2.5%	0.05
Total		100%	1.55

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Average Risk Coefficient	CR = 1.55
Credit Rating	A

2. Credit Limit

ITEMS	AMOUNT ('000)	WEIGHT
Paid-up Capital	140,130	10%
Turnover	722,846	20%
Total Assets	496,109	20%
Net Assets	302,555	30%
Total Profits	138,496	20%
Credit Limit	28,738	

Note: The above credit rating calculation is carried out on an average situation, and for each specific transaction, some other exterior factors like market environment should also be considered.

Appendix II: CREDIT RATING DEFINITION

AVERAGE RISK COEFFICIENT	CREDIT RATING	DEFINITION
1.0≤CR< 1.5	AA	Excellent credit condition. Credit risk is negligible.
1.5≤CR< 2.0	A	Small credit risk. Large credit line is recommended.
2.0≤CR< 2.5	BB	Below average credit risk. Normal credit trading is recommended.
2.5≤CR< 3.5	B	Average credit risk. Normal credit trading under constant supervision is recommended.
3.5≤CR< 4.0	B-	Above average credit risk. Credit line limited to a certain small amount is recommended.
4.0≤CR< 4.5	C	Fairly high credit risk. Suspension of credit trading is recommended, unless secured by guarantee.
4.5≤CR< 5.0	D	Very high credit risk. Trading in cash is recommended.
	Undetermined	1. No sufficient rating information 2. At the start-up stage, with the operating history less than one year

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3. Bank or non-bank financial institution
4. Management-oriented enterprise
5. Not a legal representative enterprise
6. Privately-owned business

Note 1:

- a. For the enterprises which are insolvent, sealed up or closed, the rating is D.
- b. No rating is provided for an enterprise with the operating history less than one year unless its operation is extraordinarily good. The rating is usually lowered one or two levels.
- c. If the accounts receivable is too large, quality of the receivables should be considered; if the bad debts represent a large percentage, its short-term solvency and credit rating should be lowered accordingly.
- d. For an incomplete fiscal year, only ratios regarding Balance Sheet are calculated.

Note 2:

The above credit rating refers only to buyer's short-term credit standing (usually 3 to 6 months).

Note3:

The above credit rating refers only to Subject's short credit risk, so the client should take into consideration its own credit strategy and Subject's business scale when deciding on the credit limit.

Note4:

The above credit rating is for reference only. Unicredit shall not be liable for any loss or damage arising out of the use of the rating.

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